

BMIT TECHNOLOGIES p.l.c.

Annual Report and
Consolidated Financial Statements

31 December 2020

Company Registration Number: C48299

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Chairman's message

I'm sure most of you will agree that 2020 will remain in our memories as a year of unexpected challenges for the world. It is also a year in which many lessons have been learnt, in our personal lives, at work and in the way we look at business. I believe the biggest take-away as we move towards a post-pandemic way of life, can be surmised in one word. Resilience. Few world events have provided such a serious test of our ability to withstand upheaval, economic shocks and substantial changes in the accustomed way of doing things. BMIT Technologies has historically been accustomed to moving from strength to strength, so the onset of the pandemic posed a threat that could have potentially disrupted this streak of growth. However, what we have witnessed is in fact the continuation of this success with the company maintaining its steady momentum of growth and industry leadership.

We recognise that our resilience, growth and profitability, particularly during the challenges posed by COVID-19, can be attributed to the strategic planning, grit, adaptability and work ethic of the amazing teams that make BMIT Technologies what it is. This hasn't always been easy, our lives at home and at work have been affected in no small way, and there is no rulebook on how to deal with the range of emotions that such conditions bring about. Without the consistent drive of our teams and the leadership that guides them, we would never have reached the 2020 results that we proudly share with you today.

In 2021, our priority remains the well-being of our customers and our team, by making sure that BMIT Technologies rapidly adopts the right policies and harnesses the right resources to allow employees the safest and most productive conditions, as we move towards post-pandemic recovery.

The global economy has seen the pandemic act as a catalyst for digital transformation. This too was very evident here in Malta. Being a key player in the digital sector, BMIT Technologies has experienced an increased uptake in specific services that form part of the digital transformation ecosystem such as cloud services, AI-based assistance and increased focus on cyber-security. As a back-drop to this growth in usage, BMIT kept up its investment in resiliency and capacity to ensure that additional service is backed up by a commensurate increase in quality.

In areas where we don't grow or innovate, we participate. A perfect example here is the exciting move to invest in EBO Ltd, an AI focused tech company that will allow us to keep strengthening our position to offer added value to our clients via diversification.

I feel that we have a great responsibility to our teams and to you our shareholders to ensure that we keep a close eye on the ever-shifting landscape that is typical of our sector, but which has accelerated like never before during these times of pandemic. The challenges will not stop coming, but with challenge comes opportunity, the chance to grow, learn and find new ways to engage with our employees here in Malta and trusted clients all over the world. Our strategy is simple. As the changes in regulation, technology and conditions keep presenting themselves, we adapt, improve and invest in our mission towards adding value to our clients.

Once again, I take this opportunity to thank you our shareholders for your continued trust in the company. I thank our employees for their sterling work and positive attitude, now more than ever. As BMIT Technologies has shown profitability and tangible results for 2020, we now embark on our next stage of growth with cautious confidence and positivity.



Nikhil Patil
Chairman

Chief Executive Officer's review

2020 has been a challenging year for everyone. COVID-19 has had a major impact on every single business and on each one of us. In some shape or form, COVID-19 has in fact impacted every single person's life, whether at work or personally. The hardships and suffering of many, brought about a new reality, where our values were challenged and a new way of life became the norm. Of course, the advent of the vaccine brings with it a ray of hope, that soon the worst will be over and we can slowly return to living our normal or a new way of life.

BMIT Technologies was not immune to the pandemic. During 2020 we worked hard to protect our employees and to ensure that we can continue to assist and serve our customers, despite such unprecedented times. As a result of the collective efforts of every single employee at BMIT Technologies, I am pleased to report another year of revenue and profitability growth for our company, as we continue to adapt and evolve, to counter the challenges brought on by this pandemic and to bring to fruition several initiatives aimed at further developing our business.

2021 also marks the second anniversary of BMIT Technologies' listing on the main market of the Malta Stock Exchange. This was an achievement which marked the start of a new era as a publicly traded company. It is with this in mind, that I am pleased to share with you, my shareholders, a summary of BMIT Technologies' performance during the past year.

INVESTMENT IN INFRASTRUCTURE AND FACILITIES

While 2020 has proven to be a challenging year globally, BMIT Technologies can still look back on a year where we continued to develop our infrastructure and facilities and continued to invest in a number of areas:

- We completed the acquisition of the property in Hanaq Malta, which hosts our largest data centre. This acquisition has been very important to BMIT Technologies since it mitigates any risk related to moving customers out of our existing Hanaq data centre and into a new one.
- Further expansion of the Group's international high-speed private network, to cater for increased demand and improved resiliency. Capacity has in fact now been increased by 50% to 60,000Mbps, with more performance-enhancement features introduced and new security features added.
- The accelerated drive to online has intensified the need for increased protection from potential cyber-attacks. As a result, a new DDOS Mitigation Solution has been implemented at BMIT Technologies, to offer superior service levels and new features, as we strive to protect our customers from potential security breaches.
- We launched a new product called BMIT Technologies CX Virtual Agent (CX-VA). This service enables an AI-based virtual assistant to help companies enhance their customer support efforts across different communication channels. CX-VA is currently being positioned to several prospects, with very strong interest being registered and the first customers being secured.
- Our locally based cloud service underwent a major overhaul with a new platform being implemented. With this investment, we are now able to offer more robust and scalable solutions to our customers, who are searching to locate off premise and outsource the management of their key IT assets to specialists in the field.

Chief Executive Officer's review - continued

INVESTMENT IN INFRASTRUCTURE AND FACILITIES - continued

As already stated on a number of occasions throughout the past year, all other major investments, including the Žejtun Data Centre development, are being re-evaluated from a strategic perspective. We believe that we need to assess the challenges and growth opportunities which will prevail once local and global economies recover post-COVID, so that we can ensure further growth from any investment we may embark upon.

ACQUISITION OF SHAREHOLDING IN EBO LIMITED

Late last year in December, we announced our acquisition of 15% in EBO Ltd, a technology company that utilises AI to develop process automation centred on customer conversations and whose technology is powering our CX-VA solution.

This investment will allow BMIT Technologies to further diversify and strengthen its offering to local and international customers in the areas of AI and associated services. It will also allow the company to actively participate in this innovation and automation space, as part of its stated intent to further diversify its business and tap on new market opportunities.

COVID-19 IMPACT

Although the COVID-19 pandemic has had a significant impact on the global economy, it has also resulted in a growth in demand for cloud services, particularly as customers subscribed to a variety of remote technology services and sought new means to achieve short term efficiency gains.

As many businesses implemented work-from-home policies, lower demand for on-premise support was offset by a range of new services which were rolled out to assist customers adjust to the COVID-19 realities. Furthermore, whilst many businesses delayed major expansion or investment decisions, which impacted new demand for traditional data centre services, in the online gaming sector, a good number of online gaming operators continued to register stable or growing demand, with a positive ripple-on effect on BMIT Technologies.

FINANCIAL PERFORMANCE

2020 was another positive year for BMIT Technologies, with good performance across all operational segments. The Group generated revenues of €24 million, an increase of 6.9% over 2019. Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) amounted to €10.5 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 €16.1 million, an increase of 6.2% over 2019. This is a result of our growth in business and is 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 €7.6 million, an increase of 6.4%.

Chief Executive Officer's review - continued

THE NEXT STEPS

2021 will certainly present new challenges and opportunities for BMIT Technologies. Depending on the extent and timing of any recovery post COVID, we will continue to actively participate in local and international fora. In respect of the latter, market expansion beyond our Maltese shores remains a priority for us and we are evaluating a number of options to achieve this.

Moreover, we will continue to pursue a well-managed investment programme to help achieve sustainable business growth and long-term return to our shareholders.

To overcome the challenges we face, whether economic, regulatory or technological, we will continuously strive to find new ways to ensure that we deliver value to our customers, wherever they may be.

In conclusion, I would like to take this opportunity to thank all shareholders for their trust and confidence in BMIT Technologies. I would also like to thank all our employees for their dedication and hard work as well as of course, our Board of Directors for their guidance and support. 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.



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 2020.

Principal activities

The BMIT Technologies Group, made up of BMIT Technologies p.l.c. (BMIT Technologies), BM IT Limited, BM Support Services Limited and Bellnet Limited (together the Group), offers its customers a range of data centre and hosting services, public, private and hybrid cloud services and managed IT services - which can be offered at customer premises, hosted at any of BMIT Technologies p.l.c. 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 pages 2 to 4.

Review of financial performance

Despite an unprecedented year due to the uncertainty brought about by the Covid-19 pandemic, the Group successfully overcame many challenges and succeeded in achieving positive results which show a growth in performance.

The Group generated revenue of €24.0 million (2019: €22.4 million), an increase of €1.6 million over the comparative year. The main drivers for this growth in revenue were a greater customers' demand for Connectivity and Cloud services, with each growing by approximately 16%. Our investments to strengthen and expand our infrastructure, including our international private network and cloud platform, as referred to in the Chief Executive Officer's Review, generated a return during the year by generating more sales.

Cost of sales and administrative expenses amounted to €16.1 million (2019: €15.1 million). The main increase of €1 million is the result of the increase in sales activity which has driven up the cost of goods sold. Due to the restrictions imposed by the pandemic, the Group refrained from engaging in certain activities which put at risk the health and safety of our employees. Thus, the Group experienced savings in certain expenses like travelling, HR and marketing costs related to events and conferences. On the other hand, the Group incurred extra costs in creating a cleaner and safer working environment for its employees.

Expenses include an impairment charge of €257,878 for costs which had been previously capitalised in respect of the Žejtun data centre, based on the likelihood that should a decision be taken not to pursue this project any further, this amount would not be covered by the recoverable amount attributable to assets pertaining to this specific project.

Group Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) amounted to €10.5 million, up by 5% from the €10 million reported in 2019. Profit before tax amounted to €7.6 million (2019: €7.2 million) resulting in an earnings per share of €0.02 (2019: €0.02).

Directors' report - continued

Financial position

During the year, the Group concluded two important investments which both serve a different purpose - protecting the Group's 'traditional' data centre business and entering new markets, like Artificial Intelligence.

As at 31 December 2020, the BMIT Technologies Group held property, plant and equipment with a net book value of €9.8 million (2019: €6.5 million). In the beginning of 2020, the Group finalised the acquisition of part of the property situated in Handaq where the largest data centre is located. This transaction resulted in an increase in the value of property, plant and equipment by the property acquisition price of €4 million. The same property was previously on lease from the landlord and included as a right-of-use asset. On termination of the lease agreement, the Group disposed of its right-of-use asset and related lease liability at €747,000 and €769,000 respectively. The acquisition of the property was financed by a bank loan of €3.6 million subject to an interest rate of 3.25%, payable over 10 years with 4 years moratorium.

Towards the end of the year, the Group acquired 15% shareholding in EBO Ltd. for an investment of €1.5 million. EBO is a technology company focused on the provision of Artificial Intelligence solutions which the Group had, in the same year, partnered with for the offering of a new product, the CX-Virtual Agent. This investment was financed from internal funds, allowing the Group to maintain the same gearing ratio.

Total assets held by the Group amounted to €25.6 million (2019: €23.1 million), of which €18.2 million (€14.7 million) were non-current in nature. The Group's current assets amounted to €7.4 million (2019: €8.5 million) and are mainly represented by trade and other receivables of €3.3 million (2019: €2.9 million) and cash and cash equivalents of €3.9 million (2019: €5.3 million). Total liabilities increased from €11.8 million as at 31 December 2019 to €13.9 million as at 31 December 2020, mainly as a result of bank borrowings for the property acquisition referred to earlier.

During the year, the Group met its forecast and paid a dividend of €4.4 million - being the first dividend payout since the Company's listing in 2019.

The Directors recommend that at the forthcoming Annual General Meeting, the shareholders approve the payment of a net dividend of €0.0292 per share (after tax), resulting in a net dividend payment of €5,949,055.

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 robust control frameworks such as ISO27001 as well as documented processes and procedures that focus on prevention supported by monthly and annual business continuity tests.

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 such as GDPR 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, on an annual basis provides training and awareness to these employees and includes monitoring, reporting audits and controls 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 constantly looking for different opportunities that may help guarantee future sustainability and growth.

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 data centre services which the BMIT Technologies Group serves, 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 Group'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 Group's services. The Group's ability to offer hybrid solutions to customers helps in mitigating this rapid change in market dynamics.

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

Our principal risks and uncertainties - continued

Pandemics

The outbreak of nation or world-wide pandemics such as Covid-19 may hinder the occupational health and safety of the employees and heavily disrupt normal business operations. Such risks are additional to the potential economic impact on customers and the extent of recovery following a possible outbreak. Taking advantage of the lessons learnt from Covid-19 during this past year, by quickly reacting to health authorities advice and constantly implementing additional measures, the Group managed to maintain operations. The Group's constant proactive approach to such adversity, will ensure that such risk is mitigated.

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 2 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..

Directors' report - continued

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 (resigned 30 June 2020)
Reuben Attard
Saviour sive Sonny Portelli
Faker Hnid (appointed 27 July 2020)

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 and Reuben Attard were acting as Directors of BM IT Limited, Bellnet Limited and BM Support Services Limited during the year, whereas Charmaine Farrugia was acting as Director of these subsidiaries until 27 July 2020. Faker Hnid replaced Charmaine Farrugia as Director of these subsidiaries on the same day.

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

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.

Directors' report - continued

Directors' responsibilities - continued

The financial statements of BMIT Technologies for the year ended 31 December 2020 are included in the Annual Report 2020, 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.

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 2020, 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.

Directors' report - continued

Information provided in accordance with *Listing Rule 5.64* - continued

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

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

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

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

Pursuant to Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 it is hereby declared that, as at 31 December 2020, none of the requirements apply to the Company.

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 9 March 2021 and signed on its behalf by:



Nikhil Patil
Chairman



Reuben Attard
Director

Registered address:

Building SCM 02, Level 2
SmartCity Malta
Ricasoli, Kalkara, SCM 1001
Malta

Dr Francis Galea Salomone
Company Secretary

9 March 2021

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

Nikhil Patil
Arthur Galea Salomone
Charmaine Farrugia (resigned 30 June 2020)
Reuben Attard
Saviour sive Sonny Portelli
Faker Hnid (appointed 27 July 2020)

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/had 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

There were seven board meetings held during the year under review. Attendance by Board members was as follows:

| | Attended |
|--|----------|
| Nikhil Patil | 7 |
| Arthur Galea Salomone | 7 |
| Charmaine Farrugia (resigned 30 June 2020) | 3 |
| Reuben Attard | 7 |
| Saviour sive Sonny Portelli | 6 |
| Faker Hnid (appointed 27 July 2020) | 4 |

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. This function is further explained in the Remuneration Report, which also includes the remuneration statement in terms of Code provision 8.A.3 and 8.A.4.

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. 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 Committee held two (2) meetings during the year. The external auditors attended both of these meetings.

Corporate governance - Statement of compliance - continued

Board Committees - continued

Audit Committee - continued

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) 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 (code provision 5.97.6)

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.

Remuneration report

A. Remuneration Committee

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. Furthermore, it is the opinion of the Company's Board of Directors that there is no risk of a conflicting interest in the drawing up of this Policy since it was submitted before the General Meeting of Shareholders for its consideration and approval. Furthermore, the Board of Directors also notes that the aggregate emoluments payable to Directors in any one financial year are subject to the approval of the Shareholders in General Meeting.

B. Remuneration policy

The Company is required to establish a Remuneration Policy with respect to its Directors and the Chief Executive Officer. The remuneration policy is applicable for a maximum period of four years and has been approved by the shareholders at the Annual General Meeting held on 27 July 2020 with 141,429,001 in favour and 5,000 votes against. This remuneration policy approved on 27 July 2020 is in line with the policy applied for the remuneration paid to Directors and Chief Executive Officer in the preceding period. All remuneration for the Directors and the Chief Executive Officer for the year under review was in conformity with this policy. The policy describes the components of such remuneration and how this contributes to the Company's business strategy, in the context of its long-term sustainable value creation. This remuneration policy is divided into two parts distinguishing between Directors and Chief Executive Officer.

C. Directors' remuneration

It is the shareholders, in terms of the Memorandum and Articles of Association of the Company, who determine the maximum annual aggregate emoluments of the Directors by resolution at the Annual General Meeting of the Company. Remuneration payable to directors (in their capacity as directors) is reviewed as and when necessary and is not linked to the share price or the Group's performance. These are benchmarked against market practice for major local companies of similar size and complexity.

The aggregate amount fixed for this purpose during the last Annual General Meeting was €200,000. None of the Directors have any service contracts with the Group and/or Company but two (2) of the Directors (three (3) up to 30 June 2020) are employees of the immediate parent company of BMIT Technologies p.l.c whilst one Director is an employee of the ultimate parent. However, there are no specific amounts of their remuneration allocated to their role at BMIT Technologies p.l.c. Moreover, none of the Directors, in their capacity as Directors of the Company, are entitled to profit sharing, share options, pension benefits, termination payments or any other remuneration. No variable remuneration is paid to Directors in their capacity as Directors of the Company. A benchmarking exercise was conducted and despite the fact that the AGM approved a total amount of €200,000, the Directors' fees as approved by the Board for 2020 were set at €20,000 per annum for each Director. This level was deemed consistent with market practice and conducive to the achievement of the Company's strategic objectives. The Board of Directors has agreed to review the current remuneration to ensure that it is commensurate with the duties and responsibilities of directors. Furthermore, in accordance with its Articles of Association, the Company shall provide for the payment of all reasonable travelling, hotel and other expenses properly incurred by the Directors in attending meetings of the Company or otherwise in connection with the business of the Company. Such expenses shall be reimbursed by the Company in accordance with its expenses policy and against the presentation of the relative receipts. Directors shall also be entitled to certain other non-cash benefits as may be deemed reasonable and appropriate. No non-cash benefits were offered to Directors during the current year.

Remuneration report - continued

C. Directors' remuneration - continued

Total emoluments received by Directors during the financial year 2020 in terms of Code Provisions 8.A.5 are as follows: fixed remuneration of €98,826. In terms of Code Provision 12.1 and 12.2 of the Malta Financial Services Authority Listing Rules, directors' emoluments paid for the financial year 2020 were as follows:

| | |
|--|---------|
| Nikhil Patil | €20,000 |
| Arthur Galea Salomone | €20,000 |
| Charmaine Farrugia (resigned 30 June 2020) | €10,108 |
| Reuben Attard | €20,000 |
| Saviour sive Sonny Portelli | €20,000 |
| Faker Hnid (appointed 27 July 2020) | €8,718 |

D. Chief Executive Officer's remuneration

It is the Board of Directors who determines the overall structure and parameters of BMIT's Remuneration Policy with respect to its CEO. The remuneration policy is designed in a manner as would assist in the recruitment and retention of a qualified and professional individual having the required experience in data centre, cloud and managed IT services industries and who can steer the Company's short and long-term business plans forward in a highly competitive market.

The CEO remuneration package is made up of fixed and variable elements, including provisions for the payment of lump sum in return for the CEO accepting a non-competition clause that would be triggered upon termination of the employment. Termination of employment by employer would also attract a claim over the pro-rata amount of variable remuneration due to the CEO at time of termination. However, the package does not provide for profit sharing or share options, pension benefits and early retirement schemes.

The fixed element, emanating from the contract of employment, is determined by reference to market practice amongst other factors, and is set at a level that motivates the CEO in striving to attain company long-term strategic and performance objectives.

The variable element of the remuneration is structured as a management bonus scheme aimed at rewarding the CEO's performance. This variable component reflects the CEO's achievement of a set of targets designed to contribute to the business interests and sustainability of the Company over a determined financial period. Elements of the scheme may vary periodically depending on the business circumstances of the Company. They shall, however, in all cases be consistent with the Company's strategies and aligned with shareholder interests. Performance objectives shall be financial and/or operational in nature and shall be determined from time to time. These may include EBIDTA-based objectives, project realisation and similar. The degree of achievement of these targets shall be determined by the Board of Directors which shall compare the realised outcomes against the target objectives. The Board considers the linkage between the fixed remuneration and the variable remuneration to be appropriate, also by reference to the ratio of fixed to variable elements. Furthermore, the Company does not have the possibility to reclaim any variable remuneration. The level of variable remuneration is deemed set at a level that contributes to striving towards attaining the Company's long-term performance goals.

As regards to non-cash benefits, the CEO is entitled to health insurance, telephone expenses, car-cash allowance, and a company car.

The total emoluments received by the Chief Executive Officer for this financial year were as follows: Christian Sammut: fixed remuneration of €150,694; variable remuneration of €90,000 predominantly based on the achievement of pre-established EBITDA targets set by the Board of Directors. Other benefits as described above amounted to €17,757.

Remuneration report - continued

E. Senior executives' remuneration

For the purposes of this remuneration statement, references to Senior Management shall mean the Chief Executive Officer and the Chief Officers.

The base salaries of all Senior Management are established in accordance with the Company's salary structure determined strategically by the Company. The Board of Directors is satisfied that in all cases the base remuneration established is in line with the criteria described in this report. In particular, in reaching this conclusion, the Board of Directors has paid due regard to market conditions and remuneration rates offered by comparable organisations for comparable roles and to the established performance-related remuneration and evaluation system.

Members of the Senior Management are each entitled to a cash performance bonus. In addition, the Board of Directors may approve additional bonuses for outstanding performances and achievements. Performance is measured on the basis of appraisals drawn up or endorsed by the CEO. These bonuses constitute the variable remuneration disclosed in the table below.

The rate at which the bonus is paid depends on the Board's evaluation of the CEO's assessment of the individual officer's performance. Bonuses are calculated on the basis of personal performance, and Company objectives. Total amounts are subject to the discretion of the Board of Directors.

The Company does not have a policy in place which regulates the terms and conditions of contracts of Senior Management with respect to contract duration, notice periods, termination payments and related matters.

Senior Management are entitled to non-cash benefits in terms of health insurance and telecommunication expenses. None of the Senior Management are entitled to profit sharing, share options or pension benefits.

Total emoluments received by senior executives, including the CEO, during the financial year 2020 in terms of Code Provisions 8.A.5 are as follows: fixed remuneration of €706,053; variable remuneration of €483,459; and other benefits as described above amounting to €34,192. Included in €483,459 variable remuneration received by senior executives during the financial year 2020 are €200,000 relating to retention bonuses paid in 2020 to two (2) senior executives for which €17,000 were expensed in profit and loss during the financial year 2020 and a further €183,000 were already accrued for in previous financial years.

The contents of the Remuneration Report have been reviewed by the external auditor to ensure that the information required in terms of Appendix 12.1 to Chapter 12 of the Listing rules have been included.

Company information

Our purpose

Our purpose as BMIT Technologies is to power businesses to achieve their desired outcomes through harnessing technology.

Company registration number: C48299

Registered office:

Building SCM 02, Level 2
SmartCity Malta
Ricasoli, Kalkara, SCM 1001
Malta

Registered shareholders with five percent (5%) or more of the Share Capital of the Company:

As at 31 December 2020, only GO p.l.c. and Rizzo Farrugia & Co. (stk) Ltd. held a shareholding in excess of 5% of the total issued share capital.

Board of Directors

Nikhil Patil
Arthur Galea Salomone
Charmaine Farrugia (resigned 30 June 2020)
Reuben Attard
Saviour sive Sonny Portelli
Faker Hnid (appointed 27 July 2020)

Company Secretary

Dr Francis Galea Salomone

Chief Officers

Christian Sammut - Chief Executive Officer.
Nick Tonna - Chief Commercial Officer
Jack Mizzi - Chief Marketing Officer
Alexia Muscat - Chief Financial Officer
Gordon Bezzina - Chief Technical Officer
Dione Vella - Chief Customer Experience Officer
Curt Gauci - Chief Digital Transformation Officer (resigned on 30 September 2020)
Adrian Dalli - Chief Enterprise Solutions Officer (resigned 15 January 2021)
Karl Demicoli - Head of Human Resources



Independent auditor's report

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

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the Group and the Parent Company's financial position of BMIT Technologies p.l.c. as at 31 December 2020, and of the Group's 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 36 to 92, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2020;
- 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 significant accounting policies and other explanatory information.

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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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

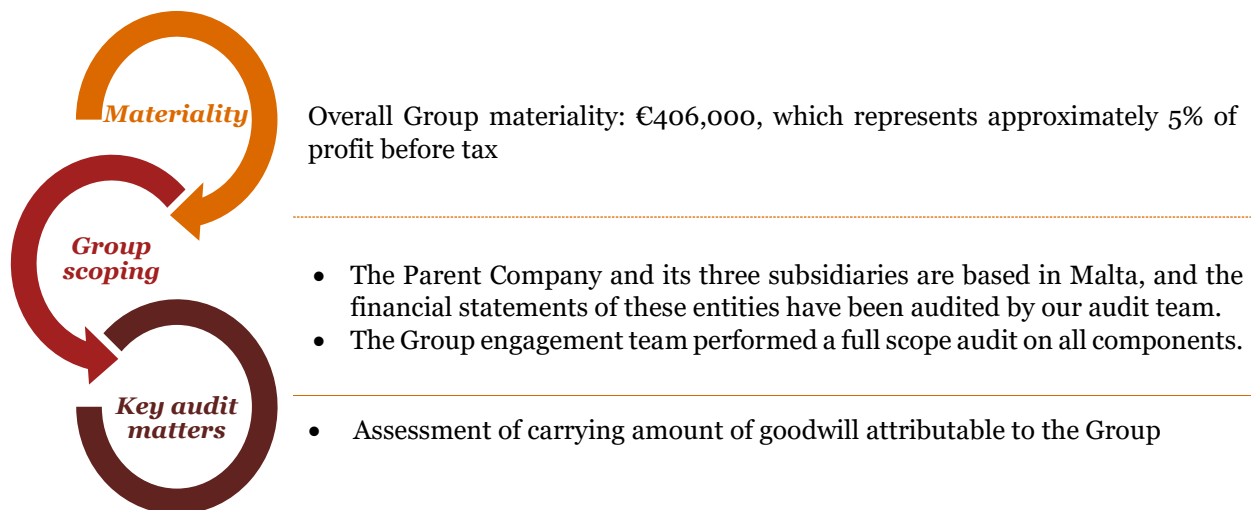
To the Shareholders of BMIT Technologies p.l.c.

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 Parent Company and its subsidiaries, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 20 to the financial statements.

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.

| | |
|--|--|
| Overall Group materiality | €406,000 |
| How we determined it | Approximately 5% of profit before tax |
| Rationale for the materiality benchmark applied | 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 €20,300 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the Key audit matter |
|--|--|
| <i>Assessment of carrying amount of goodwill attributable to the Group</i> Goodwill with a carrying amount of €3.2 million as at 31 December 2020, has arisen from a number of acquisitions effected during the preceding financial years. An assessment is required annually to establish whether goodwill that has 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 arising from acquisitions have been allocated to the Group's Data Centre Services CGU. | We evaluated the suitability and appropriateness of the impairment methodology applied and the discounted cash flow model as prepared by management. 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. |

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 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"> Accounting policies : Note 1.6 and 1.7 Note on intangible assets: Note 7 Critical accounting estimates and judgements: Note 3.1 | <p>Management's cash flow forecasts used in the model were assessed by:</p> <ul style="list-style-type: none"> testing that the forecasts agreed to the most recent business plan which had been approved by the Board of Directors; considering current year performance against plan and the reasons for any deviation also through discussion with management; and 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. <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 rate 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 rate 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 rate 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 rate 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 was also reviewed.</p> |

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 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, 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.

Other information

The directors are responsible for the other information. The other information comprises all of the information in the Annual 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, and we do not express any form of assurance conclusion thereon except as explicitly stated within the Report on other legal and regulatory requirements.

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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Independent auditor's report - continued

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

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.

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.



Independent auditor's report - continued

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

- 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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group or the Parent Company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implication that COVID-19 will have on the Group's and the Parent Company's trade, customers and suppliers, and the disruption to their business and the overall economy.
- 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, actions taken to eliminate threats or safeguards applied.

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.

Independent auditor's report - continued

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

Report on other legal and regulatory requirements

The *Annual Report and Consolidated Financial Statements 2020* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

| Area of the <i>Annual Report and Consolidated Financial Statements 2020</i> and the related Directors' responsibilities | Our responsibilities | Our reporting |
|---|--|---|
| Directors' report (on pages 5 to 11) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act. | <p>We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.</p> <p>We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.</p> <p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.</p> | <p>In our opinion:</p> <ul style="list-style-type: none"> 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). <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p> |

Independent auditor's report - continued

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

| Area of the Annual Report and Consolidated Financial Statements 2020 and the related Directors' responsibilities | Our responsibilities | Our reporting |
|--|--|---|
| <p>Corporate governance - Statement of compliance (on pages 12 to 19)</p> <p>The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in the Annual Report a Statement of Compliance with the Code of Principles of Good Corporate Governance within Appendix 5.1 to Chapter 5 of the Listing Rules. The Statement's required minimum contents are determined by reference to Listing Rule 5.97. The Statement provides explanations as to how the Company has complied with the provisions of the Code, presenting the extent to which the Company has adopted the Code and the effective measures that the Board has taken to ensure compliance throughout the accounting period with those Principles.</p> | <p>We are required to report on the Statement of Compliance by expressing an opinion as to whether, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified any material misstatements with respect to the information referred to in Listing Rules 5.97.4 and 5.97.5, giving an indication of the nature of any such misstatements.</p> <p>We are also required to assess whether the Statement of Compliance includes all the other information required to be presented as per Listing Rule 5.97.</p> <p>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.</p> | <p>In our opinion, the Statement of Compliance has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.</p> <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p> |

Independent auditor's report - continued

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

| Area of the Annual Report and Consolidated Financial Statements 2020 and the related Directors' responsibilities | Our responsibilities | Our reporting |
|---|--|---|
| <p>Remuneration report (on pages 20 to 22)</p> <p>The Listing Rules issued by the Malta Listing Authority require the directors to prepare a Remuneration report, including the contents listed in Appendix 12.1 to Chapter 12 of the Listing Rules.</p> | <p>We are required to consider whether the information that should be provided within the Remuneration report, as required in terms of Appendix 12.1 to Chapter 12 of the Listing Rules, has been included.</p> | <p>In our opinion, the Remuneration report has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.</p> |
| | <p>Other matters on which we are required to report by exception</p> <p>We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept, or 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 which, to the best of our knowledge and belief, we require for our audit. <p>We also have responsibilities 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.</p> | <p>We have nothing to report to you in respect of these responsibilities.</p> |



Independent auditor's report - continued

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

Other matters - use of this report

Our report, including the opinions, has been prepared for and only for the Parent Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

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 11 years. The Company became listed on a regulated market on 15 February 2019.

PricewaterhouseCoopers

78 Mill Street, Zone 5
Central Business District
Qormi
Malta

A handwritten signature in blue ink, appearing to read 'Fabio Axisa'.

Fabio Axisa
Partner

9 March 2021

Statements of financial position

| | | As at 31 December | | | |
|-------------------------------|-------|-------------------|---------------|---------------|---------------|
| | | Group | | Company | |
| | Notes | 2020 €'000 | 2019 €'000 | 2020 €'000 | 2019 €'000 |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 5 | 9,847 | 6,477 | - | - |
| Right-of-use assets | 6 | 3,243 | 4,504 | - | - |
| Intangible assets | 7 | 3,203 | 3,428 | - | - |
| Investment in subsidiaries | 8 | - | - | 19,722 | 20,359 |
| Investment in associates | 9 | 1,573 | 18 | 1,567 | - |
| Trade and other receivables | 11 | 303 | 224 | - | - |
| Total non-current assets | | 18,169 | 14,651 | 21,289 | 20,359 |
| Current assets | | | | | |
| Inventories | 10 | 185 | 187 | - | - |
| Trade and other receivables | 11 | 3,332 | 2,926 | 6,457 | 5,835 |
| Cash and cash equivalents | 12 | 3,918 | 5,346 | 1,374 | 201 |
| Total current assets | | 7,435 | 8,459 | 7,831 | 6,036 |
| Total assets | | 25,604 | 23,110 | 29,120 | 26,395 |

Statements of financial position - continued

| | | As at 31 December | | | |
|--------------------------------------|-------|-------------------|---------------|---------------|---------------|
| | | Group | | Company | |
| | Notes | 2020 €'000 | 2019 €'000 | 2020 €'000 | 2019 €'000 |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Share capital | 13 | 20,360 | 20,360 | 20,360 | 20,360 |
| Other reserves | 14 | (4,097) | (4,097) | - | - |
| Accumulated losses/retained earnings | | (4,590) | (4,941) | 6,263 | 5,791 |
| Total equity | | 11,673 | 11,322 | 26,623 | 26,151 |
| Non-current liabilities | | | | | |
| Borrowings | 17 | 3,528 | - | - | - |
| Lease liabilities | 16 | 3,059 | 4,029 | - | - |
| Trade and other payables | 18 | 232 | 236 | - | - |
| Deferred tax liabilities | 15 | 380 | 417 | - | - |
| Total non-current liabilities | | 7,199 | 4,682 | - | - |
| Current liabilities | | | | | |
| Lease liabilities | 16 | 387 | 607 | - | - |
| Trade and other payables | 18 | 5,902 | 5,995 | 2,497 | 244 |
| Current tax liabilities | | 443 | 504 | - | - |
| Total current liabilities | | 6,732 | 7,106 | 2,497 | 244 |
| Total liabilities | | 13,931 | 11,788 | 2,497 | 244 |
| Total equity and liabilities | | 25,604 | 23,110 | 29,120 | 26,395 |

The notes on pages 42 to 92 are an integral part of these consolidated financial statements.

The financial statements on pages 36 to 92 were authorised for issue by the Board on 9 March 2021 and were signed on its behalf by:



Nikhil Patil
Chairman



Reuben Attard
Director

Statements of comprehensive income

| | | As at 31 December | | | |
|-------------------------------|-------|-------------------|---------------|----------------|---------------|
| | | Group | | Company | |
| | Notes | 2020 €'000 | 2019 €'000 | 2020 €'000 | 2019 €'000 |
| Revenue | 19 | 23,977 | 22,430 | - | - |
| Cost of sales | 20 | (12,134) | (11,539) | - | - |
| Gross profit | | 11,843 | 10,891 | - | - |
| Administrative expenses | 20 | (3,918) | (3,579) | (144) | (161) |
| Investment income | 23 | - | - | 7,703 | 9,151 |
| Operating profit | | 7,925 | 7,312 | 7,559 | 8,990 |
| Finance costs | 24 | (293) | (137) | - | - |
| Profit before tax | | 7,632 | 7,175 | 7,559 | 8,990 |
| Tax expense | 25 | (2,890) | (2,726) | (2,696) | (3,203) |
| Profit for the year | | 4,742 | 4,449 | 4,863 | 5,787 |
| Attributable to: | | | | | |
| Owners of the Company | | 4,742 | 4,449 | 4,863 | 5,787 |
| Earnings per share (€) | 26 | 0.02 | 0.02 | | |

The notes on pages 42 to 92 are an integral part of these consolidated financial statements.

Statements of changes in equity

| Group | Note | Attributable to the owners of the Company | | | |
|------------------------------------|------|---|-------------------------|-----------------------------|----------------|
| | | Share capital €'000 | Other reserves €'000 | Accumulated losses €'000 | Total €'000 |
| Balance at 1 January 2019 | | 20,360 | (4,097) | (9,390) | 6,873 |
| Comprehensive income | | | | | |
| Profit for the year | | - | - | 4,449 | 4,449 |
| Balance at 31 December 2019 | | 20,360 | (4,097) | (4,941) | 11,322 |
| Balance at 1 January 2020 | | 20,360 | (4,097) | (4,941) | 11,322 |
| Comprehensive income | | | | | |
| Profit for the year | | - | - | 4,742 | 4,742 |
| Transaction with owners | | | | | |
| <i>Distributions to owners:</i> | | | | | |
| Dividends | 27 | - | - | (4,391) | (4,391) |
| Balance at 31 December 2020 | | 20,360 | (4,097) | (4,590) | 11,673 |

Statements of changes in equity - continued

| Company | Note | Share capital €'000 | Retained earnings €'000 | Total €'000 |
|------------------------------------|------|------------------------|----------------------------|----------------|
| Balance at 1 January 2019 | | 20,360 | 4 | 20,364 |
| Comprehensive income | | | | |
| Profit for the year | | - | 5,787 | 5,787 |
| Balance at 31 December 2019 | | 20,360 | 5,791 | 26,151 |
| Balance at 1 January 2020 | | 20,360 | 5,791 | 26,151 |
| Comprehensive income | | | | |
| Profit for the year | | - | 4,863 | 4,863 |
| Transactions with owners | | | | |
| <i>Distributions to owners:</i> | | | | |
| Dividends | 27 | - | (4,391) | (4,391) |
| Balance at 31 December 2020 | | 20,360 | 6,263 | 26,623 |

The notes on pages 42 to 92 are an integral part of these consolidated financial statements.

Statements of cash flows

| | | As at 31 December | | | |
|---|-------|-------------------|---------------|---------------|---------------|
| | | Group | | Company | |
| | Notes | 2020 €'000 | 2019 €'000 | 2020 €'000 | 2019 €'000 |
| Cash flows from operating activities | | | | | |
| Cash generated from/(used in) operations | 28 | 9,897 | 10,348 | 1,487 | (4,947) |
| Investment income | 23 | - | - | 7,703 | 9,151 |
| Interest paid on lease liabilities | 24 | (114) | (137) | - | - |
| Interest paid on borrowings | 24 | (179) | - | - | - |
| Income tax paid | | (2,988) | (2,497) | (2,696) | (3,203) |
| Net cash from operating activities | | 6,616 | 7,714 | 6,494 | 1,001 |
| Cash flows from investing activities | | | | | |
| Purchase of property, plant and equipment | 5 | (5,200) | (1,679) | - | - |
| Proceeds from disposal of property, plant and equipment | 5 | - | 26 | - | - |
| Dividend from associate | 9 | 12 | - | - | - |
| Payments to acquire investment in associate | 9 | (1,567) | - | (1,567) | - |
| Proceeds from disposal of investment in subsidiary | 8 | - | - | 637 | - |
| Net cash used in investing activities | | (6,755) | (1,653) | (930) | - |
| Cash flows from financing activities | | | | | |
| Dividends paid | 27 | (4,391) | (800) | (4,391) | (800) |
| Proceeds from bank borrowings | 17 | 3,528 | - | - | - |
| Principal elements of lease payments | 16 | (426) | (582) | - | - |
| Net cash used in financing activities | | (1,289) | (1,382) | (4,391) | (800) |
| Net movement in cash and cash equivalents | | (1,428) | 4,679 | 1,173 | 201 |
| Cash and cash equivalents at beginning of year | | 5,346 | 667 | 201 | - |
| Cash and cash equivalents at end of year | 12 | 3,918 | 5,346 | 1,374 | 201 |

The notes on pages 42 to 92 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 as modified by the fair value of property, plant and equipment. Unless otherwise stated, all financial information presented has been rounded to the nearest thousand.

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

Standards, interpretations and amendments to published standards effective in 2020

In 2020, the Group and Company adopted amendments to existing standards that are mandatory for the Group and Company's accounting period beginning on 1 January 2020. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Group and Company's accounting policies impacting the financial performance and position.

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 2020. The Group and Company have not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group and Company's directors are of the opinion that there are no requirements that will have a possible significant impact on the Group and Company'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:

| | % |
|--------------------------------|---------|
| Buildings | 2 - 10 |
| 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 1.7).

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.

1. Summary of significant accounting policies - continued

1.8 Financial assets - continued

1.8.3 Measurement - continued

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

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.

1.11 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. Summary of significant accounting policies - continued

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.

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. Summary of significant accounting policies - continued

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.

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.

Dividend income

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

1. Summary of significant accounting policies - continued

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.

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. Summary of significant accounting policies - continued

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.

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.

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.

1. Summary of significant accounting policies - continued

1.22 Leases - continued

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).

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. Financial risk management

2.1 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.

The Group's interest rate risk principally arises from bank borrowings (Note 17), which are subject to fixed interest rates. In this respect, the Group is potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost.

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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk

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

| | Group | | Company | |
|---------------------------------------|--------------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Carrying amounts | | | | |
| Trade and other receivables (Note 11) | 2,099 | 1,705 | 6,359 | 5,753 |
| Cash and cash equivalents (Note 12) | 3,918 | 5,346 | 1,374 | 201 |
| | 6,017 | 7,051 | 7,733 | 5,954 |

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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

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.

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 | Total |
|---|------------------------------|------------------------------|------------------------------|-------------------------------|--------------------------------|--------------------------|--------------|
| 31 December 2020 | | | | | | | |
| Weighted average expected loss rate | 1% | 1% | 3% | 13% | 38% | 91% | |
| Gross carrying amount - trade receivables (€'000) | 1,330 | 527 | 15 | 76 | 40 | 211 | 2,199 |
| Loss allowance applied after netting off the deposits (€'000) | 11 | 4 | 1 | 8 | 11 | 65 | 100 |
| 31 December 2019 | | | | | | | |
| Weighted average expected loss rate | 1% | 1% | 3% | 13% | 38% | 91% | |
| Gross carrying amount - trade receivables (€'000) | 1,007 | 309 | 57 | 125 | 147 | 274 | 1,919 |
| Loss allowance applied after netting off the deposits (€'000) | 8 | 3 | 1 | 12 | 20 | 173 | 217 |

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

Following the outbreak of COVID-19, the Group has monitored information available on macroeconomic factors, affecting repayment ability, as well as the actual and projected impact of the pandemic on the business model of the customers serviced by the Group. Payment patterns attributable to the Group's customers post COVID-19 outbreak was thoroughly and regularly assessed to determine whether any deterioration in collection rates was being experienced. The Group determined that the expected credit losses have not materially changed taking cognisance of the projected impact on the repayment ability of the Group's customers, the repayment pattern actually experienced, and the estimated life of receivables.

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).

The closing loss allowances for trade receivables as at 31 December 2020 and 2019 reconcile to the opening loss allowances as follows:

| | Group | |
|---|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| <i>Trade and other receivables</i> | | |
| Balance at 1 January | 217 | 171 |
| Change in loss allowances recognised in profit or loss during the year | (117) | 46 |
| Balance at 31 December | 100 | 217 |

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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

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 11). The Group and Company monitor intra-group credit exposures at individual entity level on a regular basis and ensure 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.

(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, borrowings and trade and other payables (refer to Notes 16, 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

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 |
|--------------------------|---------------------------|----------------------------------|---------------------------|-------------------------------------|-------------------------------------|--------------------------------|
| 31 December 2020 | | | | | | |
| Bank borrowings | 3,528 | 4,319 | 117 | 117 | 1,413 | 2,672 |
| Lease liabilities | 3,446 | 3,986 | 487 | 478 | 1,422 | 1,599 |
| Trade and other payables | 6,134 | 6,134 | 5,902 | 157 | 75 | - |
| | 13,108 | 14,439 | 6,506 | 752 | 2,910 | 4,271 |
| 31 December 2019 | | | | | | |
| Lease liabilities | 4,636 | 5,341 | 738 | 695 | 1,826 | 2,082 |
| Trade and other payables | 6,231 | 6,231 | 5,995 | 236 | - | - |
| | 10,867 | 11,572 | 6,733 | 931 | 1,826 | 2,082 |

The Company is only exposed to liquidity risk in respect of 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.

2. Financial risk management - continued

2.2 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 figures in respect of the Group's equity and borrowings as at 31 December are reflected below:

| | 2020 €000 |
|---|----------------------------|
| Borrowings (Note 17) | 3,528 |
| Lease liabilities (Note 16) | 3,446 |
| Less: Cash and cash equivalents (Note 12) | (3,918) |
| Net debt | 3,056 |
| Total equity | 11,673 |
| Total capital | 14,729 |
| Net debt ratio | 21% |

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.

2. Financial risk management - continued

2.3 Fair values of financial instruments not carried at fair value

At 31 December 2020 and 2019, 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, including bank borrowings, 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.

3. 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.

3.1 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.

3. Critical accounting estimates and judgements - continued

3.2 Business combinations

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

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

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.

4. Segment information

4.1 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* segment 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.

4.2 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.

4.3 Information about major customers

In 2020, the Group generated revenue amounting to €3,720,000 (2019: €3,142,000) from a particular customer representing 16% (2019: 15%) of the Group's revenue.

5. Property, plant and equipment

| Group | Land, buildings and improvements to premises €'000 | Data centre equipment €'000 | Leased out equipment €'000 | Office furniture & equipment €'000 | Payments on account €'000 | Total €'000 |
|---|--|--------------------------------------|----------------------------------|---|------------------------------------|----------------|
| At 1 January 2019 | | | | | | |
| 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 |
| Year ended 31 December 2019 | | | | | | |
| 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 | 153 | 4,246 | 954 | 762 | 362 | 6,477 |
| At 31 December 2019 | | | | | | |
| 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 | 153 | 4,246 | 954 | 762 | 362 | 6,477 |
| Year ended 31 December 2020 | | | | | | |
| Opening net book amount | 153 | 4,246 | 954 | 762 | 362 | 6,477 |
| Additions | 4,251 | 440 | 241 | 90 | 178 | 5,200 |
| Disposals | - | - | (51) | (4) | - | (55) |
| Impairment charge | - | - | - | - | (258) | (258) |
| Depreciation charge | (60) | (705) | (542) | (265) | - | (1,572) |
| Depreciation released on disposals | - | - | 51 | 4 | - | 55 |
| Closing net book amount | 4,344 | 3,981 | 653 | 587 | 282 | 9,847 |
| At 31 December 2020 | | | | | | |
| Cost | 5,046 | 10,802 | 3,547 | 4,758 | 540 | 24,693 |
| Accumulated depreciation and impairment charges | (702) | (6,821) | (2,894) | (4,171) | (258) | (14,846) |
| Net book amount | 4,344 | 3,981 | 653 | 587 | 282 | 9,847 |

As disclosed below, BM IT Limited (a subsidiary) acquired a property for a consideration of €4,000,000, of which €3,600,000 was financed via a bank loan. As part of this loan agreement, all Company's and subsidiary's current and future assets (including the acquired property) are secured against this borrowing.

5. Property, plant and equipment - continued

Depreciation charge

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

| | Group | |
|-------------------------|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Cost of sales | 1,462 | 1,587 |
| Administrative expenses | 110 | 139 |
| | 1,572 | 1,726 |

Recoverability of the data centre infrastructure

At 31 December 2020, the Group's data centre infrastructure, together with other related tangible and intangible assets, was carried at an aggregate of €8,978,000 (2019: €5,578,000). No impairment indicators were identified by management in respect of this CGU as at the end of the reporting period (Note 1.7).

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-Cawsli, 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, which property was previously leased out to BM IT Limited.

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 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.

5. Property, plant and equipment - continued

Impairment charge attributable to specific project

As announced on 1 December 2020, the Group is re-assessing all its projects taking cognisance of the impacts of Covid-19 on the local economy and on the specific sectors which are more relevant to the Group's operations and activities. The Group remains committed to executing its business plan and does not envisage adverse financial impacts based on information available as at the date of signing of these financial statements. However the Board has reviewed in detail the amounts capitalised within property, plant and equipment in respect of the ongoing projects, taking into account the announcement referred to previously. In this context, the Board has taken a prudent stance and resolved to impair an amount of €257,878 which had been previously capitalised in respect of one ongoing project, based on the likelihood that should a decision be taken not to pursue this project any further, this amount would not be covered by the recoverable amount attributable to assets pertaining to this specific project.

Fair valuation of land and buildings

As described further above, during the financial year ended 31 December 2020, the Group acquired a property for a consideration of €4,000,000.

The Group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group's property comprises a property currently being used by the Group to host one of its data centres. All the recurring property fair value measurements at 31 December 2020 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

As part of the due diligence performed prior to acquiring the property, the directors commissioned an independent firm of architects to carry out a market valuation of the property, by considering the estimated amount for which the property should be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In the opinion of the directors, no significant changes or developments have been experienced since the acquisition that impacted the property's fair value by giving rise to a material shift in its estimated market value.

6. Right-of-use assets

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

The table below describes the nature of the Group's leasing activities by type of right-of-use asset (ROU) recognised on the balance sheet:

| ROU asset | No of ROU assets leased | Range of remaining lease term (years) | Average remaining lease term (years) | Average extension option considered (years) | No of leases with extension options | No of leases with option to purchase | No of leases with termination options |
|----------------|-------------------------|---------------------------------------|--------------------------------------|---|-------------------------------------|--------------------------------------|---------------------------------------|
| Properties | 3 | 2 - 14 | 7 | 6 | 3 | - | 3 |
| Motor vehicles | 4 | 2 - 5 | 3 | - | - | - | - |
| IT equipment | 5 | 1 - 3 | 2 | - | - | - | - |

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

| | 2020 | 2019 |
|---------------------------|--------------|-------|
| | €000 | €000 |
| Properties | 3,165 | 4,401 |
| Motor vehicles | 70 | 96 |
| IT equipment | 8 | 7 |
| Total right-of-use assets | 3,243 | 4,504 |

Additions to right-of-use assets during the course of the current financial year amounted to €5,000 relating to IT equipment. As described in note 5, on 17 January 2020, the Group acquired a property which was previously being leased out and included as a right-of-use asset. On the date of acquisition, the Group terminated its lease agreement and derecognised its right-of-use asset amounting to €747,000. The only other movement in the carrying amount of right-of-use assets during the year is attributable to depreciation charges (note 20).

6. Right-of-use assets - continued

Amounts recognised in profit and loss

The income statement reflects the following amounts relating to leases:

| | 2020 €'000 | 2019 €'000 |
|---|---------------|---------------|
| <i>Depreciation charge of right-of-use assets</i> | | |
| Properties | 491 | 686 |
| Motor vehicles | 24 | 20 |
| IT equipment | 4 | 8 |
| | 519 | 714 |
| <i>Interest expense (included in finance costs)</i> | 114 | 137 |

7. Intangible assets

| Group | Brand names, customer relationships and related assets €'000 | Goodwill €'000 | Total €'000 |
|---|---|-------------------|----------------|
| At 1 January 2019 | | | |
| Cost | 11,427 | 3,203 | 14,630 |
| Accumulated amortisation and impairment charges | (10,940) | - | (10,940) |
| Net book amount | 487 | 3,203 | 3,690 |
| Year ended 31 December 2019 | | | |
| Opening net book amount | 487 | 3,203 | 3,690 |
| Amortisation charge | (262) | - | (262) |
| Closing net book amount | 225 | 3,203 | 3,428 |
| At 31 December 2019 | | | |
| Cost | 11,427 | 3,203 | 14,630 |
| Accumulated amortisation and impairment charges | (11,202) | - | (11,202) |
| Net book amount | 225 | 3,203 | 3,428 |
| Year ended 31 December 2020 | | | |
| Opening net book amount | 225 | 3,203 | 3,428 |
| Amortisation charge | (225) | - | (225) |
| Closing net book amount | - | 3,203 | 3,203 |
| At 31 December 2020 | | | |
| Cost | 11,427 | 3,203 | 14,630 |
| Accumulated amortisation and impairment charges | (11,427) | - | (11,427) |
| Net book amount | - | 3,203 | 3,203 |

Goodwill

Goodwill reflected within the statement of financial position is attributable to business combinations effected in prior years.

7. Intangible assets - continued

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

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 five year period through the estimation of terminal values.

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

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, 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 Data Centre Services CGU, applied as at year-end are disclosed in the table below:

| | Terminal value growth rate % | Post-tax discount rate % |
|------------------|--|-----------------------------------|
| 31 December 2020 | 1.8 | 8.5 |
| 31 December 2019 | 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.

7. 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 | 2020 €'000 | 2019 €'000 | €'000 | 2020 €'000 | 2019 €'000 |
| Data Centre CGU | 1,648 | - | - | 9,779 | - | 225 |

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 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 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. Investment in subsidiaries

| Company | 2020 €'000 | 2019 €'000 |
|--------------------------------------|---------------|---------------|
| Cost and carrying amount | | |
| At beginning of year | 20,359 | 20,359 |
| Transfer of investment in subsidiary | (637) | - |
| At end of year | 19,722 | 20,359 |

The carrying amount of the investments at 31 December 2020 and 2019 is equivalent to the cost of the investments.

Merger of Kinetix IT Solutions Limited into BM IT Limited

By virtue of a resolution dated 24 January 2020, Kinetix IT Solutions Limited was 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 took over the assets and liabilities of Kinetix IT Solutions Limited which as at 24 January 2020 amounted to €726,000 and €374,000 respectively, with the difference recognised directly in equity. There was no impact on the consolidated financial statements of BMIT Technologies p.l.c. as a result of this merger.

As part of the merger process, the Company transferred its investment in Kinetix IT Solutions to BM IT Limited for a consideration of €637,000.

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

| Subsidiaries | Registered office | Class of shares | Percentage of shares held | |
|------------------------------|--|-----------------------------------|---------------------------|------|
| | | | 2020 | 2019 |
| 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% |

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

9. Investment in associates

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2020 €'000 | 2019 €'000 | 2020 €'000 | 2019 €'000 |
| Years ended 31 December: | | | | |
| Opening cost and carrying amount | 18 | 18 | - | - |
| Additions - acquisition of investment in EBO Ltd | 1,567 | - | 1,567 | - |
| Dividend income from investment in MIGS Limited | (12) | - | - | - |
| Closing cost and carrying amount | 1,573 | 18 | 1,567 | - |

The associates at 31 December 2020 and 2019 are shown below:

| Associate | Registered office | Class of shares held | Percentage of shares held 2020 | 2019 |
|--------------|---|----------------------|-----------------------------------|------|
| MIGS Limited | Level 3 - 701 Ewropa Business Centre Dun Karm Street, Birkirkara Malta | Ordinary shares | 40% | 40% |
| EBO Ltd | Vision Exchange Building, Territorials street, Zone 1, Central Business District, Birkirkara CBD 1070 Malta | Ordinary shares | 15% | - |

Investment in MIGS Limited

The company's principal activity was to organise events, seminars, conferences, training programmes and other initiatives oriented towards knowledge development in different sectors and to promote lifelong education in general. The company was put into liquidation during the year, which liquidation process is expected to be concluded in the subsequent financial year. 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 2020 amounting to €277 and registered a profit after tax for the year amounting to €10,206 (2019: negative capital and reserves of €9,928 and profit after tax of €16,989).

9. Investment in associates - continued

Investment in EBO Ltd

On 2 December 2020, BMIT Technologies p.l.c. entered into an agreement to acquire a 15% shareholding in EBO Ltd (EBO) for a consideration of €1,542,000. Further costs amounting to €25,000 which are directly attributable to this acquisition were incurred by the Company and were capitalised as part of the cost of the investment.

EBO is a technology company focused on the provision of Artificial Intelligence solutions in the Healthcare, iGaming and Financial Services sectors. EBO delivers its solutions through AI driven Virtual Agents in an omni-channel environment that allow more-personalised customer conversations, improving self-service, and offering predictive models to augment existing business processes. The investment in EBO is expected to accelerate EBO's growth trajectory, as well as enable the opening of new business verticals and territories in which Group has a key interest.

The Group and Company are classifying this interest as an investment in associate, despite holding an effective shareholding of 15%. BMIT Technologies p.l.c. has a right to appoint one director out of a maximum of seven directors. As at 31 December 2020, BMIT Technologies p.l.c. had appointed one director out of a total of three acting directors and this was deemed to constitute significant influence in terms of voting rights at Board level.

The share of results of this associate, registered post acquisition date, is insignificant in the context of the Group's financial results and financial position.

9. Investment in associates - continued

The tables below provide summarised financial information for the associate that is material to the Group. The information disclosed reflects the amounts presented in the financial statements of the associate and not BMIT Technologies's share of those amounts.

| | EBO Ltd 2020 €000 |
|---|----------------------------------|
| Summarised statement of financial position | |
| Non-current assets | |
| Intangible assets | 930 |
| Other non-current assets | 530 |
| Total non-current assets | <u>1,460</u> |
| Current assets | |
| Trade receivables | 103 |
| Other current assets | 75 |
| Cash and cash equivalents | 815 |
| Total current assets | <u>993</u> |
| Non-current liabilities | (654) |
| Current liabilities | (144) |
| Net assets | <u>1,655</u> |
| Reconciliation to carrying amounts: | |
| Opening net assets on 1 January | - |
| Net assets at acquisition date | 1,655 |
| Profit for the period | - |
| Closing net assets on 31 December | <u>1,655</u> |
| Group's share in % | 15% |
| Group's share of closing net assets | 248 |
| Notional goodwill | 1,319 |
| Carrying amount on 31 December | <u>1,567</u> |

10. Inventories

| | Group | |
|----------------------------------|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Operating spares and consumables | 113 | 112 |
| Goods held for resale | 72 | 75 |
| | 185 | 187 |

11. Trade and other receivables

| | Group | | Company | |
|---|--------------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Non-current | | | | |
| Costs incurred to fulfill contracts | 212 | 205 | - | - |
| Prepayments | 91 | 19 | - | - |
| Total non-current trade and other receivables | 303 | 224 | - | - |
| Current | | | | |
| Trade receivables - gross | 2,199 | 1,919 | - | - |
| Expected credit loss allowances | (100) | (217) | - | - |
| Trade receivables - net | 2,099 | 1,702 | - | - |
| Amounts due from intermediate parent | - | 3 | - | - |
| Amounts due from subsidiaries | - | - | 6,359 | 5,753 |
| Costs incurred to fulfill contracts | 643 | 253 | - | - |
| Other receivables | - | - | 54 | 29 |
| Prepayments and advance payments | 590 | 968 | 44 | 53 |
| Total current trade and other receivables | 3,332 | 2,926 | 6,457 | 5,835 |
| Total trade and other receivables | 3,635 | 3,150 | 6,457 | 5,835 |

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:

| | Group | |
|------------------------------------|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| At beginning of year | 440 | 280 |
| Originations | 650 | 279 |
| Recognition through profit or loss | (235) | (119) |
| At end of year | 855 | 440 |

11. 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.

12. Cash and cash equivalents

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

| | Group | | Company | |
|--------------------------|--------------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Cash at bank and in hand | 3,918 | 5,346 | 1,374 | 201 |

13. Share capital

| | Group and Company | |
|---|--------------------------|--------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Authorised: | | |
| 300,000,000 Ordinary shares of €0.10 each | 30,000 | 30,000 |
| Issued and fully paid: | | |
| 203,595,310 Ordinary shares of €0.10 each | 20,360 | 20,360 |

14. Other reserves

| | Group | |
|--|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| <i>Adjustments relating to non-controlling interests</i> | | |
| Other reserves at beginning and end of year | 4,097 | 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.

15. 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% (2019: 35%).

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

| | Group | |
|---|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Property, plant and equipment | 481 | 414 |
| Intangible assets | - | 79 |
| Credit loss allowances on trade receivables | (35) | (76) |
| Others | (66) | - |
| At end of year | 380 | 417 |

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:

| | Group | |
|------------------------------------|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| At beginning of year | 417 | 508 |
| Credit to profit or loss (Note 25) | (37) | (91) |
| At end of year | 380 | 417 |

16. Lease liabilities

| | Group | |
|--------------------------------|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Non-current | | |
| Properties | 3,005 | 3,951 |
| Motor vehicles | 50 | 75 |
| IT equipment | 4 | 3 |
| | 3,059 | 4,029 |
| Current | | |
| Properties | 360 | 581 |
| Motor vehicles | 23 | 22 |
| IT equipment | 4 | 4 |
| | 387 | 607 |
| Total lease liabilities | 3,446 | 4,636 |

Included in the lease liabilities for properties are amounts of €1,321,000 (31 December 2019: €1,368,000) which are attributable to arrangements with a related party, of which €1,268,000 (31 December 2019: €1,321,000) are non-current amounts.

Extension options in property leases have been included in the lease liability (Note 6).

The total cash outflows for leases in 2020 was €540,000. The contractual undiscounted cash flows attributable to lease liabilities as at 31 December are analysed in Note 2(c).

As described in note 5, on 17 January 2020, the Group acquired a property which was previously being leased out and included as a right-of-use asset. On the date of acquisition, the Group terminated its lease agreement and derecognised its right-of-use asset and related lease liability amounting to €769,000.

Apart from the movements referred to above, the other movements in lease liabilities comprise additions of €5,000 (Note 6) and interest expense amounting to €114,000 (Note 24).

17. Borrowings

| | Group | |
|--|--------------|--------------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Loan principal amount | 3,600 | - |
| Unamortised loan origination costs | (72) | - |
| Carrying amount as at year end | 3,528 | - |
| Gross amount of loan origination costs | 80 | - |
| Amortisation charge for the year (Note 24) | (8) | - |
| Unamortised loan origination costs | 72 | - |

As disclosed in note 5, during 2020, the Group acquired a property for a consideration of €4,000,000, of which €3,600,000 was financed via a bank loan. The bank loan has a term of 10 years, bears interest at 3.25% (fixed) and has a 4-year moratorium. As part of this loan agreement, all the Company's and the subsidiary's current and future assets (including the acquired property) are secured with respect to this borrowing. During the year ended 31 December 2020, the Group complied with all loan related covenants.

Furthermore, the Group has an unutilised loan facility of €9,400,000, to be utilised to finance the cost of building and commissioning of a new data centre. This facility has a term of 10 years, bears interest at 3.25% (fixed) and has a 4-year moratorium from the date of first draw down.

18. Trade and other payables

| | Group | | Company | |
|--|--------------|--------------|----------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Non-current | | | | |
| Contract liabilities | 232 | 236 | - | - |
| Total non-current trade and other payables | 232 | 236 | - | - |
| Current | | | | |
| Trade payables | 1,168 | 1,435 | 24 | 2 |
| Amounts due to immediate parent | 156 | 252 | - | - |
| Amounts due to related parties | - | - | 2,449 | 226 |
| Indirect taxes and social security | 958 | 856 | - | - |
| Contract liabilities | 2,419 | 2,276 | - | - |
| Accruals | 1,201 | 1,176 | 24 | 16 |
| Total current trade and other payables | 5,902 | 5,995 | 2,497 | 244 |
| Total trade and other payables | 6,134 | 6,231 | 2,497 | 244 |

Amounts due to immediate parent and related parties are unsecured, repayable on demand and interest free. Included in contract liabilities are amounts of €225,000 (2019: €206,000) which relate to contract liabilities due to immediate parent, of which €114,000 (2019: €119,000) are non-current amounts.

18. Trade and other payables - continued

The following table reflects an analysis of contract liabilities:

| | Group | |
|------------------------------------|--------------|--------------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| <i>Prepaid and deferred income</i> | | |
| At beginning of year | 653 | 439 |
| Originations | 606 | 459 |
| Recognition through profit or loss | (300) | (245) |
| At end of year | 959 | 653 |

During the year ended 31 December 2020, the Group recognised revenue amounting to €300,000 (2019: €245,000) that was included within the contract liability balance as at the end of previous reporting period.

| | | |
|--|--------------|-------|
| <i>Deposits received in advance from customers</i> | | |
| At beginning of year | 1,859 | 1,799 |
| Originations | 570 | 626 |
| Refunds to customers | (737) | (566) |
| At end of year | 1,692 | 1,859 |

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:

| | | |
|---|---------------|--------------|
| Group | 2020 | 2019 |
| | €'000 | €'000 |
| By class of business | | |
| Data centre and related services - gross amount | 22,161 | 20,692 |
| One-off service credit | - | (122) |
| Sale of hardware and licenses | 1,816 | 1,860 |
| | 23,977 | 22,430 |

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.

19. Revenue - continued

| Group | Data centre and related services | | Sale of hardware and licenses | |
|--------------------------------------|----------------------------------|---------------|-------------------------------|---------------|
| | 2020 €'000 | 2019 €'000 | 2020 €'000 | 2019 €'000 |
| Timing of revenue recognition | | | | |
| At a point in time | 1,091 | 1,168 | 1,816 | 1,860 |
| Over time | 21,070 | 19,402 | - | - |
| | 22,161 | 20,570 | 1,816 | 1,860 |

Unfulfilled performance obligations

The following table presents the transaction price assigned to unfulfilled performance obligations as at 31 December 2020 and 2019. Unfulfilled performance obligations are the services that the Group is obliged to provide to customers during the remaining fixed term of the contract. As allowed by the simplification procedure in IFRS 15, these disclosures are only related to performance obligations with an initial term greater than one year.

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

| | Group | |
|--------------------------|---------------|---------------|
| | 2020 €'000 | 2019 €'000 |
| Less than one year | 13,833 | 12,550 |
| After more than one year | 1,409 | 1,047 |
| | 15,242 | 13,597 |

Accordingly, during the year ended 31 December 2020, the Group recognised revenue amounting to €12,550,000 (2019: €12,577,000) relating to performance obligations that were unsatisfied or partially satisfied at the end of previous reporting period as reflected within the table above.

20. Expenses by nature

| | Group | | Company | |
|--|---------------|--------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Cost of hardware and licences sold | 1,625 | 1,595 | - | - |
| Cost of data centre and related services | 7,469 | 6,513 | - | - |
| Depreciation of property, plant and equipment (Note 5) | 1,572 | 1,726 | - | - |
| Depreciation of right-of-use assets (Note 6) | 519 | 714 | - | - |
| Amortisation of intangible assets (Note 7) | 225 | 262 | - | - |
| Impairment of property, plant and equipment (Note 5) | 258 | - | - | - |
| Employee benefit expense (Note 21) | 3,059 | 2,866 | - | - |
| Other expenses | 1,325 | 1,442 | 144 | 161 |
| Total cost of sales and administrative expenses | 16,052 | 15,118 | 144 | 161 |

Auditor's fees

Fees charged by the parent company auditor for services rendered during the financial years ended 31 December 2020 and 2019 relate to the following:

| | Group | | Company | |
|--------------------------------------|--------------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Annual statutory audit | 30 | 30 | 1 | 1 |
| Other non-assurance services | - | 47 | - | - |
| Tax advisory and compliance services | 21 | 3 | 9 | 1 |
| | 51 | 80 | 10 | 2 |

Other non-assurance services include:

| | Group | |
|---------------------------------------|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Advice on financial reporting matters | - | 47 |

21. Employee benefit expense

| | Group | |
|-----------------------|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Wages and salaries | 2,912 | 2,739 |
| Social security costs | 147 | 127 |
| | 3,059 | 2,866 |

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

| | Group | |
|----------------|--------------|------|
| | 2020 | 2019 |
| Direct | 38 | 38 |
| Administration | 23 | 22 |
| | 61 | 60 |

22. Directors' emoluments

| | Group | |
|------|---------------|--------|
| | 2020 | 2019 |
| Fees | 98,826 | 84,000 |

The directors' fees of the Group and Company are paid by a subsidiary of the Company. Directors' fees are included within 'administrative and other related expenses'.

23. Investment income

| | Company | |
|--------------------------------------|----------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Dividend income from Group companies | 7,703 | 9,151 |

24. Finance costs

| | Group | |
|--|--------------|-------|
| | 2020 | 2019 |
| | €'000 | €'000 |
| Interest charges on lease liabilities (Note 16) | 114 | 137 |
| Interest charges on bank loan (Note 17) | 113 | - |
| Amortisation of loan origination costs (Note 17) | 8 | - |
| Other loan charges | 58 | - |
| | 293 | 137 |

25. Tax expense

| | Group | | Company | |
|-------------------------------|--------------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Current tax expense | 2,927 | 2,817 | 2,696 | 3,203 |
| Deferred tax credit (Note 15) | (37) | (91) | - | - |
| Tax expense | 2,890 | 2,726 | 2,696 | 3,203 |

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:

| | Group | | Company | |
|--|--------------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Profit before tax | 7,632 | 7,175 | 7,559 | 8,990 |
| Tax on profit at 35% | 2,671 | 2,511 | 2,646 | 3,147 |
| Tax effect of: | | | | |
| Expenses not deductible for tax purposes | 236 | 114 | 50 | 56 |
| Others | (17) | 101 | - | - |
| Tax expense | 2,890 | 2,726 | 2,696 | 3,203 |

26. 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.

| | Group | |
|---|----------------|---------|
| | 2020 | 2019 |
| Profit attributable to equity holders of the Company (€'000) | 4,742 | 4,449 |
| Weighted average number of ordinary shares in issue (thousands) (Note 13) | 203,595 | 203,595 |
| Earnings per share (€) | 0.02 | 0.02 |

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.

27. Dividends

| | Group | | Company | |
|----------------------------------|--------------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Net dividends on ordinary shares | 4,391 | - | 4,391 | - |
| 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 net dividend in respect of the year ended 31 December 2020 of €0.029 per share, amounting to €5,949,055, 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 within shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2021.

28. Cash generated from operations

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

| | Group | | Company | |
|---|--------------|--------|----------------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Profit before tax | 7,632 | 7,175 | 7,559 | 8,990 |
| Adjustments for: | | | | |
| Depreciation and impairment of property, plant and equipment (Note 5) | 1,830 | 1,726 | - | - |
| Depreciation of right-of-use assets (Note 6,20) | 519 | 714 | - | - |
| Amortisation of intangible assets (Note 7) | 225 | 262 | - | - |
| Net movement in provisions and write-downs in relation to receivables and inventories | (104) | 54 | - | - |
| Investment income | - | - | (7,703) | (9,151) |
| Loss on disposal of property, plant and equipment | - | 4 | - | - |
| Finance costs (Note 23) | 293 | 137 | - | - |
| Other non-cash transactions | (22) | - | - | - |
| Changes in working capital: | | | | |
| Inventories | (12) | 14 | - | - |
| Trade and other receivables | (444) | (729) | (622) | (4,970) |
| Trade and other payables | (20) | 991 | 2,253 | 184 |
| Cash generated from/(used in) operations | 9,897 | 10,348 | 1,487 | (4,947) |

29. Commitments

| | Group | | Company | |
|-------------------------------|--------------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Capital expenditure | | | | |
| Authorised and contracted for | 206 | 4,000 | - | - |

30. Contingencies

- (a) A guarantee for a maximum amount of €3,600,000 was issued by the Company and a subsidiary of the Group in favour of the bankers for facilities provided to the same subsidiary (Note 17).
- (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.

31. 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:

| | Group | | Company | |
|---|--------------|--------------|----------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Transactions with immediate parent | | | | |
| Services provided by | 999 | 765 | - | - |
| Services provided to | 1,781 | 1,508 | - | - |
| Dividends paid to | 2,239 | 800 | 2,239 | 800 |
| Transactions with related parties | | | | |
| Payments relating to leases treated in accordance with IFRS 16 requirements | 173 | 170 | - | - |

31. Related party transactions - continued

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

Year-end balances with related parties, arising principally from the above transactions, are disclosed in Notes 11 and 18 to these financial statements. Subsequent to the adoption of IFRS 16, the Group recognises lease liabilities in respect of lease arrangements with related parties (refer to Note 16).

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%.