# Circular to Shareholders

## Explanatory Circular to Shareholders
## Extraordinary General Meeting

This circular (the "**Circular**") is being issued by BMIT Technologies p.l.c., a public limited liability company having Maltese registration number C 48299 and registered office located at Building SCM02, Level 2, Smartcity Malta, Ricasoli, Kalkara, Malta (the "**Company**" or "**BMIT**").

**Important Information**

This Circular contains information on the resolution (the "**Resolution**") being proposed as special business at the Company's Extraordinary General Meeting (the "**EGM**") to be held on the **25th September 2023**. It is being sent to all shareholders appearing on the Register of Members of the Company maintained by the Malta Stock Exchange as at close of business on the 26th August 2023 (the "**Shareholders**") who are entitled to attend and vote at that meeting to enable them to understand better the general nature of the Resolution that is to be considered at the EGM as special business and to provide the necessary information about the effect and scope of this resolution to assist Shareholders to make a properly informed decision.

This document is being issued and sent to Shareholders in compliance with the laws of Malta and the Capital Markets Rules (the "**CMRs**") issued by the Malta Financial Services Authority (the "**MFSA**"), particularly the requirements of: (1) CMR 6.2 on the contents of all circulars; (2) CMRs 6.1.11 and 6.39, relating to a notice of a meeting which includes any business other than ordinary business at an annual general meeting; (3) CMR 6.1.9, relating to a Class 2 transaction requiring shareholders' approval in general meeting; and (4) CMRs 6.18-6.22 on circulars relating to acquisitions and realisations.

Where any or all of the shares in the Company held by a recipient of this Circular have been sold or transferred on the date of receipt of this document, this Circular and all other relevant documentation, or copies thereof, should be passed to the person through whom the sale or transfer was affected for transmission to the purchaser or transferee.

**THIS CIRCULAR IS IMPORTANT AND SHAREHOLDERS SHALL BE REQUESTED TO VOTE ON THE ISSUES AND MATTERS DESCRIBED HEREIN AT THE FORTHCOMING EXTRAORDINARY GENERAL MEETING. IN THE EVENT THAT SHAREHOLDERS RECEIVING THIS DOCUMENT ARE IN ANY DOUBT AS TO THE IMPORT OF THIS DOCUMENT OR AS TO ANY ACTION REQUIRED OF THEM, THEY ARE URGED TO CONSULT THEIR INDEPENDENT PROFESSIONAL ADVISERS.**

All the Directors of the Company as on the date hereof, namely Arthur Galea Salomone, Faker Hnid, Michael Mercieca, Deepak Srinivas Padmanabhan, Christian Sammut and Daniela Zammit (together, the "**Directors**") accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

**This Circular does not constitute an offer, invitation or solicitation to any person to subscribe for, acquire, or dispose of any securities in the Company and no reliance ought to be made by any person on any information contained in this Circular as a basis for a decision to invest in, or dispose of, any securities issued, or which may be issued, by the Company.**

### 1. INTRODUCTION

The EGM has been convened to be held on the 25th September 2023 at 15:00hrs at The Westin Dragonara Resort, Dragonara Road, St. Julian's, Malta. This Circular is intended to explain to Shareholders the importance of the special business that is required to be addressed at the EGM and to provide Shareholders with sufficient explanation to enable them to make informed decisions.

### 2. THE RESOLUTION

The Shareholders are being requested to consider, and if deemed fit, approve the Resolution during the EGM. The Resolution constitutes Special Business, and details of the Resolution are provided below.

#### *2.1. Proposed text of the Resolution*

*"To consider and approve the acquisition by the Company of the Transaction Assets in terms of the Asset Purchase Agreement (capitalised terms as defined and as described in the explanatory Circular published by the Company and accompanying the Notice and Agenda of the EGM); which acquisition qualifies as a Class 2 transaction in terms of CMR 5.149.2 (the "**Proposed Transaction**")."*

### *2.2. Purpose of Resolution*

The purpose of this Resolution is to obtain Shareholder approval for the Proposed Transaction, as required by CMR 5.163.2.

### *2.3. Overview of the Proposed Transaction and the Resolution explained*

*Background*

The Company provides an array of technological solutions to a wide range of businesses through its expertise in technology, business strategy and innovation; developing intelligent, secure infrastructure solutions, and by building internal capabilities and identifying opportunities to enhance the business potential of its customers through the application of innovative technologies. Broadly speaking, the Company provides the following categories of services to its customers: data centre and co-location; IT and cloud infrastructure solutions; productivity and collaboration tools; cybersecurity and related cyber-risk and tech compliance solutions; advisory and professional services; and a suite of networking and connectivity services which enable and/or supplement most of the above services and solutions.

The Company's strategy, supported by investments, has allowed BMIT to become the leading provider of data centre and co-location services, and one of the first providers to offer cloud services in Malta. The Company also invested to develop managed IT services capability, and this expertise, coupled with the experience gained over the years, has given the Company the strength to continue to grow and expand its business, despite regulatory and technological developments; the COVID-19 pandemic; and a challenging global economic environment. Additionally, as a result of the Company's continued investment in its data centre and co-location infrastructure, BMIT has further strengthened its position as one of Malta's leading technology operators on the island.

Whilst the inevitable transformation to cloud and IT services has presented an opportunity for the Company, such transformation has also, and still presents, significant challenges for BMIT. As more businesses migrate their operations to the cloud and rely on third-party service providers, the demand for traditional data centre and co-location services is being impacted. Consequently, it is critical that data centre and co-location providers, such as BMIT, adapt to this shift by redefining their role and value proposition, as they face the challenge of competing cloud providers, offering scalable, on-demand services, flexibility, and cost efficiencies.

To address these challenges over the past few years the Company initiated a transformation process, whereby, in line with the above shift, it not only expanded its product range and offerings but also increased the number of consulting, technical advisory and support services it provides. Through these services, the Company is tapping new business opportunities with a view to generating new revenues. These new revenue lines are critical for the Company to address the gap resulting from the shift from providing data centre services to offering cloud and IT services.

This transition away from the Company's core services poses a significant challenge in terms of profit margins. Cloud and IT services operate on a different cost and pricing model than data centre services. Whilst the latter requires a higher capital outlay to be able to offer the service, it also offers longer term commitments and good margins. On the other hand, cloud and IT services operate on a different pricing model, with a much lower/no initial outlay and also low commitments, due to the pay-as-you-go or subscription-based models. Additionally, competition in the cloud market is intense with numerous providers, mostly global players, offering similar services leading to pricing pressure and potential margin erosion.

To address this margin challenge, the Company has embarked on a two-pronged approach: firstly, it is continuing to focus on efficiency, automation, scalability, and differentiation through value-added services and specialised offerings; secondly it is also seeking to explore new areas for investment. These areas present an opportunity for increased margin, stable and sustainable growth, diversification, and an ability for BMIT to leverage its strength as one of Malta's leading infrastructure providers and also provide for long-term Shareholder value. The Company believes that the Proposed Transaction will help the Company mitigate several of the above-mentioned challenges, whilst improving its competitive position in the market.

The Company's parent company, GO p.l.c. (C 22334) ("GO") is in the business of providing local and long-distance telephone services, wireless services, digital terrestrial television, DSL and fibre-to-the-home internet access to customers in Malta. GO currently owns a portfolio of cellular towers comprising of approximately 280 sites across the Maltese Islands which are used as part of its core operations in the provision of mobile telephony services. GO installs certain cellular equipment ("**Active Cellular Equipment**") necessary for the provision of its mobile telephony services onto passive structures (comprising of items such as beam reinforcements, poles, counter-balances and stays (the "**Passive Network Infrastructure**") which are placed on rooftops or grounds of third party commercial or residential premises.

A number of lease agreements between GO and the respective site owners govern the conditions for the placement of the Active Cellular Equipment and the Passive Network Infrastructure on the abovementioned properties and stipulate inter alia, the area, rental cost, contract duration as well as GO's access rights to the area. These lease agreements provide GO with rights to install and maintain the required infrastructure and equipment within the third-party properties, in return for lease payments being made in favour of the respective third parties. Cumulatively these lease agreements comprise and are being defined as the "**Passive Tower Rights Portfolio**" (and, together with the Passive Network Infrastructure, the "**Passive Telecoms Assets**").

*The Proposed Transaction*

The Proposed Transaction will involve, subject to obtaining the prior approval of the Shareholders at the EGM, the acquisition of the Passive Telecoms Assets together with the corresponding maintenance functions and all related agreements (including the MSA, as defined and described below) and the transfer of an employee (collectively, the "**Transaction Assets**"), by the Company from GO Infrastructure Services Ltd (C 104085), a fully owned subsidiary of GO ("**GISL**").

GISL will first be acquiring the Passive Telecoms Assets from (and entering into the MSA with) GO as part of an operational restructuring being carried out by GO, before selling them to the Company. This operational restructuring is being undertaken by GO prior to the closing of the Proposed Transaction in order to segregate and centralise the Transaction Assets within a separate service provider company. Should the Proposed Transaction not be completed, the restructuring will allow GO to focus on its core business operations and end-customers, while GISL would then focus exclusively on the business relating to the Transaction Assets (including the services to be provided to GO in terms of the MSA). As a result of the Proposed Transaction, the Company will become the new tenant of the underlying leases (comprising the Passive Tower Rights Portfolio), whilst providing the passive infrastructure services to GO as its anchor client on the sites (in terms of the MSA), enabling a continuity of service for GO and in turn, its mobile network operator services to its clients.

The Company will maintain and operate the Passive Telecoms Assets in terms of the MSA, and amongst other items, be primarily responsible for:

- the maintenance of the Passive Network Infrastructure (as defined above) and which is located on rooftops or grounds of third-party, commercial or residential premises;
- the management and renewal of the underlying lease agreements, for such third-party rooftops or grounds;
- the hosting of GO's telecommunications assets on the Passive Network Infrastructure to allow GO to operate its mobile and wireless telephony services; and
- the consequent access to GO, to the rooftops or grounds, where their telecommunication assets are hosted, for maintenance and support purposes.

The Company will, in terms of the MSA, have the ability to provide co-location services to third parties on the Passive Network Infrastructure (i.e. the ability to provide services to both GO and third parties using the same Passive Network Infrastructure), provided that the relevant sites are appropriately refitted to permit such co-location and subject to GO's agreement in each case.

BMIT will integrate the management and operation of the Passive Network Infrastructure within its product and service portfolio, taking advantage of any operational and organisational synergies which may result.

One employee, currently responsible for the management and renewal of the underlying lease agreements, will be transferred from GO to BMIT; although it is envisaged that additional personnel will be employed by the Company, as necessary, to help it manage and operate the Passive Telecoms Assets as well as to provide the required services to GO in terms of the MSA.

*Transaction Agreements*

The following are the key transaction documents governing the transaction that have been or shall be entered into by the Company, GO and GISL, as the case may be (always subject to the approval of the Shareholders at the EGM):

a. An Asset Purchase Agreement ("**Asset Purchase Agreement**"), executed on the 7 August 2023, pursuant to which the Company has agreed to purchase the Transaction Assets from GISL, subject to the satisfaction of various conditions precedent, including but not limited to: the assignment to GISL by GO of the Passive Tower Rights Portfolio; notifying and/or obtaining the acknowledgement (as necessary in terms of the Civil Code) in advance of a substantial majority of the site owners / lessors to the assignment of the Passive Tower Rights Portfolio (from GO to GISL and, in turn, to the Company); the Company obtaining the required financing for the transaction from a reputable credit institution in Malta; GO providing the GO Loan to the Company (as defined and described in further detail below); GO providing an undertaking to take up any scrip dividend option offered by the Company in the year that the Proposed Transaction concludes and in the subsequent four financial years and up to a maximum of €15,000,000 (whichever occurs earlier); obtaining the approval of the Company's shareholders in general meeting; and the parties obtaining any and all regulatory approvals (if any).

b. A Master Service Agreement ("**MSA**"), to be entered into by GO and GISL and which shall be assigned by GISL in favour of the Company on closing of the transaction. The MSA shall regulate the provision of hosting, co-location and maintenance services (in accordance with specified service levels and requirements) to GO to enable it to operate its Active Cellular Equipment onto the Passive Network Infrastructure transferred to the Company. The MSA will have an initial thirty-year period, to be automatically renewed for further periods of five years unless otherwise agreed between the parties in writing. Over the initial thirty-year term of the MSA, GO will be paying a predetermined annual service fee (adjusted every year at an agreed annual escalator) for the provision of the services outlined in the MSA. The service fee per site that will be payable by GO is an arm's length price representative of a market rate fee and similar to the range of prices charged for similar offerings in Europe, and which the Company believes will result in a market standard margin. Moreover, in terms of this agreement, GO shall be required to deliver to the Company approximately 30 new "Built-to-Suit" Passive

Network Infrastructure sites across the Maltese islands ("**BTS Sites**") and transfer the BTS Sites to the Company by the end of 2030. All transferred BTS Sites will be managed by the Company in terms of the MSA and in respect of which GO shall also be obliged to pay an annual service fee.

c. A Loan Agreement between the Company and GO, pursuant to which GO will provide a €15,000,000 loan to the Company (the "**GO Loan**"). The GO Loan will, in essence, be a form of deferred consideration structured in the form of a loan, which allows the imposition of interest as well as negative covenants, further ensuring the arms' length nature of the Proposed Transaction. The GO Loan will be utilised by the Company to satisfy part of the consideration due under the Asset Purchase Agreement. The GO Loan will have an initial term of 5 years and the Company will be required to repay the loan amount in one single repayment on maturity (subject to an interest rate of 3%). The Company will also have the option to extend the loan for a further 5 years, provided that GO is notified 60 days in advance of the initial maturity date, in which case it would be repaid in five equal instalments of €3,000,000 throughout the remaining term (and subject to an adjusted interest rate of 6%) to be payable following the initial maturity date. The Company may prepay the GO Loan in whole or in part at any time without penalty. The GO Loan is subject to standard events of default and acceleration upon on change of control provisions.

d. GO and the Company will also be entering into a transitional services agreement to cover an initial period following the Company's acquisition of the Transaction Assets pursuant to which GO will provide support to the Company as part of a transition process in order to ensure a smooth hand-over of operations and service continuity (with no disruptions to GO's services to its clients) post-transaction.

*Asset Valuation Report and Consideration*

An independent full asset valuation report has been prepared by Ernst & Young Limited, C 30241 ("**EY**") (the "**Asset Valuation Report**"). This is available for review on the Company's website (https://www.bmit.com.mt) and is also available for inspection at the registered office of the Company as indicated in Section 5 below. Reference to the contents of the Asset Valuation Report have been included in the form and context in which they appear with the authorisation of Mr. Chris Meilak who has given and has not withdrawn his written consent to the inclusion of the contents of the Asset Valuation Report, in the form and context in which they are included herein.

In terms of the Asset Valuation Report, the MSA is the main subject of the transaction. Other intangible assets have also been identified separately and valued, including the portfolio of leases and the co-location business. The asset valuation report details the nature of these intangible assets and the methods of valuation used. The intangible assets have been valued at approximately €46.51 million (gross), with the MSA being valued at €44.65 million (gross). The carrying value of the Passive Network Infrastructure of €578.1k is assumed to be a close approximation of the fair value of these assets. The aggregate value of the intangible assets (including the MSA) and the Passive Network Infrastructure being acquired by the Company in the Proposed Transaction is expected to be equal to the consideration paid by the Company for the same on closing of the Proposed Transaction.

The consideration payable by BMIT for the acquisition of the assets shall be paid by way of bank transfer from the Company to GISL at Closing which is to take place two business days following the satisfaction or waiver of the conditions precedent set out in the Asset Purchase Agreement. The Company and GO have agreed that the final consideration due shall be determined, between the closing date and seven business days prior thereto, by way of a recalculation of the original consideration of €47,085,000, less an amount corresponding to the GO Loan (if any) and any adjustments required in terms of the consideration adjustment provisions of the Asset Purchase Agreement (such as in the event that less sites/leases are eventually transferred to the Company on closing, for example).

*Benefits and Effect of the Transaction on the business of the Company*

The contribution to revenue, margin and cash flows, resulting from this transaction, will support BMIT's strategy to transform the Company into a hybrid IT provider in shorter time frames. As a result, the Company will be able to accelerate its investment in the required resources, systems and infrastructure, necessary for such transformation, whilst still reporting revenue and margin growth in the short to medium term, despite the challenges highlighted earlier.

Furthermore, the transaction provides an attractive opportunity for BMIT to diversify its business model and become a Maltese "InfraCo", with the investment in this transaction backed by long term, contracted revenues; and with cash flows generated from GO as its anchor client over a thirty-year period.

The combined value of BMIT's existing data centre and colocation infrastructure, together with the Transaction Assets resulting from this transaction, is important both for BMIT's Shareholders, as well as for potential new investors. With an ever-increasing reliance on digital technologies across all spheres of business and the need for efficient and reliable mobile communication and connectivity, companies which own such technology assets, provide the key infrastructure which empowers the functionality of businesses, industries and individuals alike.

As a result, in the medium to longer term, investors in companies which own both a data centre and telecom assets may often benefit from stable and recurring income due to the long-term nature of the agreements with their customers. The value proposition lies in diversification, steady cash flows with relatively low risk and the opportunity to capitalise on an expanding digital economy.

*Risks associated to the Transaction (in no particular order)*

- Acquisition Risk

Part of the Company's growth strategy is based on the Company's appetite and propensity to explore and undertake investment opportunities from time to time and to integrate such opportunities in the Company's offering. These may involve acquisitions or strategic investments in other business ventures. The Company's failure to integrate such businesses successfully to realise revenue growth and cost saving exercises, could result in the Company incurring extraordinary and unrecoverable costs. The acquisition and on-boarding of other opportunities could result in the diversion of management's attention from the Company's core business which may affect the Company's operations, sales and financial condition.

- Concentration / Counterparty Risk

Concentration risk may arise because of excessive exposure to one counterparty or group of connected counterparties. The MSA is expected to be the Company's primary source of revenue in respect of the Passive Telecoms Assets. Accordingly, at present, the success or otherwise of this new business being entered into by the Company will be almost entirely dependent on the business prospects, operations and financial position of GO. In the event that GO is ever unable to meet its obligations to the Company in terms of the MSA (whether due to insolvency or any other reason which is beyond the Company's control), this will have a material adverse effect on the Company's revenue in respect of the Passive Telecoms Assets. Although the Company will have the ability to provide co-location services to third parties on the Passive Network Infrastructure (subject to the terms and restrictions set out in the MSA), it is unlikely that the Company will be able to develop its co-location portfolio to a large enough extent that it would mitigate a default by GO under the MSA.

- Effect of the Transaction on the Company's financial position and performance

The Company's ability to implement its business strategies is dependent upon, amongst other things, its ability to generate sufficient funds internally, access external financing at acceptable costs and the successful integration of the new line of business into the Company's strategy. The generation of cash flows is dependent on, among other factors, the integration of the new line of business into the Company's strategy, general economic conditions, any future profits, financial position and other factors that the Company's Board of Directors may deem significant from time to time. The amortisation charge on the intangible assets resulting from the Proposed Transaction may also have an impact on the amount of profits available for distribution.

A portion of the cash flow generated from the Company's operations shall be utilised to repay its debt obligations, incurred as a direct result of the transaction, pursuant to financial covenants to which it is subject. This may give rise to a reduction in the amount of cash available for distribution which would otherwise be available for funding of the Company's working capital, capital expenditure, and other general corporate costs or for the payment of dividends.

The agreements regulating the Company's bank debt may impose certain operating restrictions and financial covenants on the Company. These restrictions and covenants could limit the ability of the Company to obtain future financing, make capital expenditure, declare a dividend in certain instances, withstand a future downturn in business or economic conditions generally or otherwise inhibit the ability to conduct necessary corporate activities.

Accordingly, the occurrence of any event that could impede or otherwise delay the cash flow generation by the Company could have a detrimental impact on its ability to fulfil its financing commitments as they fall due and/or to declare and distribute any dividends to its shareholders.

- Interest Rate Risk

Notwithstanding the fact that the Company is in the process of negotiating a competitive interest rate as part of the financing package for the Proposed Transaction, an increase in interest rates on the Company's existing and/or future borrowings may increase the costs of the Company's borrowings and have an adverse effect on the profitability of the Company and its ability to make distributions to its shareholders.

- Key Person Risk

As previously indicated, it is the intention of the Company to engage additional personnel, to help it manage and operate the Passive Telecoms Assets as well as to provide the required services to GO. Nevertheless, the Company shall initially be dependent on the transferred employee for the management of the Passive Telecoms Assets. The loss of key personnel during the initial business integration phase or the Company's failure to attract, replace, train or retain such qualified personnel could have a negative impact on the Company's operations of the Passive Telecoms Assets.

- Operational Risk relating to the new business

Operational risk is the risk of incurring losses due to deficiencies or failures on the part of internal processes, people or systems or due to unexpected external events, which could impede the Company's ability to meet its objectives. Operational risks are inherent in all activities and processes. Operational risks exist in the normal course of every business (and will also exist in respect of the Transaction Assets being acquired by the Company) and when such risk events occur these could negatively impact the Company's clients and/or its ability to serve them. Operational risk can arise from several factors including, amongst others, failure of internal systems and controls, errors by employees, fraud, inadequate business and employee practices, failure to comply with regulatory and compliance requirements, natural disasters, and damage to physical assets.

The MSA regulates the provision of hosting, co-location and maintenance services to GO to enable it to operate its Active Cellular Equipment on the Passive Network Infrastructure to be acquired by the Company. These services the Company will provide to GO, as outlined in the MSA, must be delivered in accordance with specified requirements and service levels. Whilst the risk of failure to meet such agreed service levels is perceived by the Company to be low any such failure by the Company could result in the application of penalties or service credits.

Furthermore, the current lease agreements between GO and the various site owners have a duration of 3 to 5 years, which duration is substantially shorter than the initial 30-year period of the MSA (pursuant to which the Company is bound to provide services to GO in respect of a specific number of sites). The majority of the lease agreements also provide for the unilateral right of either party to terminate the lease at any time upon 4 to 6 months' notice, and there can be no assurance that one or more site owners will not exercise their right to terminate the respective lease/s early. Any non-renewal or early termination by the relevant site owners will result in the Company having to find replacement sites in order for it to meet its obligations to GO. It should be noted, however, that site turnover has historically been low (whether as a result of non-renewal upon maturity or early termination) and that the Company believes that, in any event, it will be relatively easy to find such replacement sites.

*Other Disclosures Required in terms of the CMRs*

Other than as indicated below, no Director of the Company or other person currently owns or will, as a result of the transactions, 5% or more of the Company's capital.

| ***Shareholder*** | ***No. Shares Held*** | ***Percentage of Sharehold-ing*** |
|---|---|---|
| GO | 103,833,609 | 51% |
| Rizzo Farrugia & Co (Stockbrokers) Ltd obo Clients 1 | 18,257,186 | 8.97% |

In so far as is known to the Company none of the assets the subject of the transaction are subject to legal or arbitration proceedings (including any such proceedings which are threatened of which the Company is aware) which may have a significant effect on the Company's financial position.

As at the date of this Circular, both Deepak Srinivas Padmanabhan and Faker Hnid are directors of the Company and of GO, and as such are susceptible to conflicts between the potentially diverging interests of the two companies. Arthur Galea Salomone has also disclosed to the Company his beneficial interest in shares and bonds issued by GO. In accordance with the provisions of the Company's Articles of Associations governing conflicts of interest, Messrs. Srinivas Padmanabhan, Hind and Galea Salomone have abstained from voting in the decision of the Company's Board of Directors to approve the Proposed Transaction and recommend it to the Shareholders (with such decision having been taken unanimously by the remaining Directors).

To the extent known or potentially known to the Company (and save as disclosed above) no Director within the Company, or a Connected Person of such Director, has an interest in or shall derive an advantage from the Proposed Transaction. The total emoluments receivable by the Directors of the Company shall not be varied as a direct result of the transaction.

## 3. PRO FORMA FINANCIAL INFORMATION

### 3.1 Basis of preparation

This section of the circular sets out the financial effects of the Proposed Transaction on the consolidated results and financial position of the BMIT group of companies (of which BMIT is the parent company) (the "**Group**") for illustration purposes, assuming that the Proposed Transaction was implemented with effect from 1 January 2022.

*The pro forma financial information addresses a hypothetical situation and therefore, does not represent the Company's actual financial position or results. The pro forma financial information is provided for illustrative purposes only, to provide information on how the Proposed Transaction may have affected the financial position and performance of the Group, and does not purport to be indicative of the operating results or financial position that would have actually occurred if the acquisition and other financing transactions had each been effected on the date indicated above, nor is it indicative of future operating results or financial position of the Group.*

The financial information in the columns under the heading "Actual" included in the pro forma financial statements is derived from the audited annual financial statements of the Group as at 31 December 2022. The pro forma adjustments are based on the information and assumptions available as of 31 July 2023.

In assessing whether the acquisition of assets and liabilities assumed pursuant to the Asset Purchase Agreement and MSA and other related agreements (collectively for the purposes of this section 3 referred to as "**the agreements**") meet the definition of a business, the Company applied the optional concentration test in accordance with paragraphs B7A and B7B of Appendix B - Application Guidance to IFRS 3 'Business Combinations'. Under this optional simplified approach, the acquirer determines if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. If the concentration test is met, the set of activities and assets is not a business and no further assessment under IFRS 3 is required.

The Company's assessment considered the fair value of the gross assets that were acquired, and the liabilities assumed to determine if that fair value is concentrated in a single identifiable asset as part of the concentration test. The Company determined that the Proposed Transaction contemplated by the agreements meet the concentration test as approximately 95% of the gross fair value has been allocated to the MSA customer relationship intangible asset. Consequently, the Company has presented the pro forma financial information on the basis that the Proposed Transaction represents an asset acquisition.

The pro forma financial information is prepared in a manner consistent with the accounting policies of the Group, as applied in its historical financial statements and taking into account the requirements of Item 18.4 of Annex 1 and Annex 20 of Commission Delegated Regulation 2019/980. For a detailed description of the Group's accounting policies, one should refer to the Group's 2022 annual report which is available for inspection either as set out in section 5 of this Explanatory Circular, or online at https://www.bmit.com.mt/financial-statements/.

## 3.2 Pro forma Consolidated Statement of Financial Position

The table below sets out a comparison between the Group's consolidated Statement of Financial Position as at 31 December 2022 and the pro forma position that would have resulted assuming the Proposed Transaction had been implemented on 1 January 2022.

**Statement illustrating the effect of the Proposed Transaction on the Consolidated Statement of Financial Position of the Group as at 31 December 2022**

| | Notes | Actual 2022 €'000 | Pro forma adjustments €'000 | Proforma 2022 €'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 1 | 9,074 | 497 | 9,571 |
| Right-of-use assets | | 2,396 | - | 2,396 |
| Intangible assets | 1 | 3,203 | 45,073 | 48,276 |
| Investment in associates | | 1,582 | - | 1,582 |
| Trade and other receivables | | 322 | - | 322 |
| **Total non-current assets** | | **16,577** | **45,571** | **62,148** |
| **Current assets** | | | | |
| Inventories | | 146 | - | 146 |
| Trade and other receivables | 2 | 2,337 | 236 | 2,573 |
| Current tax receivable | | 179 | - | 179 |
| Cash and cash equivalents | 3 | 6,251 | (2,768) | 3,483 |
| **Total current assets** | | **8,913** | **(2,532)** | **6,381** |
| **Total assets** | | **25,490** | **43,039** | **68,529** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | | 20,360 | - | 20,360 |
| Other reserves | | (4,097) | - | (4,097) |
| Accumulated losses | | (5,205) | (1,213) | (6,418) |
| **Total equity** | | **11,058** | **(1,213)** | **9,845** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Lease liabilities | | 2,284 | - | 2,284 |
| Borrowings | 4 | 3,544 | 42,706 | 46,250 |
| Deferred tax liabilities | | 352 | - | 352 |
| Trade and other payables | | 313 | - | 313 |
| **Total non-current liabilities** | | **6,493** | **42,706** | **49,199** |
| **Current liabilities** | | | | |
| Lease liabilities | | 415 | - | 415 |
| Borrowings | 4 | - | 1,090 | 1,090 |
| Trade and other payables | | 7,524 | - | 7,524 |
| Current tax liabilities | 5 | - | 455 | 455 |
| **Total current liabilities** | | **7,939** | **1,546** | **9,485** |
| **Total liabilities** | | **14,432** | **44,252** | **58,684** |
| **Total equity and liabilities** | | **25,490** | **43,039** | **68,529** |

The comparison indicates that the Proposed Transaction would lead to a net increase in the Group's total assets of €43.0 million from €25.5 million to €68.5 million. The principal movement underlying this increase emanates from the acquired MSA intangible asset. The Group's cash position as at 31 December 2022 amounted to €6.25 million. Subsequent to the Proposed Transaction, the hypothetical cash position will decrease to approximately €3.5 million.

On the other hand, the Group's total liabilities are projected to increase by €44.3 million (net) as a result of the proceeds received from the borrowings that will be secured by the Group in order for the Proposed Transaction to materialise.

In terms of the Group's total shareholders' equity, the above comparison table indicates a reduction of €1.2 million from €11.1 million to €9.8 million, which results from the reduction in the Group's Comprehensive Income during the year ended 31 December 2022 (for further detail on the pro forma adjustments relating to the Statement of Comprehensive income refer to Section 3.3 of this Explanatory Circular).

The Group is aware that upon the completion of this transaction the Company's debt ratio and debt-to-equity ratio is expected to change significantly from the current equity-based funding model. A reconciliation of the pro forma gearing ratio is provided in the table below.

| | Notes | Actual 2022 €'000 | Pro forma adjustments €'000 | Proforma 2022 €'000 |
|---|---|---|---|---|
| Borrowings | 4 | 3,544 | 43,797 | 47,341 |
| Lease liabilities | | 2,699 | - | 2,699 |
| Less: Cash and cash equivalents | 3 | (6,251) | 2,768 | (3,483) |
| **Net debt** | | **(8)** | **46,565** | **46,557** |
| **Total equity** | | **11,058** | **(1,213)** | **9,845** |
| **Total capital** | | **11,050** | **45,352** | **56,402** |
| **Net debt ratio (%)** | | **-** | **103%** | **83%** |

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 pro forma statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the respective pro forma statement of financial position, plus net debt.

*Statement of Financial Position pro forma adjustments explained*

The following is a description of the pro forma adjustments made to the actual financial position of the Group for the year ended 31 December 2022:

1. As indicated above, based on a preliminary assessment performed by the Group in accordance with the concentration test requirements under IFRS 3, the Company's management concluded that the MSA intangible asset represents substantially all of the fair value of the gross assets acquired and accordingly, it determined that the Proposed Transaction is deemed as an asset acquisition rather than a business combination. Hence, pro forma adjustments are necessary to reflect the allocation of the purchase consideration amongst the individual identifiable assets and liabilities on the basis of their relative fair values at the date of acquisition.

   Pro forma adjustment 1 also includes the depreciation of the Passive Network Infrastructure over their remaining useful lives and the amortisation of the MSA intangible asset and other intangible assets over the term of said agreement.

   Furthermore, transaction costs directly attributable to the asset acquisition have been capitalised, allocated over the identifiable assets and then subsequently amortised over the relevant useful lives.

2. Adjustment to reflect the projected trade receivables arising from the Proposed Transaction, on the assumption that the monthly rental invoice for the month of December would still be outstanding at the end of the reporting period. The MSA arrangement stipulates that the customer shall pay all invoices within 30 days from invoice date.

3. The reduction in cash at bank is due to the net impact arising from various inflows and outflows relating to the operation of the Passive Telecoms Assets including the outflow attributable to the internal financing of the Proposed Transaction, receipts from customers, payment of transaction costs, feasibility studies costs, legal and professional fees, site lease payments to landlords, site maintenance costs and the repayment of the bank loan including the interest component.

4. The Proposed Transaction is expected to be financed through an appropriate mix of external and intra-group debt, as set out below.

(a) A secured long-term loan facility of €30 million from a local credit institution, repayable in quarterly instalments over a period of 20 years. The facility will bear interest at floating interest rates calculated based on the bank's base rate plus a margin. The Group has submitted preliminary applications for finance and obtained draft loan term sheets from a number of local commercial banks.
(b) The GO Loan as described in section 2.3 of this Explanatory Circular; and
(c) The remaining balance will be financed by means of internal funding from existing cash at bank balances.

The pro forma adjustment also captures the reclassification of the current and non-current portion of the loans.

5. Adjustments to reflect the corporate tax payable to the Commissioner for Revenue arising from the operation of the Passive Telecoms Assets, which figure is based on a high-level tax computation performed by management.

### 3.3 Pro forma Consolidated Statement of Comprehensive income

The table below sets out a comparison between the Group's consolidated Statement of Comprehensive Income and the pro forma performance that would have resulted assuming the Proposed Transaction had been implemented on 1 January 2022.

**Statement illustrating the effect of the Proposed Transaction on the Consolidated Statement of Comprehensive Income of the Group for the year ended 31 December 2022**

| | Notes | Actual 2022 €'000 | Pro forma adjustments €'000 | Proforma 2022 €'000 |
|---|---|---|---|---|
| **Revenue** | 1 | **25,781** | **4,041** | **29,822** |
| Cost of sales | 2 | (13,722) | (2,681) | (16,403) |
| **Gross profit** | | **12,059** | **1,361** | **13,420** |
| Administrative expenses | 3 | (3,474) | (611) | (4,085) |
| **Operating profit** | | **8,585** | **750** | **9,335** |
| **EBITDA*** | | **10,669** | **2,504** | **13,173** |
| Finance costs | 4 | (250) | (1,508) | (1,758) |
| **Profit before tax** | | **8,335** | **(758)** | **7,577** |
| Income tax expense | 5 | (2,980) | (455) | (3,435) |
| **Profit/total comprehensive income for the year** | | **5,355** | **(1,213)** | **4,142** |

* Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)

The pro forma comparison indicates that the Proposed Transaction would have resulted in a reduction of €1.2 million in the Group's consolidated comprehensive income for the year from the reported result of €5.36 million. However, the Proposed Transaction is expected to strengthen the Group's EBITDA as this key performance indicator will increase by approximately 23.5% from €10.7 million to €13.2 million.

After deducting finance costs, depreciation charges on the Passive Telecoms Infrastructure and amortisation charges on the intangible assets (primarily the MSA) from the EBITDA figure, a loss before tax results which amounts to approximately €758k. The non-tax deductibility of the amortisation charges on the intangible assets has been taken into consideration when estimating the income tax charge and in arriving at the value for comprehensive income, which was estimated to be a loss of €1.2 million. Year on year, the reported losses are expected to decrease as EBITDA margins improve and the Company starts making capital repayments on its borrowings so that finance costs begin to decrease.

The pro forma reduction in profits can be explained by the following broad movements:

(i) Under the terms and conditions of the MSA, the Group will receive tenant rental income from GO for use of the Passive Network Infrastructure and the provision of other ancillary services. The Group will also receive rental income from other unrelated customers. Therefore, rental income is estimated to contribute to an increase in revenue of €4.04 million.

(ii) The Group's cost of sales and administrative expenses are also expected to increase due to additional costs relating to the Transaction Assets including the ground rent costs, the depreciation of the Passive Telecoms Infrastructure, the amortisation of the intangible asset, staff cost, insurance, maintenance cost and other related expenses.

(iii) As previously indicated, the Group shall finance the acquisition by means of external bank financing and a related party loan. Hence, the projected interest cost and the amortisation of the loan origination costs is expected to increase the net finance costs of the Group by €1.5 million. Interest expense has been calculated using an effective interest rate ranging between 3% - 3.5% per annum. This interest will have a continuing impact on the Group's Statement of Comprehensive Income until the interest-bearing borrowings have been repaid in full.

*Statement of Comprehensive Income pro forma adjustments explained*

The following is a description of the pro forma adjustments made to the actual results of the Group for the financial year ended 31 December 2022:

1. Adjustment to include the total revenue derived from the MSA and other unrelated customers.

2. Adjustments to include the direct costs relating to the Transaction Assets including the amortisation of the MSA intangible asset, the write-off of the Passive Telecoms Infrastructure over their useful lives, tower repair and maintenance, site rental costs, insurance and transportation costs. With respect to site rental expenses, it is being assumed that all lease arrangements are transferrable to the Company at no additional cost to the Company.

3. Adjustments to administrative expenses comprise of (i) staff costs and (ii) pre-acquisition expenses such as research and development costs, feasibility studies and other related costs which do not meet the Group's capitalisation policy are expensed immediately when incurred.

4. Adjustments for the consolidation of the financial performance of the Group to include the financing expenses arising from the two new loans. In addition, certain bank loan processing fees and financing costs related to the agreed financial arrangements have been capitalised and amortised over the term of the loan.

5. Adjustments to reflect the related tax effect of items 1 to 4 above, calculated at the standard corporate tax rate of 35%. Consideration has been given to certain assets where the Group would be unable to claim tax amortisation in accordance with local deductibility rules.

*No significant change in the Company's financial or trading position*

Except for the Proposed Transaction, there has not been any significant change in financial or trading position of the Group which has occurred since the end of the last financial period for which financial information has been published.

**4. BOARD OF DIRECTORS' RECOMMENDATIONS**

The Company's Board of Directors, having made the necessary considerations, is of the view that the Proposed Transaction and the proposed Resolution are in the best interests of the Company and its Shareholders as a whole. The Board therefore recommends that the Shareholders vote in favour of the said resolution at the forthcoming EGM.

**Nevertheless, the Board strongly recommends that each Shareholder seeks independent advice and guidance from its own professional advisors in order to decide whether or not to vote in favour of the proposed Resolution in the light of each Shareholder's individual position.**

**5. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents or certified copies thereof will be available for inspection at the registered office of the Company at BMIT Technologies p.l.c., Building SCM02, Level 2, Smartcity Malta, Ricasoli, Kalkara, Malta for at least fourteen (14) days from the date of publication of this Circular:

a) the Memorandum and Articles of association of the Company;
b) the Asset Valuation Report;
c) the 2022 Annual Financial Report of the Company; and
d) the Interim Unaudited Financial Statements – January 2023 – June 2023.

These documents are also available on the Company's website https://www.bmit.com.mt

**Date: 1 September 2023**

Approved and issued by BMIT Technologies p.l.c. having registered office located at Building SCM02, Level 2, Smartcity Malta, Ricasoli, Kalkara, Malta