Technology Group

Annual Report and Accounts 2021

Sound Bytes

Talk about a great tech company...

Bytes is one of the UK's leading providers of software, IT security, cloud services and hardware. We listed on the London and Johannesburg Stock Exchanges in December 2020 but we've been in business for almost 40 years. Our dynamic employees – along with our strong relationships with our customers and vendors – are at the heart of our success. Their story is our story. So throughout this, our first Annual Report, you'll see 'Sound Bytes' from our people about what our business means to them. Welcome to Bytes.

"I know every single day the team is there for me and I am there for the team."
Ian
Sales – Public Sector

"My team are amazing and so supportive. This past year has been testing but we've all pulled through together and I think we're stronger for it."
Vikki
Administration

"The company has provided me fantastic opportunities for career progression. I've now been here for more than a quarter of a century in eight different roles, as we go from strength to strength."
Gary
Development

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"I love the great feeling of camaraderie across all departments. Even working virtually this still shines through."

Clare
Operations Director

"Working here is a great opportunity to learn from and to work with some of the most talented people in the industry."

Shumshad
Sales

"I love working here because of the team. Even during a global pandemic, the support network and team spirit was incredible. It's like we never left the office!"

Lauren
Sales – Charities and Housing

Introducing Bytes

The 2020/21 financial year was a significant 12 months for us. We demerged from our former parent company, Altron, listed on the London and Johannesburg stock exchanges, entered the FTSE 250 and delivered our best ever financial results – all during a global pandemic.

Gross invoiced income[1]

£958.1m

(2020: £722.2m) +**32.7%**

Gross profit

£89.6m

(2020: £79.2m) +**13.1%**

Revenue[3]

£393.6m

(2020: £373.1m) +**5.5%**

Average gross profit per customer

£17,400

(2020: £16,100) +**8.1%**

Adjusted operating profit[2]

£37.5m

(2020: £31.7m) +**18.1%**

5,147

Customers

685

Employees

1 'Gross invoiced income' is a non-IFRS financial measure that reflects gross income billed to customers, adjusted for deferred and accrued revenue items.

2 'Adjusted operating profit' is a non-IFRS financial measure that excludes from operating profit the effects of significant items of income and expenditure which might have an impact on the quality of earnings, such as acquisition costs, which are attributable to an isolated, non-recurring event. Acquired intangible amortisation and share-based payment charges are also excluded. A number of performance measures used in this Annual Report are not defined by accounting standards. For clarity, we have provided descriptions of these metrics and their reconciliations to the most directly comparable measures reported in accordance with IFRS; refer to note 2 and 3 to the consolidated financial statements.

3 'Revenue' is reported in accordance with IFRS 15, Revenue from Contracts with Customers. Under this standard the Group is required to exercise judgement to determine whether the Group is acting as principal or agent in performing its contractual obligations. Revenue in respect of contracts for which the Group is determined to be acting as an agent is recognised on a 'net' basis, i.e. the gross profit achieved on the contract and not the gross income billed to the customer.

"Our two operating companies have remarkably similar cultures and ethics. So much so that I describe Bytes as *'one company, two brands, one culture'*."

Neil Murphy CEO

Our Group is made up of two long-established brands with one shared culture: Bytes Software Services (BSS), which supports both private and public sector organisations, and Phoenix Software (Phoenix), which joined us in 2017 and focuses on the public sector. Our continuing growth reflects the skills, diligence and 'can-do' ethos of our outstanding people at BSS and Phoenix.

BYTES

BSS has 428 people based mainly in Leatherhead, Reading and Manchester. In 2020/21, BSS won new customers such as BP, HCL Mortgages and Healthcode, scooped many vendor partner awards, and was named Sunday Times' 21st best mid-sized company to work for.

See page 22

"As an employee, I feel valued, listened to and appreciated."

Craig
Sales

PHOENIX

Yorkshire-based Phoenix has 257 employees. The team's skills were recognised this year when Phoenix attained Azure Expert Managed Service Provider status, the highest-level Microsoft Azure accreditation, and significant vendor awards. New customers included the Home Office, Defra and South West Police.

See page 24

"We are given the trust and the freedom to flourish whilst provided with all of the tools we need to be successful."

Declan
Account Manager

Leading the conversation

This year, we delivered our best ever results, listed, and entered the FTSE 250, all during the most challenging of times. Here, our four most senior leaders talk about the year and what's making us fly.

You've delivered another year of strong growth. What's your view of the results?

Neil Murphy, Group CEO: Collectively, we're very pleased with our performance, particularly in light of the internal and external challenges we faced during the year. The results are a great reflection of the skills and dedication of our people, and the strength and simplicity of our strategy.

Keith Richardson, Group CFO: I'm really pleased too, but then we've got a very good track record of consistent solid growth. We're also very lucky that, during a time when Neil and I were focusing on both the IPO and the business, we had talented people like our two MDs, Jack and Sam, to ably pick up some of the things we would normally do.

"Over the years, we've dealt with all kinds of business problems. So we have a high degree of experience, which reassures investors."

Neil Murphy
CEO

Your IPO was oversubscribed and demand for your shares saw Bytes' share price increase by more than 80%. Why are investors so interested in Bytes?

NM: Over the years, we've dealt with all kinds of business problems. As a consequence, we have a high degree of experience, which reassures investors. We combine that with growing a whole swathe of younger people who were born in the cloud and whose first language is IT. This gives us a pretty combustible sort of chemistry as a business, which keeps fuelling itself and creating growth and change.

Sam Mudd, MD, Phoenix Software: I agree. I think what's making the Group really take off is this collaboration between senior people like us, who have been doing the job for decades, and young people who are hungry and ambitious. And when you've got experience blended with youth, and a strong vision and a clear destination, it's very exciting.

In line with your strategy – to gain new customers and increase business with existing ones – you've increased customer numbers again this year. Why do organisations like working with Bytes?

Jack Watson, MD, BSS: I asked one of our large insurance customers that precise question once and he said: 'We solve the hard problems together'. That is our mindset and I think customers really appreciate it. The IT environment is very complex, there is an incredible amount of choice and things don't always go smoothly. Customers want somebody like us with the experience to chart the way forward, and to help them 'solve the hard problems' that will always arise.

BYTES TECHNOLOGY GROUP TIMELINE

- **1982** – **Bytes Group founded from a Surrey shop as Bytes Computer Supplies**
- **1994** – Keith Richardson joins Bytes
- **1997** – Neil Murphy joins Bytes
- **1998** – **South African technology company, Altron, acquires Bytes**
- **2003** – Sam Mudd joins Phoenix Software

"When you've got experience blended with youth in the team, and a strong vision and a clear destination, it's very exciting."

Sam Mudd
MD, Phoenix

SM: I think our reputation precedes us. We're seen as a safe pair of hands. As a company, we like to serve our customers with integrity and do the job well and above expectations. We always want to give them such a fantastic customer experience that they don't want to talk to other suppliers.

JW: I think another important factor is that with the cloud market growing so rapidly, and the increased risk and sophistication of cyber attacks, clients want to work with a specialist partner with a skill set in the cloud and cyber security. As a business we excel in those two areas, so that's always a lead-in for us.

KR: Another advantage we have is our very low staff turnover. We've got account managers who've handled customers' business for years. From a licensing point of view, we often know more about a customer's IT than they do. Customers frequently come to us to try to understand how they got to where they are and what's the best way forward. It's all part of our partnership with them.

You've won some prestigious vendor awards and accreditations this year, including the top Microsoft Azure accreditation. Why do vendors value Bytes?

NM: We give them scale. They can't reach the thousands of customers that we touch on a daily basis, nor do they have the intimate holistic understanding of what our customers are trying to achieve. We also have the time to approach the customer in a rounded fashion, rather than through the lens of a specific technology.

Both BSS and Phoenix achieved very high staff engagement scores through lockdown. How did you manage to keep home-based employees so motivated?

SM: For a few years now, both our businesses have focused on employee experience and wellbeing, across both mental and physical health. We built on that foundation as soon as the first lockdown began in March 2020.

At Phoenix, we hired an employee engagement and wellbeing manager who's dedicated to looking after the staff. We talked to our people about taking care of themselves while working at home, and produced an all-staff podcast on mental health. And we just kept talking through different media, sometimes through formal meetings, at other times with fun events and entertainment. We wanted staff to know we were thinking about them daily, so they felt connected to each other and to the company. That both businesses are getting such great employee engagement scores speaks volumes about our connection with our people.

JW: We took a similar approach at BSS. We ran online mental health and wellbeing sessions; managers held regular virtual meetings with their team members, and we offered free online yoga, Pilates and fitness practice. We also supported flexible working, to help our employees manage their home schooling and caring responsibilities.

2006
Jack Watson joins Bytes as a graduate trainee

2011
Bytes acquires Security Partnerships

2017
Bytes acquires Phoenix Software

December 2020
Bytes demerges from Altron and lists as Bytes Technology Group plc, with a primary listing on the Main Market of the London Stock Exchange in the UK and a secondary listing on the Johannesburg Stock Exchange in South Africa

March 2021
Bytes enters the FTSE 250

Leading the conversation

"There's very little politics here – anyone can share their opinion and we'll take it constructively."

Keith Richardson
CFO

Staff – and managers – are very positive about your workplace culture. How would you define it?

JW: Both businesses have a strong focus on fun: in fact, one of the things that struck me when Phoenix joined us in 2017 was that they were a great cultural fit in that way. Apart from the fun element of our culture, things move very fast, there's strong leadership at all levels, and there are always new things to learn.

KR: I'd add that everyone's got a voice. Anyone can come to talk to one of the senior leaders and share their opinion, good or bad, and we'll take it constructively. There's also a great can-do attitude. There's very little politics; whenever there's a problem, people look to see how they can solve it rather than finding someone to blame.

"Customers want somebody like us with experience to chart the way forward, and help them solve the hard problems."

Jack Watson
MD, BSS

How confident are you that the UK market will continue to grow?

SM: I think we've got decades' worth of opportunity ahead. We've got scale, breadth and talent and we're just scratching the surface. And the technology that's being introduced by our vendor partners just keeps getting better.

NM: I agree. It's easy to look around and think that IT is already all-pervasive. But in the coming years every business will have to embrace more new technology, from artificial intelligence to robotics. It will envelop every part of our lives as the railway transformed industry in the 19th century. I'd say that a significant number of organisations in the UK are using tech that is beyond its sell-by date. We're one of those businesses that help customers to stay on top of changing IT requirements, so we're in a good industry. And with us currently having low single-digit market share, whether the market grows or not, the opportunity for us is vast.

A note on photography

The year under review has seen an unprecedented move to working remotely over video conference calls due to Covid-19 restrictions. Reflecting this change, many of the portrait photos in this report have been taken during such calls.

Our business today

"I appreciate every day I work at Phoenix knowing that we deliver what the customer wants, but we get every ounce of fun, enjoyment and laughter out of it while we do it!"

Trevor
Administration and HR

A strong start for our listed company

We started our journey as a listed business from a high point this year, by delivering excellent financial results and making good progress in embedding the right systems and processes for sound governance and sustainable growth. We did so while continuing to recruit and invest in our people, to ensure we can capitalise on long-term growth opportunities in line with our strategy.

A robust performance in a challenging year

This year's strong financial results are all the more striking given the fact that, at the same time as our CEO, Neil Murphy, and CFO, Keith Richardson, were leading the business through the Covid-19 crisis and equipping our people to work safely from home, they were spearheading the exacting run-up to our December IPO. This achievement, and my every experience of Bytes since I became Chair in July 2020, has reinforced my first impression of the business – as a well-led company, with a sound strategy, a talented workforce, a strong culture and a genuine passion for helping customers improve the way they work through technology.

My high regard for the entire company does not reduce the need for board challenge of the executive. Our strategy may currently align with market trends – notably the strong demand for cloud-based digital transformation, effective cyber security, and software asset management – but the technology landscape changes fast. The role of the board is to identify growth opportunities in the market and ensure that the company has the operational excellence to execute our goals. We are therefore always ready to draw on our combined experience to advise and support the executive in determining Bytes' strategic direction – on everything from our approach to growth opportunities to succession planning.

"A well-led company, with a sound strategy, a talented workforce, a strong culture and a genuine passion for helping customers improve the way they work through technology."

"A key part of the role of the board is to identify growth opportunities in the market and ensure that the company has the operational excellence to execute our goals."

Building fitting governance for a listed business

Apart from strategic challenge, the other main pillar of a board's job is establishing and upholding firm governance foundations. To this end, the Board and our committees are systematically assessing the governance systems inherited from our former parent, Altron, to ensure they fit our evolving business and strategy. We have, for example, carefully scrutinised our legacy risk management framework, to make sure it protects us as a listed business, and are strengthening it where necessary.

We intend to embed a governance structure that enables us to run Bytes in a way that both meets our stakeholders' expectations and aligns with regulatory best practice. In this context, we are revising the make-up of our Board. The current composition, with its mix of skills and international business and M&A experience, was ideal for the IPO process. However it does not align with the UK Corporate Governance Code and the Hampton-Alexander Review, in terms of member independence and gender balance. We are therefore seeking a new non-executive director whose background and profile can enhance our deliberations and meet regulatory requirements. To further align with good practice, we intend to hold yearly evaluations of the Board's performance, and that of our committees and directors. As we are a new Board, we will carry out our first effectiveness review internally, with the outcome being covered in our next Annual Report. The following year's review will be conducted externally.

Doing more with stakeholders as Covid-19 restrictions lift

Ensuring that we have the right culture to drive our strategy is another crucial task, particularly in a people business like ours. We will use the insights of David Maw, our non-executive director with responsibility for employee engagement, along with regular staff surveys, to take the ongoing pulse of our culture and act on it as necessary. This will be particularly important in our transition from being a subsidiary of a South African group to becoming a continuously-growing listed business. It is already evident to me however – from what I have seen and learnt from external staff engagement data – that we have a vibrant, can-do ethos, where people speak openly, care deeply about customer service, and feel valued. This latter point no doubt reflects the strong efforts made by both operating companies this year to support, engage and safeguard the wellbeing of our people as they worked remotely.

It is clearly also a culture where people are genuinely committed to, and uphold, the company's purpose and values. The participation of staff from both BSS and Phoenix in 'green teams', as part of the Group's wider support for the environment, shows this commitment in action. The Group continues to complement staff action by formalising our values' place at the heart of the company with, for example, this year's publication of our new corporate responsibility and diversity and inclusion policies.

Lockdown restrictions limited my face-to-face interactions this year but I look forward to engaging in person with many more of Bytes' stakeholders, including our shareholders, customers, vendors and employees. In the meantime, I would like to thank them all for their support during this extraordinary year.

Looking ahead to our first full year of listing

The coming financial year will see Bytes report on a full year as a listed business for the first time. The economic backdrop to the year is uncertain, due to the continuing tail of Covid-19. However I am confident that, inspired by our exceptional leadership team, we will continue to listen to our customers, motivate our great people and build on positive underlying market trends to grow strongly in 2021/22.

Shareholder dividends

Our earnings and dividends policy is to return 40% to 50% of profit after tax before any exceptional items, as we outlined in our IPO prospectus.

We expect that the first dividend we declare will be the interim dividend for the year ending 28 February 2022, which will be paid in the final quarter of 2021.

Patrick De Smedt
Chair
25 May 2021

A great year that built firm foundations for future growth

The 12 months ended 28 February 2021 have been an extraordinary year for our business and our people, as we delivered double-digit growth and listed successfully on the London Stock Exchange – despite the social, economic and logistical challenges of Covid-19.

Success built on partnership

Our performance this year exceeded expectations, both our own and our analysts', as we achieved 13.1% growth in gross profit and delivered adjusted operating profit growth of 18.1%. Our cash conversion ratio also remained strong, at 131% and we ended the year with £20.7 million in cash despite the significant pre-IPO dividends of £48.6 million paid during the year to our former parent, Altron, and £16.7 million of cash used to acquire management incentive shares that crystallised on IPO.

Both our operating companies, Phoenix and BSS, contributed to this great performance. Phoenix's particularly strong results reflected its success in partnering with the many public sector customers who digitised their operations and moved to the cloud during lockdown. BSS had an extremely strong first half although corporate sales slowed somewhat towards the end of the year.

2020/21 was a year of great change for everyone at Bytes. We conducted a successful IPO in a condensed time period in the most unusual of circumstances, due to Covid-19. We demerged from Altron, our long-time parent, then – three months after listing – entered the FTSE 250 in March 2021 on the back of strong demand for our equity. And we are now setting out our stall as an independent organisation, with our own purpose, values, governance and strategic goals.

"The results demonstrate the strength of our strategy, which – like the way we do business – is simple and straightforward."

Neil Murphy
Chief Executive Officer

> "Customers repeatedly turn to us because we can now meet more of their IT needs, having broadened our offering beyond our traditional strengths in software to include additional IT services and hardware."

That we achieved such great financial results in the middle of this rapid metamorphosis – and a pandemic – says a lot about the hard work, resilience and can-do attitude of our fantastic people. Despite working remotely most of the year, often while balancing family care commitments, they excelled themselves in delivering outstanding service to our customers, many of whom were themselves going through great change as they digitised their organisations and networked their own home-based employees. I would like to thank every member of the team for their amazing contribution and congratulate them on these great results.

A simple strategy focused on growing customer numbers and their business

The results also demonstrate the strength of our strategy, which, like the way we do business, is simple and straightforward. Our main strategic goals are to attract new customers and increase our business with existing ones: we delivered on both. Having achieved double-digit growth in gross profit for the last six years, I am confident that our strategy will enable us to continue growing.

The confidence to make such a pledge follows a raft of great wins. Our new customer contracts included three with central government departments and one with a top 10 FTSE company, along with many other projects with new clients. We were equally successful in growing business with existing customers. For the third consecutive year, more than 90% of our gross profit came from organisations we'd worked with previously.

How we build trust-based customer relationships and meet changing needs

Our customers keep coming back – and recommending us to their peers – because we have proven ourselves over many years. They know that we're not interested in a short-term hard sell. Our customers trust us to provide the expert advice, and the right products and services, to transform their IT and organisations, efficiently and cost-effectively. They are also familiar with the passion, diligence and positivity that our people bring to work. With more than 12% of our people having been with us for over ten years, many customers will have had the same account manager for more than a decade. Such long relationships breed trust and help explain why we have extremely high levels of customer satisfaction and a net promoter score that, at 63, is above the industry average.

Adjusted operating profit

+18.1%

Cash conversion

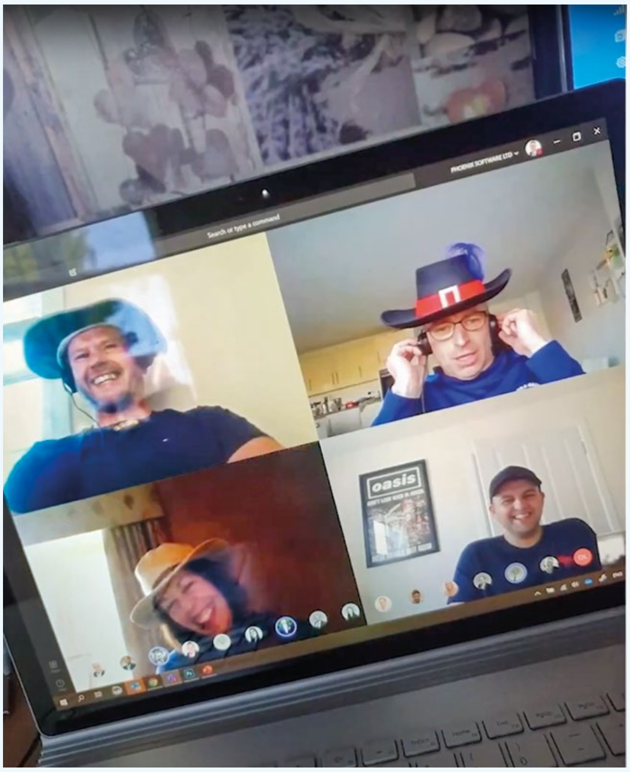
+131%

A great year that built firm foundations for future growth

Best Companies 2020
★★★
rating

Successful IPO
FTSE 250

Customers also repeatedly turn to us because we can now meet more of their IT needs, having broadened our offering beyond our traditional strengths in software to include additional IT services and hardware. We have diversified to reflect underlying market trends. We believe, for example, that demand for our services offering, such as software asset management, will rise as the growing complexity of technology prompts more customers to ask for expert help in managing their IT. Such factors reinforce our conviction that we can grow our business significantly with our existing customers.



Light-hearted staff engagement kept moral high and employees motivated during lockdown.

Keeping employees focused and engaged, even at home

Bytes is a people business. We may sell technology but it is our can-do attitude and expertise that makes us so easy to do business with and builds our strong customer relationships. To keep our people motivated and committed, we do all we can to engage, develop and reward them. Internal promotion and ongoing training and development are key to this approach, as seen this year when we made Jack Watson, a 2006 Bytes graduate trainee, our new BSS MD.

In normal times, Bytes' offices are dynamic and collaborative places. With the pandemic meaning our people needed to work from home, we strove to keep everyone happy and engaged. From transferring our varied social activities, parties and awards events online to ensuring staff had ergonomic and comfortable home-office furniture, we did all we could to keep our unique culture thriving – and our eyes on the ball. Videoconferencing was a godsend in keeping us in touch with our people and our customers. We also provided a safe office environment for those colleagues who could not work at home. All these measures paid off when, to our delight, staff engagement scores actually rose during the pandemic, with Phoenix joining BSS in receiving the top rating of three stars in a Best Companies employee engagement survey in November 2020.

Bytes employees are very sociable people and I know many of them missed our office buzz very much – I certainly did. Although the pandemic is likely to make most of us spend more time working from home, I am very much looking forward to having our people back in our offices.

"Bytes is a people business. We may sell technology but it is our can-do attitude and expertise that makes us so easy to do business with and builds our strong customer relationships."

Raising our profile thanks to our vendors

During the year, we continued to strengthen our partnerships with the numerous external vendors whose products we sell and support. We were extremely pleased to win further accreditations and awards from many of our vendor partners, including for Phoenix that of Microsoft Azure Expert Managed Service Provider, their highest accreditation in this area. Such industry recognition further heightens our reputation with our vendors and customers and is a terrific validation of the expertise and quality of our people.

Deepening our impact as a responsible business

Our two operating companies have remarkably similar cultures and ethics. So much so that I describe Bytes as 'one company, two brands, one culture'. While BSS and Phoenix will continue to operate largely independently, this year we aligned them behind one set of values (which are very similar to their previous individual ones) and a common purpose. Our strong values, with their emphasis on integrity, collaboration, kindness and fun, underpin our heritage as a responsible business. We have always aimed to contribute to the wider world – from supporting local hospices and schools to installing electric car charging points at our sites. We accelerated our efforts this year with the drafting and publication of our new corporate responsibility policy, which was initiated and written by our staff and modelled on the United Nations Sustainable Development Goals. The policy sets out some new social and environmental commitments, such as pledges to donate 1% of our profit after tax to charity each year from 2021/22, and to plant hundreds of trees in South America to offset our carbon emissions, in partnership with the World Land Trust.

We believe passionately in equality of opportunity and in 2020/21 took further steps to ensure that everyone at Bytes has the same chance to succeed. These included a new Board and Senior Management Diversity Policy, with its commitments including having at least 33% women directors and encouraging colleagues with different ethnic, gender and experiential backgrounds to take on additional responsibilities and roles. We also signed up to the Race at Work Charter, which involves tackling barriers faced by people from ethnic minorities.

External trends and internal strengths set the scene for further growth

The year holds inherent social and economic uncertainty for all industries. However, having proven our resilience during these challenging times, I am confident that Bytes will deliver another strong performance whatever we encounter in 2021/22. Underlying IT market trends play to our strengths; our strong reputation with customers and vendors continues to grow; our successful IPO and inclusion in the FTSE 250 index is raising our profile; and our debt-free balance sheet supports future investment in the business. And most importantly of all, I know that the family feel that makes Bytes such a great place to work, and so easy to do business with, will continue to set us apart from our peers and help us achieve our goals.

"Our strong values, with their emphasis on integrity, collaboration, kindness and fun, underpin our heritage as a responsible business."

Neil Murphy
Chief Executive Officer
25 May 2021

A growth marketplace for agile businesses

The evolving UK IT market offers huge opportunities for growth as customers look for expert help in digitising their workplaces, moving to the cloud and protecting themselves from security threats, particularly in the wake of Covid-19.

Lack of major players creates growth opportunities

We are one of the UK's leading value-added resellers (VARs), and as no one VAR dominates the market, we have a great opportunity to expand.

VARs like Bytes sell IT products made by technology manufacturers to private and public sector organisations. Our potential market is vast; non-domestic UK customers buy around 63% of their technology products from VARs and other resellers and distributors. The total UK-wide value of our three focus areas – software (our main specialism), services and hardware – is around £79.2 billion.[1] By 2024, the software market is predicted to grow by more than 5%, with the services and hardware segments each likely to expand by over 2%.[2]

Technology manufacturers (or vendors) choose to sell through companies like ours, rather than directly to customers, as partnership offers key advantages. For example, Bytes has a large number of skilled sales people who can promote vendors' products; we have thousands of existing customers to whom we can market; we can give vendors training and advice on new products; and we can also team up with them on promotional campaigns. Such partnerships also benefit us – and our customers – as the discounts and rebates that vendors give us, in return for selling their products, enable us to offer lower prices to customers. This helps customers to keep their IT costs low and helps deepen our relationships with them.

1,2 IDC Worldwide ICT Spending Guide Industry and Company Size, June 2020: Bytes' estimates based on IDC data.

Industry-changing trends increase customer demands

Our marketplace is changing rapidly, with new technologies, products and services emerging frequently and existing mainstays becoming outdated. Three key market trends are currently reshaping the UK IT products and services sector – and our customers' organisations:

- **Digitisation**, as customers increasingly choose digital technology to help them become more efficient and effective
- **The move to the cloud**, as organisations move from physical to internet-based software due to its greater flexibility and more sustainable credentials
- **Cyber security**, as customers seek to protect their organisations from hackers and avoid breaking privacy laws, such as the General Data Protection Regulation (GDPR).

These trends are further increasing our potential to grow, as they play to our strengths. We have a strong track record and deep expertise in each area, along with established relationships with leading specialist vendors.

Covid-19's acceleration of growth trends

These trends, and customer demand for our services, were further accelerated by the impact of Covid-19. The explosion in remote working encouraged many more customers to digitise, often via the cloud, so they could make home-based employees better and more securely connected. However, Covid-19's uneven impact meant this positive picture was not uniform. Private sector industries that were hit hardest by the pandemic tended to reduce their IT expenditure, while those who continued to prosper were more likely to invest.

"Our customers' best interests are at the heart of what we do."

Becky
Microsoft Licensing

The uncertain economy, with many millions of people furloughed, also cut corporate sales towards the end of the financial year and left many industries unsure about the future.

The public sector, which had previously lagged behind the corporate world in going digital, moved particularly quickly to make up for lost time, with a significant injection of government money. With so many of our public sector customers now operating in the cloud, we have a higher level of regular yearly payments, due to subscription renewals, and repeat business from this sector than ever before.

On the whole these trends, amplified by Covid-19, increased customer demand, with government figures showing that the IT sector was one of those least affected by the pandemic.[3] And, with technology central to the success of almost all organisations and IT developing so quickly that updates or replacement buys are often essential, there is every reason to believe the IT sector – and Bytes with it – will continue to flourish.

3 ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukeconomy/latest#industry-insights

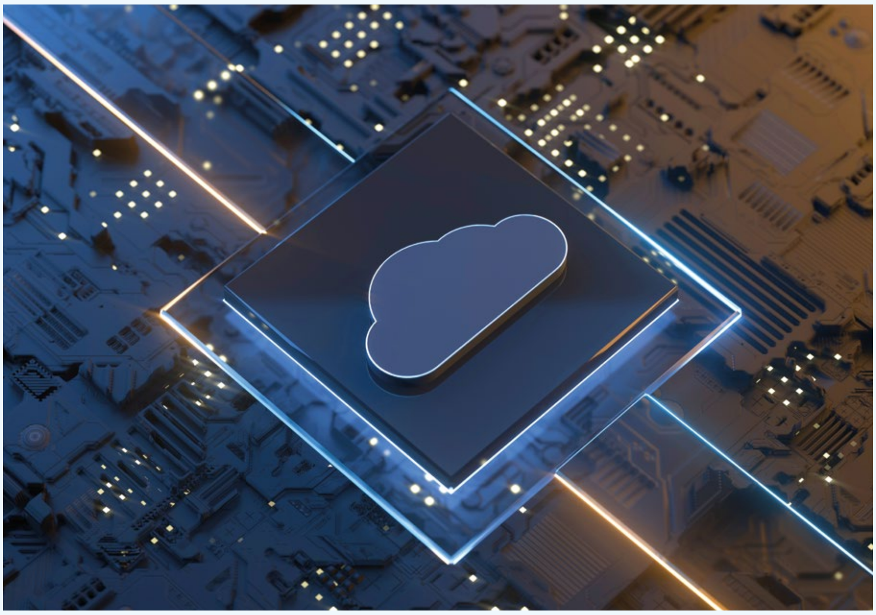
Our target markets

Software: customers can choose from two types of software – on-premise software, which is installed and runs on customers' computers and is generally sold on a life-long licence, and public cloud software, which comes via the internet, typically on monthly subscription. Increased demand for cloud products and services boosted our sales in 2020/21, when software made up 94% of our business.

Services: these include IT outsourcing, managed services, project-oriented IT consulting and support services, such as IT deployment assistance and training. As IT products become increasingly complex, more and more customers are seeking our services and support to help them manage their technology. Services represented 4% of our business in 2020/21.

Hardware: this covers a wide range of products, including desktop computers, monitors and keyboards, laptop computers, mobile phones, printers, and infrastructure such as network equipment, servers and storage. The need to equip staff to work from home during the pandemic contributed to our sales of hardware, which made up 2% of our business in 2020/21.

We have a strong track record and deep expertise in each area, along with established relationships with leading specialist vendors.



How we keep on growing

Our continuing success is built on Bytes' purpose and values, which inspire our people to deliver on our clear strategy. Our close relationships with our customers and vendors also play a crucial part.

1

Our foundation

OUR PURPOSE

We empower and inspire our people to fulfil their potential, so they can help our customers make smarter buying decisions and meet their business objectives through technology.

OUR VALUES

Let's be passionate about our employees, vendors and customers.

We act with **integrity at all times**.

We **work together and collaborate** across all teams.

Be **kind and respectful to all** people, all of the time.

Let's get business done and **have fun** doing it.

2

Our simple strategy

To grow organically by winning new customers and growing business with existing customers, complemented – as appropriate – by carefully selected acquisitions that boost our value.

With this strategy we aim to keep delivering double-digit growth.

3

What we do

We are a value-added IT reseller, focusing on security and cloud software developed by leading vendors.

To deliver complete tailored solutions, as well as selling software, we also provide professional and managed IT services and hardware.

4

Our drivers

Our network of IT vendor partners.

Long-standing, trust-based customer relationships.

Investment in engaged, expert employees.

Dynamic, customer-focused culture.

"I feel like every Bytes employee has a voice and management's door is always open if and when needed."

Jonathan
Sales

5

Our agile organisation

BYTES TECHNOLOGY GROUP

Our lean corporate centre provides expert support on governance, standards, compliance and societal and environmental issues to our independent and complementary operating companies. Both focus on software, IT services and hardware.

BYTES

Bytes Software Services (BSS) – serving enterprise, small- to medium-sized businesses and public sector customers

PHOENIX

Phoenix Software – serving public sector customers

Our **modular structure** will enable easy add on of future acquisitions in strategic areas, to complement our organic growth.

6

Stakeholder benefits

Strong financial performance that rewards all stakeholders.

Satisfied customers, many of whom stay with Bytes for decades.

Fulfilled, engaged employees.

Healthier planet.

Stronger communities.

7

Measured by key performance indicators

Financial

Strategic

Corporate responsibility

(see page 20)

"It's great to be part of a team that pulls together to create the best experience for our customers."

Kristy
Adoption and Change Management

Our route to growth

We have a simple strategy – to increase our customer numbers and expand our business with those customers we already have, complemented – as appropriate – by carefully selected acquisitions that boost our value. It's an approach that's delivered double-digit growth over many years and one we believe will continue to do so in the future.

A strategy for continued success

We are confident that our strategy will help us to realise our ambitious growth targets. Key to this achievement will be our success in continuing to deliver high-quality customer service and in retaining our dynamic, can-do culture. Now we're listed, we're in an even better position to grow, since we can build a stronger market profile and align our people closer to us with share ownership and incentives.

Our strategy is grounded in our strong values and our purpose. We empower and inspire our people to fulfil their potential, so they can help our customers make smarter buying decisions and meet their business objectives through technology. It is linked to, and measured by, our key performance indicators (KPIs).

How we will deliver our strategy

We are focusing on three main areas to achieve our strategy.

Investing in our people and business

Our strong sales team is core to our success. To make it even better, we take great care to recruit the right people, to keep on developing them, and to reinforce our dynamic employee culture. While consistent organic growth is our watchword, we look out for acquisitions that could complement our offering and speed up progress against our strategy. We have a successful track record of integration: our acquisition of Security Partnerships in 2011 and Phoenix Software in 2017 strengthened our position in the cyber security and public sector segments, respectively, far faster than we could have done alone.

Investing in innovation

Customer needs change constantly, and often vary between markets, as evolving technology requires organisations to keep updating or supplementing their IT. We study market trends and use our technical expertise to develop innovative IT solutions that meet customers' changing demands. We also advance our expertise with ongoing staff training, by hiring employees with specific know-how, and through developing partnerships with specialist providers.

Our expanding software asset management (SAM) business is another area where we are building on our core software strengths to increase our offering. Our SAM consultants provide tools and services to help customers stay on top of their IT assets and spending, as well as advising on software contracts and licensing management. We're also reinforcing our public sector customer base by actively developing our expertise in education, housing, charities, healthcare, and local and central government.

Prioritising customer service

We put our customers first in all we do. We are genuinely committed to helping them find innovative ways to use technology to help improve the way they operate, to save money and to deliver a better service to their users. Our excellent service reinforces customers' trust in and loyalty to Bytes – often encouraging them to buy more from us and to recommend us to other people. We are mindful, however, not to hard sell to our customers – we even tell them when not to spend money. They buy from us because, having worked together over many years, we have proved that we have their best interests at heart.

"Bytes has a great company ethos and you feel like you are a valued part of something that is growing."

Charlie
Account Manager

Winning new customers

There is significant potential for us to attract new customers, particularly as many of our wins come from customer or vendor referrals, and our customer satisfaction and vendor accreditation levels are extremely high. In 2020/21, our customer numbers increased to 5,147, from 4,930 the previous year, with major new wins including BP, Norfolk Constabulary, CHL Mortgages, the East Suffolk and North Essex NHS Foundation Trust, and Blue Prism.

Doing more for existing customers

Many of our customers regularly buy new products from us, often spending more every year. We aim to do more for existing customers, and are expanding beyond our software specialism to offer services and hardware offerings. In 2020/21, our gross profit from existing customers grew strongly, at a renewal rate of 107%. This means that established customers generated £5.6 million more gross profit with us this year than during 2019/20.

"It's inspirational to see how we have supported the public sector through this pandemic, standing shoulder to shoulder with them at the time they needed our support the most."

Greg
Sales Management

Our financial, strategic and corporate responsibility KPIs

We track our performance against financial, strategic and corporate responsibility measures.

Financial

Gross invoiced income[1]

£958.1m +32.7%

(2020: £722.2m)

Gross profit

£89.6m +13.1%

(2020: £79.2m)

Adjusted operating profit[2]

£37.5m +18.1%

(2020: £31.7m)

Revenue[3]

£393.6m +5.5%

(2020: £373.1m)

Adjusted operating profit as a percentage of gross profit

41.8%

(2020: 40.0%)

Cash conversion[4]

130.7%

(2020: 125.9%)

Strategic

Winning new customers

Customer numbers

5,147 +4.4%

(2020: 4,930)

New customers

698

Average gross profit per customer

£17,400 +8.4%

(2020: £16,100)

Doing more for existing customers

Renewal rate

107%

(2020: 118%)

Customer net promoter score

63

Percentage of gross profit from existing customers

95%

(2020: 92%)

Corporate responsibility

Employee numbers

685 +13%

(2020: 608)

Employee net promoter score

69

Donation of 1% of profit after tax to charity annually, from 2021/22

1 'Gross invoiced income' is a non-IFRS financial measure that reflects gross income billed to customers, adjusted for deferred and accrued revenue items.

2 'Adjusted operating profit' is a non-IFRS financial measure that excludes from operating profit the effects of significant items of income and expenditure which might have an impact on the quality of earnings, such as acquisition costs, which are attributable to an isolated, non-recurring event. Acquired intangible amortisation and share-based payment charges are also excluded. A number of performance measures used in this Annual Report are not defined by accounting standards. For clarity, we have provided descriptions of these metrics and their reconciliations to the most directly comparable measures reported in accordance with IFRS; refer to note 2 and 3 to the consolidated financial statements.

3 'Revenue' is reported in accordance with IFRS 15, Revenue from Contracts with Customers. Under this standard the Group is required to exercise judgement to determine whether the Group is acting as principal or agent in performing its contractual obligations. Revenue in respect of contracts for which the Group is determined to be acting as an agent is recognised on a 'net' basis i.e., the gross profit achieved on the contract and not the gross income billed to the customer.

4 'Cash conversion rate' is a non-IFRS alternative performance measure that the Group defines as cash generated from operations, excluding IPO costs and less capital expenditure (together, 'free cash flow') divided by adjusted operating profit.

Review of the year

"So many good things to say about the company, but for me it's the opportunity they have given me to grow professionally and progress my career into areas I never thought possible before."

Aaron
Governance, Risk and Compliance

At a glance

Established: 1982

MD: Jack Watson, from 1 March 2021

Main offices: Leatherhead, Surrey; Reading, Berkshire; Manchester.

Markets: private and public sector, across a broad range of industries, including: professional services, manufacturing, retail, central and local government, and technology, media and telecoms.

Vendors: five main partners – Microsoft, Check Point, Mimecast, Adobe, Dell.

428
Employees
(36/9% up on previous year)

21st
Sunday Times best mid-sized company to work for

2,961
Customers

417
New customers
Including BP, Healthcode and CHL Mortgages

Jack's 60-second CV

First Bytes job – 2006: Jack joined us as a new business account executive in November 2006, on our first graduate recruitment scheme.

Achievements at Bytes: Promoted to sales manager in 2012, Jack grew his team's sales gross profit from £1.5 million to £5 million in less than four years. He also developed the '7 steps' sales programme, which boosted individual sales performance and accelerates new talent in the organisation. BSS sales profitability doubled during Jack's five years as Sales Director, from 2016 to 2021. During this time, he oversaw the roll out of a new CRM system, launched a sales management competency framework and coaching programme, and integrated the sales teams from Bytes Security Partnerships, when the previously separate business was merged with BSS in 2020.

Promoted to MD: March 2021

"I am very optimistic about the future as I think there is so much untapped opportunity in a rapidly growing market. As demand increases for the cloud and security solutions and services – two areas where we have terrific expertise and experience – I think we have a tremendous platform for growth."

Jack Watson
MD, BSS

Our year

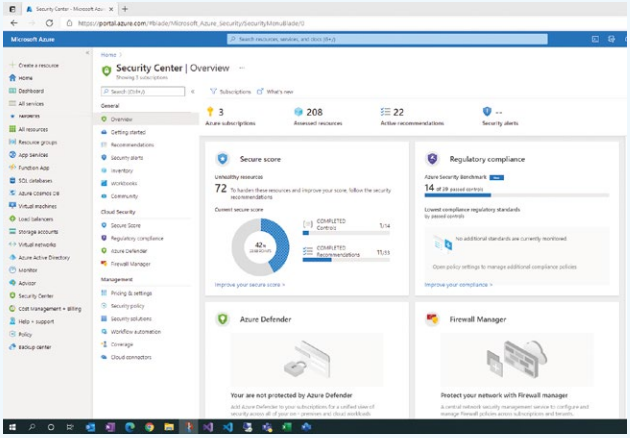
BSS has proved to be very strong and resilient this year. Despite the pressures of the pandemic, our customer numbers and projects have really expanded.

Everyone has pulled together and tackled challenges as a team. We've heard magnificent feedback and stories from our customers about how our people have gone above and beyond the call of duty for months at a time, to help them adapt to new ways of working. Our personal touch has always helped us build very close relationships with our vendors and customers; those relationships are even stronger now.

I'm delighted to be MD. I am incredibly fortunate to have been mentored by Neil Murphy, now our CEO, and Keith Richardson, Bytes' CFO. What attracted me most to the role was being able to continue the journey they started. I have a great deal of personal investment and pride in what they have achieved together.

Awards

- 21st Sunday Times best mid-sized company to work for
- Varonis Vice President Partner 2020
- Exabeam EMEA Rocket Partner of the Year
- Okta Partner of the Year, UK and Ireland
- Check Point EMEA Cloud Partner of the Year
- Sophos UK and Ireland Individual Contributor of the Year, Public Cloud Partner of the Year and Enterprise Partner of the Year



BSS analysis saves Blue Prism £1 million in cloud fees

We've helped customer Blue Prism save more than £1 million after investigating the intelligent automation company's increasing cloud costs.

UK and US-based Blue Prism were facing yearly Microsoft Azure cloud costs of £1 million on the back of their rapid expansion into new countries and markets. BSS were called in to help, using our Cloud Platform Management tool, which we developed using our own intellectual property, to optimise cloud consumption costs and manage future investments.

A better, and more cost-effective, fit with customer's needs

Our analysis found that Blue Prism could save more than £1 million over three years while increasing their computing power, on the basis of our recommendations. They were able to benefit from more flexible contract terms, moving from an annual upfront financial commitment to a monthly paid subscription. They also realised significant savings with a commercial agreement that complements their fluctuating cloud infrastructure needs and a range of other cost efficiencies that our expertise and attention to detail helped us to identify.

Following our help with Blue Prism's cloud costs, we are continuing to provide 24/7 monitoring and management of their cloud estate.

"The Bytes team is technically knowledgeable and easy to work with – and they've delivered outstanding results."

Colin Bradford
Blue Prism's Chief Operating Officer

PHOENIX

At a glance

Established: 1990

MD: Sam Mudd, from 2014

Main offices: Pocklington, Yorkshire

Markets: solely public sector, across a wide range of areas, including central and local government, charities, education, emergency services, healthcare and housing.

Vendors: five main partners – Microsoft, VMware Global, Dell, Adobe, Sophos.

257
Employees
(41/19% up on previous year)

Azure Expert Managed Service Provider status, the highest-level Microsoft Azure accreditation

2,186
Customers

281
New customers
Including the Home Office, the Department for Environment, Food & Rural Affairs (Defra), South West Police, the Open Clouds for Research Environments, Norfolk Constabulary

Sam's 60-second CV

First Bytes job: Sam joined Phoenix as a solutions sales manager in November 2003.

Previous track record: Senior roles at WordPerfect, Novell Inc., and Trustmarque Solutions (now part of Capita plc).

Achievements at Bytes: When Sam became a Phoenix director in 2009, it had 113 staff and gross invoiced income (GII) of £52 million. Now, Phoenix has a GII of £326 million, with 257 employees. Since Sam became MD in 2014, Phoenix has won numerous IT sector awards.

Industry honours: In October, Sam won the Women in Channel – Industry Achievement Award 2020 from IT reseller magazine CRN. Two years earlier, she was 2018 Business Leader of the Year at the Women in IT awards.

Outside work: Sam is on the finance committee and fundraising partnership board of Scarborough's Saint Catherine's Hospice.

"It has been a privilege to assist our customers during this period and to build tremendous trust with them that will serve us well into the future."

Sam Mudd
MD, Phoenix

Our year

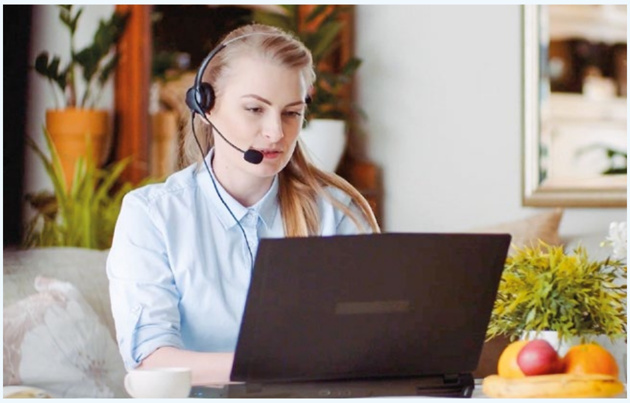
The 2020/21 financial year was an exceptional and extraordinary challenge, but also an opportunity for Phoenix to deliver a record-breaking 12 months with some incredible results. Driven by contract wins such as the Home Office, Defra and many more, we grew our top line by 51% and our adjusted operating profit by 69%.

Having built up momentum going into 2020/21 by investing significantly in our people and skills, Covid-19 then accelerated everything. Public sector customers, who we'd been talking to for some time about moving to the cloud and digitising old IT systems and processes, suddenly needed to move fast and wanted a trusted partner to work with. Phoenix rose to the challenge of being able to rapidly assist the UK public sector with key IT solutions and managed services to help keep systems up, running and operational at a critical time.

There were surges of interest in security, cloud and remote working technology offerings. We're now in a really strong position to keep growing – by delivering in these high-demand areas into the new financial year – having invested in our staff, systems and service offerings while maintaining solid growth.

Awards

- Best Companies 3 star accreditation – acknowledged as a well-led organisation, with 'world class' levels of employee engagement
- Azure Expert Managed Service Provider status, the highest-level Microsoft Azure accreditation
- Dell Technologies 2020 Growth Partner of the Year
- Veeam Fastest Growth Partner of the Year, UK and Ireland
- VMware Integrated Marketing Campaign of the Year
- 25th in the 2021 UK's Best Large Companies to Work for (position not confirmed at time of publication)



Helping the NHS get better

Phoenix is helping the NHS to continue its life-saving work in the face of major challenges. When the first lockdown struck in March 2020, world-leading cancer centre, The Royal Marsden NHS Foundation Trust, were determined not to disrupt the care of the 60,000 patients they see every year. To achieve this, they needed to swiftly enable their staff to work from home via a stable, secure IT solution.

We worked with the trust to create a Windows Virtual Desktop that allowed staff to link to The Royal Marsden network from home, using their own devices. We set up the service, using Microsoft Azure, in just nine days, whereas it would have taken two months – and cost £500,000 more – to get staff connected via new laptops.

Enabling continuity of care during lockdown

We also helped keep healthcare staff in action at the East Suffolk and North Essex NHS Foundation Trust (ESNEFT). When ESNEFT was formed, by the merger of two hospital trusts, they found themselves with two outdated IT systems and data centres on two different sites. Tech inadequacies were a huge frustration – computers were taking a long time to boot up and staff couldn't connect to systems at other sites.

We worked with the trust to draft an action plan to unify their locations with Microsoft Azure and migrate their 12,700 users to the cloud through Office 365. Our solution included Microsoft Teams, which has been a huge boost for staff, enabling them to communicate easily across sites. As well as improving communications, the new system is helping the trust improve their productivity, saving time and money.

For more information see:
www.phoenixs.co.uk/insights/case-studies

"The impact of this new technology has been continuity of care. We have been able to continue over 80% of our workload, even during the height of the Covid-19 crisis."

David Newey
Deputy CIO, The Royal Marsden NHS Foundation Trust

A great debut for our FTSE 250 business

Our CFO, Keith Richardson, shares his thoughts on our first, and very successful, results as a listed company.

I am pleased to say that 2020/21 was our best year ever. In line with our track record of good, consistent growth we increased gross profit by 13% on the previous year. Gross invoiced income grew by 33% on 2019/20 to £958.1 million, with adjusted operating profit up 18% to £37.5 million. Revenue grew by 5.5% on 2019/20 to £393.6 million.

Growing customer numbers and business

Our firm focus on the customer paid off. Reflecting our strategy, we both grew our business with established customers and attracted many new ones. Gross profit from existing customers rose to £84.8 million, making up 95% of our overall gross profit, compared with 92% in 2019/20. We increased customer numbers by 4% from 4,930 during the last financial year to 5,147. It wasn't just a good year for profit: we continued to invest in our people, increasing headcount by 77, up 13% to 685, we saw very few people leave, and had cash balances of £20.7 million at the end of the year.

Strong results reflect our agile response to Covid-19

We're fortunate to work in one of the industries less affected by Covid-19; but that does not take away from our team's achievement. The agility of our response to the pandemic was a major factor in our strong results. As the first March lockdown was announced, we rapidly equipped our own

"That we were able to come to customers' aid swiftly and effectively when lockdown kicked in was no coincidence. It followed several years of recruiting and developing our employees."

The sometimes contrasting levels of demand between good public and private sectors underlined the strength of our Group having two businesses focusing on different types of customer: if one goes through a period of reassessing their software requirements, the other can often compensate.

staff – and those of many of our customers – with the online tools they needed to work securely and effectively from home. Numerous customers, particularly those in the public sector, used the urgent need to enable remote working as the catalyst to ask for our help in digitising their wider, often outdated IT systems – a trend that's still continuing in the public sector. Across all industries, digitisation, the ongoing move to the cloud, and tougher cyber security measures were particular priorities.

Corporate demand was strong in some areas but uneven overall, with those sectors hardest hit by the pandemic holding back on IT investment. The sometimes contrasting levels of demand between the public and private sectors underlined the strength of our Group having two businesses focusing on different types of customer: if one goes through a period of reassessing their software requirements, the other can often compensate.

That we were able to come to customers' aid swiftly and effectively when lockdown kicked in, with many skilled people and a breadth of software, security and cloud services, was no coincidence. It followed several years of significant investment in recruiting and developing our employees, to reach a high level of expertise and product accreditations. We saw the benefit of our investment strategy this year, when our people pulled out all the stops to deliver to our customers. At a senior level, while we were busy on the IPO, Neil, our CEO, and I were very lucky to have the two very able business MDs, Sam and Jack, taking on additional projects which would normally fall to us. We saw the same commitment throughout our management teams. I'd like to thank all of our people for making such a great effort this year – it was very heart-warming to see.

Our Microsoft partnership continued to boost performance

Our close and long-standing relationship with Microsoft – which was again our largest vendor partner across both our operating companies – also contributed to our strong results. During 2020/21, sales of Microsoft products continued to make up over 50% of our gross profit. As well as benefiting from sales of Microsoft products, we received incentives from the vendor on reaching product sale and accreditation targets. We are careful not to over-rely on Microsoft, however, and continued to deepen our positive relationships with other vendors.

Despite the challenging economic climate, we had very little bad debt this year. This reflects our strong public sector customer base, the general resilience of our corporate clients and our prudent commercial terms. We put a strong emphasis on supporting our own suppliers, trying wherever possible to use local businesses. This year they needed our support more than ever.

Confident but not complacent about the coming year

Having had such a good year – and with a clear strategy, robust customer demand and great people – I am confident that we will again deliver good growth in the coming year. But none of us are complacent. There's lots of opportunity out there but we must stay dedicated, innovative and agile, because this business changes all the time. We also have to carry on engaging, developing and retaining our highly skilled people. This – and unbeatable customer service – will be our focus in the coming year.

Keith Richardson
Chief Financial Officer
25 May 2021

Our 2020/21 performance

Income statement	2021 £'m	2020 £'m	Change %
Gross invoiced income (GII)	**958.1**	722.2	32.7%
GII split by product:			
Software	**899.2**	665.2	35.2%
Hardware	**24.1**	29.6	-18.6%
Services	**34.8**	27.4	27%
Netting adjustment	**(564.5)**	(349.1)	61.7%
Revenue	**393.6**	373.1	5.5%
Revenue split by product:			
Software	**343.1**	326.4	5.1%
Hardware	**24.1**	29.6	-18.6%
Services	**26.4**	17.1	54.4%
Gross profit	**89.6**	79.2	13.1%
Gross profit/GII %	**9.4%**	11%	
Administrative expenses	**52.1**	47.5	9.7%
Adjusted operating profit	**37.5**	31.7	18.3%
Adjusted operating profit/gross profit	**42%**	40%	
less share-based payments	**(1.0)**	(0.3)	
less intangible amortisation	**(1.6)**	(1.6)	
less IPO costs	**(8.1)**	0.0	
Operating profit	**26.8**	29.8	-10.1%
Profit before tax	**26.7**	29.9	-10.7%
Tax	**(6.7)**	(5.8)	
Effective tax rate	**25%**	19%	
Profit after tax	**20.0**	24.1	-17%

Overview of our 2021 results

Our financial year, which ended on 28 February 2021, coincided almost exactly with the first 12 months of the Covid-19 pandemic. As the UK entered lockdown in March 2020, before we reported the results of the first month of our financial year, we activated our business continuity remote working plan.

Our first priority was the safety of our people, as we moved overnight to secure home working, with minimal business interruption. Our earlier preparations for this scenario meant the transition was virtually seamless.

Our second priority was delivering a heightened level of customer service. We rapidly implemented virtual working solutions, support services and ongoing managed services for many customers, while continuing to supply essential software licensing renewals and updates.

The pandemic accelerated the digital transition of many customers to cloud-based (hosted) licensing programmes. This enabled them to adopt and use software in a flexible and agile way and to only pay for what they used. The latter was a critical benefit for those customers experiencing a downturn in business profitability who, in some cases, needed to furlough staff and reduce their IT costs.

Our agility in maintaining our own operations and productivity, while continuing to deliver the highest quality software licensing advice and IT solutions, meant we achieved record results in the most demanding of times. Adjusted operating profit, our key financial measure, increased by 18% in the year ended 28 February 2021, rising to £37.5 million (2019/20: £31.7 million), as further detailed below.

Gross invoiced income, revenue, and gross profit

Gross invoiced income (GII)

GII reflects gross income billed to our customers, adjusted for deferred and accrued revenue items mainly relating to managed service contracts. We believe that GII provides readers with a more meaningful measure than revenue to evaluate our sales performance, volume of transactions and rate of growth.

Our GII increased by 32.7% to £958.1 million (2019/20: £722.2 million) with 94% (2019/20: 92%) generated from the sales of software (a combination of on-premises and cloud licensing). There was a small reduction (£5.5 million) in the level of hardware GII (as customers moved away from on-premises infrastructure), although this was offset by a 27% rise (£7.4 million) in services sales as we diversified and built our services solutions offerings, in response to increased demand from our customers.

Revenue

Revenue is reported in accordance with International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. Under this reporting standard, we are required to exercise judgement to determine whether the Group is acting as principal or agent in performing its contractual obligations. Revenue in respect of contracts for which the Group is determined to be acting as an agent is recognised on a 'net' basis i.e., the gross profit achieved on the contract and not the gross income billed to the customer.

The netting adjustment has been made on a consistent basis in both the current and prior periods and provides an important measure of the products and solutions required by customers and the direction of change as it primarily includes sales of cloud licensing and critical security products.

Our 2020/21 performance

The netting adjustment increased in 2020/21 and now represents 58.9% of GII (2019/20: 48.3%), resulting in revenue growth of 5.5% to £393.6 million (2019/20: £373.1 million), versus the 32.7% increase in GII. This demonstrates the high rate of growth in our cloud and security-based licensing sales. Our investment in recruiting and developing our people, and in securing technical certifications, means we can provide high levels of customer advice, service, and support in these areas. This is reflected in our gross profit performance.

Gross profit

Gross profit has increased by 13.1% to £89.6 million (2019/20: £79.2 million). Our growth in corporate sector customers' gross profit was mid-single digit compared to strong double-digit growth in public sector customers. As a result, in FY2020/21 corporate gross profit made up 63% of total gross profit and public sector 37%, compared to FY2019/20's 69% and 31%, respectively.

This reduction in the relative contribution of the corporate sector is linked to Covid-19: during the pandemic certain corporate sectors have reduced investment in non-essential and non-required areas of spend, including IT, as they experienced lower levels of business and furloughed staff and/or froze recruitment. However, the fact that our corporate business continued to grow during this challenging time illustrates the strength of our relationships with our private sector customers.

Public sector spend, on the other hand, escalated from the start of the year. We secured significant large new contracts in local and central government and from the NHS, as we provided solutions to support and sustain these essential public services. That momentum continued through the year and shows no sign of reducing as we enter the new financial period.

Our strong presence in both the corporate and public sectors makes us resilient to different levels of demand, where one area's performance can compensate for or complement the other's.

Gross profit/GII% (GP/GII%)

GP/GII% has reduced slightly from 11.0% to 9.4% which reflects the change in the mix of business between corporate and public sector. In the public sector, the Gross Margin (GM)% may be restricted under governing bodies' framework agreements or subject to higher levels of competition in the customer tenders required under public sector purchasing requirements. However, this is generally counterbalanced as public sector business tends to be lower risk from a collections perspective. GP% measured against revenue is not considered to be such a relevant measure due to the netting impact described above.

Administrative expenses, adjusted operating profit and operating profit

Staff costs

Our outstanding people are at the heart of our success; during the year we continued to invest in them. This continued our 'invest to grow' theme of previous years, which combines internal development and promotions and external recruitment.

Our success in growing GII and gross profit was a direct result of the investments we have made in our people in recent years. Our continued growth has enabled us to invest even further. During the year we increased our headcount from 608 to 685, with a particular focus on recruiting solution specialists and technical delivery experts. We also reinforced our account management teams so they can continue to provide outstanding advice and support to our customers.

As a result, our staff costs (excluding share-based payment) increased by 9.9% from £47.6 million to £52.3 million. Within this amount £7.9 million was classified as cost of sales (2019/20: £7.0 million) reflecting the increased focus on service delivery.

Staff bonuses and commissions remain a large proportion of overall staff costs at 30% of this total, up £1 million on prior year and reflecting our growth in gross profit.

Other costs

Our other operating costs increased year on year by 11.6% from £6.9 million to £7.7 million. While there was a significant reduction in travel costs, down more than £1 million on the prior year, we took the opportunity to strengthen our internal systems and infrastructure. There were some additional costs incurred in the final two months of the year due to our operating as a listed company and there will be a full-year impact in the new financial year.

Our administrative expenses also include a £0.3 million increase in the loss allowance for trade receivables, rising from £0.4 million to £0.7 million. We had just one very small bad debt but, considering the increase in trade receivables, and the ongoing uncertainties of the impact of Covid-19, believe it's appropriate to carry a slightly higher allowance at year end. Our closing allowance includes full cover for all trade receivables 120 days or more past their due date.

Adjusted operating profit and operating profit

Adjusted operating profit excludes, from operating profit, the effects of significant items of expenditure which are non-recurring events or do not reflect our underlying operations. IPO costs, acquired intangible amortisation and share-based payment charges are all excluded. We believe that adjusted operating profit provides readers with a more meaningful measure to evaluate our profitability, performance, and ongoing quality of earnings. Adjusted operating profit increased to £37.5 million (2019/20: £31.7 million), representing growth of 18%. Operating profit reduced from £29.8 million to £26.8 million.

Corporation tax charge

The effective rate of corporation tax charged for the year is 25% of profit before tax. This is higher than the standard rate of tax of 19% due primarily to the £8.1 million of IPO costs not being allowable as a tax deduction. If the impact of these costs is removed, the effective rate of tax reverts to the expected 19% which is in line with the prior year.

Financial and customer KPIs

The KPIs by which we measure our performance are set out below:

KPIs	2021	2020	Change %
Adjusted operating profit/ gross profit	**42%**	40%	
Cash conversion rate	**131%**	126%	
Customers	**5,147**	4,930	4%
Average gross profit per customer (£'000)	**17.4**	16.1	8%
Renewal rate	**107%**	115%	
Basic earnings per share (pence)	**8.52**	10.39	-18%
Adjusted earnings per share (pence)	**13.07**	11.20	17%

Adjusted operating profit divided by gross profit is a key measure of the operational effectiveness of our Group in running our day-to-day operations. We have again achieved the target we set of 40%.

Cash conversion rate is defined as cash generated from operations less capital expenditure (together, 'free cash flow') divided by adjusted operating profit. It is a key measure of the efficiency with which underlying operating profit is converted into cash. We set ourselves a cash conversion target of 100% but with increased adjusted operating profit, debtor days running on average 15 lower than creditor days and good collections around the period end, our cash conversion level was well above this target, at 131%.

Number of customers is an operating metric that we calculate as the number of unique entities transacting greater than £100 in gross profit during the relevant financial period. Growth of the customer base is one of our key objectives, with the number increasing by 4% to over 5,100 for the year.

Our 2020/21 performance

Average gross profit per customer is the third key customer measure. In conjunction with increased gross profit, high renewal rates and increased customer numbers, this measure has increased by 9% to £17,400 per customer (2019/20: £16,100).

Renewal rate is the second key customer metric, defined as gross profit from existing customers divided by total gross profit in the previous financial period. This indicates our effectiveness in increasing our share of business with existing customers. With a target of at least 100%, we achieved 107% in this financial year. While lower than the prior year, this is still a very good renewal rate and, along with new customer wins, underlies the overall 13% rise in gross profit.

Basic earnings per share and adjusted earnings per share

Statutory basic earnings per share reduced year on year primarily due to the impact of IPO costs on reducing our post-tax profit.

Adjusted earnings per share removes the impact of non-underlying items and is therefore a more meaningful measure to compare to prior years and so reflect our underlying performance, shown as a 17% increase.

Balance sheet and cash

Summary balance sheet	**As at 28 February 2021 £'m**	As at 29 February 2020 £'m
Property plant and equipment	**8.3**	8.5
Intangible assets	**44.4**	46.1
Other non-current assets	**1.7**	2.4
Non-current assets	**54.4**	57.0
Trade and other receivables	**106.7**	77.1
Cash	**20.7**	47.4
Other current assets	**7.8**	5.7
Current assets	**135.2**	130.2
Trade and other payables	**157.1**	133.2
Lease liabilities	**0.2**	0.3
Other non-liabilities	**10.3**	13.4
Current liabilities	**167.6**	146.9
Lease liabilities	**1.2**	1.3
Other non-current liabilities	**4.0**	2.9
Non-current liabilities	**5.2**	4.2
Net assets	**16.8**	36.1
Share capital	**2.4**	2.3
Share premium	**633.7**	625.4
Other reserves	**0.3**	1.2
Merger reserve	**(644.4)**	(644.4)
Retained earnings	**24.8**	51.6
Total equity	**16.8**	36.1

We finished the year with £20.7 million of cash, ahead of expectations, and with no debt and excellent cash conversion.

Even after significant pre-IPO dividend payments to Altron and the cash settlement of management share schemes, our cash position also remained positive throughout the past 12 months and no external funding was required.

The consolidated cash flow is set out below along with the key flows which have affected it.

Cash flow	2021 £'m	2020 £'m
Cash generated from operations	**49.6**	41.7
Payments for fixed assets	**(0.6)**	(1.8)
Free cash flow	**49.0**	39.9
Net Interest (paid)/received	**(0.1)**	0.2
Taxes paid	**(10.2)**	(4.8)
IPO costs	**(8.1)**	0.0
Proceeds from issues of shares	**8.3**	0.0
Deferred consideration payments	**(16.7)**	0.0
Lease payments	**(0.3)**	(0.2)
Dividends	**(48.6)**	(13.8)
Net (decrease)/increase in cash	**(26.7)**	21.3
Cash at the beginning of the year	**47.4**	26.1
Cash at the end of the year	**20.7**	47.4
Cash conversion	**131%**	126%

Deferred consideration payments relate to one off purchases of management 'B' shares in Bytes Technology Limited & Blenheim Group Limited.

Dividend policy

The Group's intended dividend policy is to distribute between 40% and 50% of post-tax pre-exceptional earnings to shareholders, as disclosed in the IPO prospectus. The first dividend is intended to be declared as an interim dividend for the year ending 28 February 2022, and then on an ongoing basis. For 2021/22, the post-tax pre-exceptional earnings were £31 million which would have meant a full-year dividend of between £12 million and £15 million of which approximately one-third would be paid as an interim dividend and two-thirds being proposed as a final dividend.

Working together to deliver the best results for customers

Our customers – and the technology vendors whose products we sell to them as part of our tailored IT offering – are far more to us than just links in the supply chain. They are our strategic partners, without whom we couldn't do business.

Our vendors

Over the years we've built strong partnerships with our technology vendors. We've spent time getting to know them, and their range, to ensure we can recommend the most fitting products to our customers and have the right skills and expertise to help them achieve the best results.

The strength and depth of these partnerships is underlined by the many awards and accreditations our vendors give us. In 2020/21, our honours included being AWS Microsoft Workloads Partner of the Year, Dell Technologies Growth Partner of the Year, Sophos UK & Ireland Enterprise Partner of the Year and Public Cloud Partner of the Year, and Varonis VP Partner 2020.

Teaming up with innovative tech vendors

As well as staying loyal to our long-standing software partners, we build relationships with new vendors as innovative high-growth products and technologies emerge. In recent years, for example, we've developed strong bonds with specialist cyber security technology vendors such as Check Point – who early in the 2021/22 financial year named us both as their Cloud Security Partner of the Year and, for the second consecutive time, their Infinity Partner of the Year – and CrowdStrike. Reflecting our strategy to develop our hardware offering, we have also built strong relationships with major vendors like Cisco, Dell, HP and IBM.

Who are our vendors?

Our vendors make or distribute the software, hardware and other IT products that we sell to our customers to help meet their business needs.

We have more than 100 vendors, some of whom we've worked with for decades; others, in newly emerging product areas, are recent partners. We focus on suppliers specialising in products for cloud computing, cyber security and IT infrastructure.

Microsoft is our biggest vendor. Our resale of their products accounted for over 50% of our 2020/21 gross profit. Our other vendor partners include Adobe, Citrix, Mimecast, Oracle, Palo Alto, Snow, Veritas and VMWare.

As with all such partnerships, our reliance on our vendor partners can create vulnerabilities. Vendors are independent businesses who may wish to change the way they work with us or adapt the incentives and rebates we receive for selling their products. We mitigate this risk in a number of ways. Aside from making sure we don't rely too heavily on one vendor, we do all we can to cement mutually-beneficial partnerships. We develop our people so they can promote vendors' products knowledgably and skilfully, and we work together on joint marketing and sales initiatives. We also make ourselves an attractive partner by having a wide customer base and a high profile, which gives IT providers cost-effective access to a significant marketplace, which they could not easily replicate. We also help them by providing valuable direct customer feedback.

Growing with Microsoft

Microsoft is one of our longest-standing vendor partners – 25 years and counting.

We are a certified Microsoft gold and silver partner across 15 competencies, that is, areas of expertise, including data analytics, enterprise resource planning and cloud productivity; and our dedicated Microsoft services teams include 179 Microsoft-certified professionals. In early 2021, we were proud both to become a Microsoft Azure Expert Managed Service Provider – Microsoft's highest accreditation – and to feature in 'Creating a Blueprint for UK Competitiveness' a Microsoft UK / University on London research report on how companies could prosper in a post-Covid-19, post-Brexit world.

We focus on Microsoft's higher-growth product portfolio, including Azure, Microsoft 365, Dynamics 365 and Azure Sentinel and are one of Microsoft's largest UK partners by revenue, generating more than $1 billion for them in their 2020 financial year.

"Phoenix has proven its capabilities and knowledge around Azure through our Azure Expert MSP program and has met stringent requirements to prove it meets Microsoft's highest standards of technical expertise, service delivery and support."

James Chadwick
Commercial Partner & Cloud Services Partner lead, Microsoft UK

Our customers

Our customers are at the heart of our purpose, our strategy and our business. We're genuinely passionate about helping them to use technology to empower themselves and their users, to run their organisations in the best possible way, to save money, and to create new products and ways of working. In 2020/21, we grew our customer numbers to 5,147 from 4,930 in the previous year. Our commitment to them also explains why so many customers have been with us for many years, with individual clients often taking us with them when they move to a new company.

Growing our business, organically and through acquisition

We expand our customer base organically through the great work of our sales teams and the recommendations of our clients and vendors. We have also grown through acquisitions, most recently when we welcomed Phoenix into Bytes, which brought a significant number of public sector customers. However, the competitive nature of the UK IT marketplace means we never forget that customers are not tied to us, and so we are careful not to be too dependent on any one organisation. Our top ten customers made up less than 7% of our gross profit in 2020/21.

Because we offer such a wide range of products and services, we can give customers the best IT solution for them and expert advice that answers their specific needs. We are constantly alert to the need to keep up with changing preferences and new technologies and standards. In the public sector, for example, many organisations require contract bidders to be part of long-term framework agreements, which require exacting accreditations. We therefore continuously improve our profile, from advancing our technical capabilities to developing our environmental, social and governance credentials.

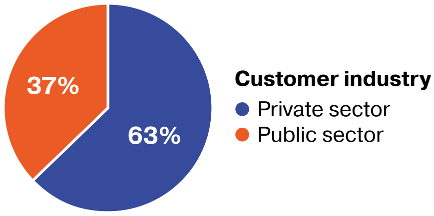
"It was my great pleasure to award the VP Award to Bytes in recognition of their fortitude and swiftness in helping to solve their customers' newly-faced security challenges, and the trusted partnership that has resulted from our many years of working together."

Neal Lillywhite
VP & Country Manager, Varonis UK

Who are our customers?

Our customers are drawn from a range of diverse fields. In 2020/21, 63% of our gross profit came from the private sector, with 37% from the public sector.

Our private sector customers include a wide range of small, medium and enterprise businesses. Our public sector customers include education, housing, charities, healthcare and local and central government. Private sector customers typically generate higher gross profit margins than those from the public sector.



Spotlight on customer wins

In 2020/21, we were delighted to start working with major new customers. They included:

- BP, who awarded us a software asset management (SAM) services contract to help enhance the function, save money and get the most from their ServiceNow cloud computing platform
- Research and education organisation GÉANT, who awarded us an Azure cloud and service agreement to support academic organisations using their Open Clouds for Research Environments network
- The Department for Environment, Food & Rural Affairs (Defra), who awarded us a Microsoft enterprise agreement and a SAM managed services contract
- South West Police forces, covering Avon, Somerset, Devon, Cornwall, Dorset, Gloucestershire and Wiltshire, with whom we agreed a software supply contract.

In the business of making life better

We never forget that we do not operate in isolation, but that everything we do affects the wider world. So, in the way we do business, we strive to make life better for our employees, our communities and our environment.

Doing the right thing – our new corporate responsibility policy

We always aim to do the right thing. In late 2020, we published a new corporate responsibility policy which sets out our principles and how we intend to live by them. It was driven and written largely by our people. Employee welfare, as our first priority, is at the heart of the policy. However, reflecting the breadth of the UN Sustainable Development Goals – which inspired the policy – it also covers sustainable communities and the environment. The new policy builds on our history of responsible behaviour with new 2021/22 goals, from installing more electric vehicle charging points for staff at our offices, to annually donating the equivalent of 1% of profit after tax to charity each year.

Our values

Let's be passionate about our employees, vendors and customers

We act with **integrity at all times**

We **work together and collaborate** across all teams

Be **kind and respectful to all people**, all of the time

Let's get business done and **have fun** doing it

"This is a great place to work because great opportunities, fast learning and upward mobility are there for those who want them, along with exposure to a vast range of technologies."

Harry
IT Service Desk

"The managers are so helpful and supportive that you're never scared to ask a question and there's always someone to lend a hand."

Gracie
Customer Support & Relationship Manager

Serious about customer service, committed to fun

Our people are what make us successful and easy to do business with, so we do all we can to develop, engage and reward them. This helps us to keep delivering great customer service and – in a competitive job market – reinforces staff loyalty.

There are two sides to our culture. On the one hand, we are very serious about excellent customer service; on the other, we are fun, dynamic and highly sociable. We believe the two go together: because our people love working for us, they strive to do the best they can for our customers and our business. Now we are a listed company, with many of our people having share options in Bytes, that sense of goodwill is even stronger.

One of our core values – 'Let's get business done and have fun doing it' captures this blend of seriousness and exuberance. This statement, and our other four values, are highlighted in our staff handbook, on our website and around our sites. They are also central to our Code of Conduct, which staff receive during their induction and which is explored in a mandatory online training module. Complementing our values and Code of Conduct are our core policies on anti-bribery and corruption, fraud and money laundering, modern slavery, and diversity and inclusion.

Keeping engagement high during the pandemic

We invest a lot of effort in keeping our people engaged – from funding social and sports events and offering competitive pay rates, to providing frequent opportunities for engagement with senior leaders. This year, with most of our people working remotely due to Covid-19, we strove even harder to keep them motivated and in good spirits.

685

Total employees

Our actions included: appointing a dedicated employee engagement and staff welfare manager; providing some comfortable and ergonomic furniture for home working; introducing online team meetings; transferring social activities online, including virtual awards events and parties; and enabling flexible working, so that staff could manage their caring and home-schooling responsibilities. We also sent gifts to employees' homes. For example, on Phoenix's 30th anniversary, we sent the 257-strong team a surprise celebration present. Actions like this helped us to keep our people upbeat, despite them being isolated at home. In fact, engagement scores rose during the pandemic: 69% of staff polled in an employee net promoter score survey said they would recommend working for us, and Phoenix joined BSS in achieving the top three-star rating in a Best Companies employee engagement survey.

We did not make any of our people redundant, nor furlough anyone, due to the pandemic.

Supporting employees' mental and physical wellbeing

We want to help our people stay healthy, both physically and mentally. In usual times, they make use of free or subsidised gyms on-site or nearby. We also support the Cycle to Work bike purchase scheme and allow paid time off for team sports events. This year, to offset the restrictions on exercise and help with the mental pressures of the pandemic, we worked with a health and wellbeing specialist to provide activities and support networks for our people.

Our programme included guided physical exercise – including online yoga, Pilates and fitness; counselling; weekly quizzes; and a new Teams channel for sharing lockdown tips, advice and support. Informal monthly 'Tea & Toast' Teams sessions

"The open door policy gives all employees the chance to have their say and the 'All ideas matter' philosophy and teamwork culture brings a great sense of belonging and involvement."

Ben
Managed Services Director

Serious about customer service, committed to fun

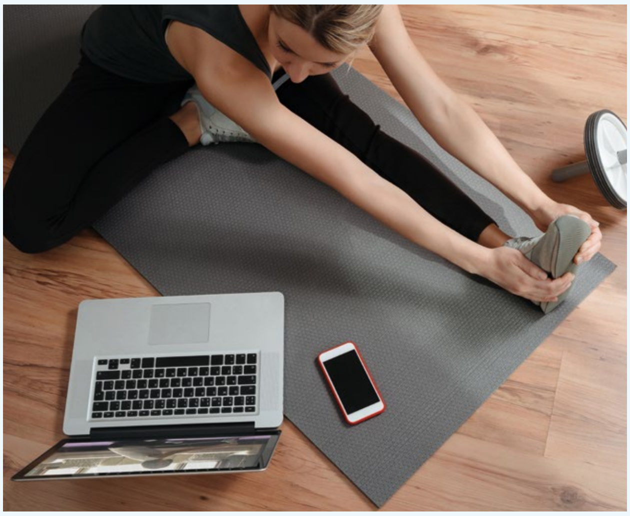
43%

of employees are women, far above the industry average

at Phoenix attracted people to discuss such topics as home working, loneliness and the January blues. Phoenix staff also set up a mental health and wellbeing network to help manage lockdown pressures.

Our support for employees' mental health did not start – and will not end – with the pandemic, although lockdown put the issue firmly in the spotlight. In June 2020, Phoenix signed mental health charity Mind's Time to Change employer pledge, aimed at ending the stigma around mental illness. Since then, with the support of 20 employee 'champions', we have run a 12-month programme of online activities to raise awareness of mental health. This included all Phoenix managers completing a 'Managing mental health' course – which looked at recognising the signs of mental illness, supporting affected team members – and maintaining good mental health – and all employees taking part in mental health workshops.

Group-wide, our subsidised employee private health insurance scheme includes mental wellness options and our external employee assistance programme (EAP) offers 24/7 counselling support. This year, we have seen a sharp increase in calls to our EAP line, which we believe reflects both Covid-19 and an internal reminder to staff about the service. In May 2020, around 3% of BSS employees called the EAP, in November the ratio rose to 7%, and in February 2021 contacts peaked at 10%.



Lockdown closed our gyms this year so we offered staff free online activities.

Constantly enriching our people's skills

As well as supporting our people in staying well, we do all we can to help them make the most of their abilities. This is both good for our employees and for Bytes, as there is a direct link between the skills and qualifications of our people and our success. To attract major customers' attention, and to be part of major tenders, we must have high levels of staff accreditations in different technology products and services. Achieving such accreditations is a never-ending process: as vendor portfolios and technologies change rapidly, so our staff need to study afresh and achieve more accreditations.

Education at work therefore starts for our people from day one, with a comprehensive induction programme, and continues throughout their time with us. We aim to hold more software vendor accreditations and have more qualified staff than any of our peers. Each employee has a training and development plan, with options ranging from technology-specific certifications to leadership training. In normal years, we provide both online training, with our learning management system, and face-to-face sessions via external trainers. Our trainers include both vendor partners and our own specialists and mentors. However this year, due to the pandemic, all of our training and most new starter inductions were online. This was reflected in the fall in our training and development spending which at £172,000 was less than half the previous year's total of £414,000.

We also invest in grass roots technical training via our established apprenticeship schemes. Apprentices receive the formal training and development to develop a successful career in IT. In 2020, we recruited four new apprentices, all of whom were subsequently offered permanent jobs.

"Management are extremely approachable within the company, which is a real breath of fresh air."

Rebecca
Microsoft Operations Specialist

Our support for employees' mental health did not start – and will not end – with the pandemic, although lockdown put the issue firmly in the spotlight.

Taking steps to increase gender parity

We believe passionately in equal opportunities. Ensuring that the make-up of our workforce reflects that of our customers, and that all our people have the same chance to progress, is both good business sense and fair play.

Bytes strives to achieve gender parity. Forty-three percent of our employees are women, well above the industry average of 25%[1]. For half our history, our highest attaining salesperson/head of sales has been female; one of our two company MDs is a woman (and the 2018 winner of Women in IT – Business Leader); and we are a local and global member of the Women in Technology network. We recognise, however, that there is more that we can do to help women succeed. Although 41% of our managers overall are women, just 21% of our directors or divisional directors are female. Our gender pay gap is also still too wide, with 70% of those in the upper quartile being male and the mean bonus levels still being higher for men. This is largely due to sales roles – which attract flexible, target-based commission – being dominated by men. We have more women in administrative roles, which do offer bonuses, but that are either fixed or reflect individual salaries.

We are trying to recruit and promote more women, in such ways as sourcing more female job candidates, encouraging women to move from administrative to sales jobs, and giving extra support to women returning from maternity leave. We were pleased that our late 2020 intake of new sales recruits was equally balanced between men and women.

Striving to build a more ethnically diverse workforce

Our team is predominantly white, reflecting the local demographics around our two largest offices, in Surrey and East Yorkshire. We want to be sure that we are selecting the best people from the widest possible talent pool and are therefore taking steps to increase our ethnic diversity. In early 2021, we drafted our first diversity and inclusion policy, formed a diversity and inclusion staff network (which, apart from race, covers sexuality, accessibility and gender) and introduced a mandatory online training module on this issue. Managers were also trained on white privilege/ unconscious bias. With lockdown showing that remote working can be very effective, we have begun to recruit from outside our normal catchment areas which, we believe, has enabled us to hire more ethnic minority team members. We do not currently track the ethnicity of our employees, but aim to do so in the coming year.

We belong to various external groups that promote diversity. In 2020, we signed up to the Race at Work Charter, which involves taking practical steps to tackle barriers to progression faced by people from ethnic minorities, and we are a member of Technology Channel Against Racism. We are also a Disability Confident Committed employer, signifying that we aim to recruit and retain people with disabilities and health conditions. We currently have one employee with a disability.

Leadership gender breakdown

BSS	Men	Women
Director	5	1
Divisional director	7	2
Senior management	5	2
Management	19	21

Phoenix	Men	Women
Director	1	2
Divisional director	6	1
Senior management	13	6
Management	15	7

TOTALS	Men	Women
Director	**6**	**3**
Divisional director	**13**	**2**
Senior management	**18**	**8**
Management	**34**	**28**

"Bytes have always been supportive with both work and personal life. After my maternity leave, they were very good at easing me back into work and allowing me flexibility to suit my childcare needs."

Cassie
Senior Marketing Executive

1 The future UK tech built. Tech Nation Report 2021 technation.io/report2021

Putting communities at the heart of our business

Our long-standing support for the communities where we operate yields many benefits. It enriches our local areas, it makes our people feel good – about themselves and the business – it's enjoyable, and it enhances our reputation.

Formalising our charitable activities

We freely give our money, skills and time to good causes, in line with our values. Central to our new 2020 corporate responsibility policy is a commitment to give the equivalent of 1% of our overall business net profit after tax to charity each year, from 2021/22. In 2020, to further formalise our giving, we established a charity committee to manage our charity partnerships and fundraising. This included choosing key charities to support, with our focus this year on the mental health charity Mind, cancer research charities, local food banks and hospices.

Although Covid-19 meant that many of our normal face-to-face fundraisers were ruled out, our people still raised thousands of pounds for good causes. For example, BSS staff raised £10,000 for men's health charity, the Movember Foundation (see case study), while Phoenix donated funds collected during weekly online quizzes to Mind and Cancer Research UK and gave £1,200 to a Yorkshire school to buy laptops for home schooling.

The pandemic also disrupted a new initiative to enable employees to take off one day each year to volunteer for charity, although some of our people did volunteer to collect litter and to help with online fraud prevention. However, during breaks between lockdowns, 24 staff were able to enjoy free entrance to the Botanic Gardens, Kew, with which we launched a new partnership that includes opportunities for future volunteering.

A marathon effort for men's health

One hundred and twenty BSS staff skipped, danced, walked and ran the length of a marathon to raise thousands of pounds for men's health charity, the Movember Foundation. The employees – many of whom grew or wore Movember's trademark moustaches – covered 2,619 miles altogether, raising £9,328, with BSS topping up the total to £10,000. As well as tackling a novel marathon, the November 2020 Movember Challenge encouraged participants to open up about their own mental health.

As a business with a strong not-for-profit client base, supporting community institutions strengthens the bonds between us and our customers.

During the pandemic, we ran a series of weekly lockdown seminars for public sector customers, with topics including remote working, security, and phishing awareness.

Pro-bono support for the not-for-profit sector

As a business with a strong not-for-profit client base, supporting community institutions – like schools, charities and hospitals – strengthens the bonds between us and our customers. During the pandemic, we reinforced these bonds by offering our public sector customers our skills and expertise for free. This included donating a year's Microsoft Azure managed service contract to ten of our charity, education and local government customers. With this provision, worth £30,000 in total, we aimed to alleviate financial concerns, improve security and free up staff at a time of huge pressure for our customers. We also ran a series of weekly lockdown seminars for public sector customers, with topics including remote working, security and phishing awareness. Scores of people attended each event with the first session, 'Coronavirus: remote working with Microsoft Teams', gaining more than 3,720 views online.

Unfortunately, the pandemic meant that we had to cancel our 2020 education programme, which normally sees us visiting schools, colleges and universities to inspire and inform students about the IT industry. We aim to restart the programme in the coming year.

Supporting local businesses to boost communities

We do all we can to keep regional businesses thriving and are committed to using suppliers close to our offices in Surrey, Yorkshire, Manchester and Reading. During lockdown, although our local farmers were no longer able to supply us with fresh fruit, we kept on using regional businesses to stock our vending machines, to sustain staff who were unable to work from home.

"The company has done that rarest of things, grown from a small family-run firm into a listed company while still managing to retain a personal identity where people care about each other."

Andy
Administration

Working together for a sustainable world

We're acting to protect our planet – by helping our customers to reduce their impact on the environment and doing all we can to limit ours.

We are committed to reducing our environmental impact but, as we sell products made by other companies and have no factories ourselves, we cannot make a huge difference alone. The most material contribution we can make is through the technical solutions we deliver to our customers. In particular, by supporting them in moving their on-site servers, products and services to the cloud, which helps them to reduce their carbon footprint. Most of our key vendor partners that support customers' virtual servers have made significant investments in ensuring their datacentres are energy efficient – often much more so than customers' existing provision.

Helping customers to operate more sustainably

We help customers power their IT more efficiently in other ways too. For example, we support organisations in identifying 'elastic' platforms that only operate when they need them. We also help customers hold more videoconference meetings, so limiting their travel emissions, by being a Microsoft FastTrack Teams implementation partner (a service which, as it sounds, enables organisations to move quickly to the cloud). We also help customers reduce their technology waste, with a service where IT items are collected securely, data-wiped and then refurbished, recycled or destroyed, and by issuing software licences electronically, rather than as hard copies. With sustainability an increasing priority for many organisations, particularly those in the public sector, by helping customers cut emissions we can also show our understanding – and resolution – of their needs.

Limiting our own emissions

We are doing all we can to limit emissions linked to our own business. During the 2020/21 financial year, we were pleased to attain the ISO 14001 environmental management standard. This aligns us to environmental good practice throughout our supply chain and operations, such as having the necessary controls to conserve resources, and continually monitoring the environmental impact of our actions.

During the year, we worked to ensure our sites are more environmentally friendly as our people return from lockdown. In early 2021, we began a Group-wide switch to renewable energy suppliers for all our electricity. We also continued to move our data to the cloud, which will ultimately mean we will no longer have to power our own on-site servers. This doesn't mean that we're just shifting the emissions to someone else. Our virtual servers will be powered by Microsoft, whose sustainability commitments include becoming carbon and water negative and producing zero waste by 2030. And, we increased the number of electric/hybrid car charging points at our main sites.

We also advised our people on how to reduce their carbon emissions as they worked from home. A December 2020 Phoenix environmental bulletin, for instance, included such tips as applying foam strips around windows to conserve heat, keeping an eye on the thermostat, setting computers on sleep mode during lunch breaks, and adjusting screen brightness.

Total emissions

315.1 tCO_2e

"Bytes is very environmentally conscious and this keeps on improving year on year, from recycling as much as we can to getting rid of all plastic."

Anneka
Customer Support

We help customers hold more videoconference meetings, so limiting their travel emissions, by being a Microsoft FastTrack Teams implementation partner.

Making our own operations more environmentally-friendly

During the year, we worked with external environmental consultants to measure our direct and indirect carbon emissions. This found that our emissions totalled 315.1 tonnes of carbon dioxide equivalents. (See page 118 of the directors' report.) We are continuing to work to develop our first carbon dioxide reduction policy, which we aim to publish in the second half of the 2021/22 financial year. We are also drafting our response to the Task Force on Climate-related Financial Disclosures which, as a newly-listed business, we will include in next year's Annual Report.

To help offset our emissions, in 2020/21 we also partnered with environmental charity, the World Land Trust, to buy 25 acres and plant 500 trees in the South American rainforest. This will help to limit the release of carbon and protect vulnerable wildlife and their habitats.

Staff-led green teams spearhead local action

To engage our people in our activity, we cover our approach to environmental sustainability in staff inductions, on our website and on social media. In 2020, we also began establishing staff-led 'green teams' at our larger sites. The teams have driven a variety of projects, with no idea being too big or too small – from arranging a seminar on responsible investing to introducing recycled and recyclable gift wrapping paper at donation-only cost for colleagues.

500
trees planted in rainforests

The green lining in the cloud

The cloud's green credentials have piqued the interest of many of our customers, including charitable registered society, the Riverside Group.

Riverside provides affordable housing, and care and support for vulnerable people, including older citizens and those at risk of becoming homeless. They'd been struggling with out-of-date and inflexible technology and wanted a reliable, secure solution that would support the latest software and apps, let them share, collect and analyse data easily, and allow their 3,500 employees to work remotely. Riverside were also keen to reduce their carbon footprint, as their existing set-up used physical servers, which needed constant electricity to power and cool, and their IT limitations meant many colleagues drove into work every day as they couldn't work from home.

Phoenix helped Riverside upgrade their hardware and software suite. We have moved their core IT – and are continuing to move their other services – to the cloud via Microsoft Azure. We've also helped them create a new, high-tech meeting room, enabling employees to attend events in person or online.

To support other organisations that, like Riverside, want their IT choices to benefit the environment, in spring 2021 Phoenix and Microsoft co-hosted two sustainability webinars. The first session, 'The carbon benefits of cloud computing for non-profits', heard how conservation charity, WWF, is working with

Phoenix to move its technology to the cloud; the second event, 'Reduce emissions and your organisation's carbon footprint with remote work', considered how Phoenix's customer, the disability charity, the Together Trust, had benefited from using Teams. People from charities and non-profit organisations around the world joined the webinars.

For more information see:
https://nonprofits.tsi.microsoft.com/Nonprofit-Sustainability/

How we balance risks and opportunities

Our CFO, Keith Richardson, outlines how we've strengthened our risk management foundations so we can continue to control risk and realise new growth opportunities.

Risk and opportunity are two sides of the same coin. By understanding, monitoring and controlling the risks we face in a skilled, collaborative way, we ensure that Bytes takes advantage of new opportunities and grows.

We've always operated with a strong risk management structure, underpinned in recent years by our ISO certifications which focus on IT security, processes and service delivery. Since our December 2020 listing we have enhanced this further, and a strong virtual team – including our Board, Audit Committee, the leaders of BSS and Phoenix, and our risk, security and technology experts – have worked together to build on that existing foundation to ensure we have the right risk management framework for our growing business and the changing environment. Their programme has included reviewing and updating our Group risk register, formalising our principal risks and uncertainties, implementing cyber threat levels, like those used by the UK Government, and expanding the intelligence we receive on threats.

Risk management is a never-ending job

Very good work has been done but risk management is a never-ending job. In a dynamic industry like ours and with technology the pivot of our ever-changing world, the risks we face and the forces that drive them change every day. We therefore keep a close watch on new trends and threats, as well as continuously monitoring existing ones: in this report we outline our ten principal risks and uncertainties, the current risk position in relation to Covid-19 and Brexit, and two emerging risks: climate change and sustainability, and the changing cyber threat landscape.

Yet however much we keep our ear to the ground – and our eye on sophisticated global intelligence data – huge challenges can still creep up on us unawares. We, and most of the world, spent the whole of the 2020/21 financial year managing a threat none of us saw coming – Covid-19. I am confident, however, that the time and effort we are investing in risk management has prepared us – and will continue to equip us – to manage threats effectively, so that our business, people and customers remain secure and that we can continue to benefit from the many opportunities in our sector.

"In a dynamic industry like ours and with technology the pivot of our ever-changing world, the risks we face and the forces that drive them change every day."

Keith Richardson
Chief Financial Officer
25 May 2021

Risk management

How we manage risk – a team effort

Our Board has overall responsibility for risk. This includes establishing and maintaining our risk management framework and internal control systems and setting our risk appetite. In doing this it receives particular support from our Audit Committee, although – through their skills and diligence – everyone at Bytes plays a part in protecting our business from risk and making the most of our opportunities.

Our approach to risk is based on enterprise risk management (ERM) – a process of identifying and addressing potential barriers to us achieving our strategic objectives and realising our opportunities for competitive advantage. ERM techniques help us understand the risks that we face, and the effects that they could have on our business, customers and people, and on our responsibilities to shareholders.

Our ERM framework is the foundation of our risk management approach. It is tailored to suit the way we operate – from functional management up through our operating company boards to Group level. This allows us to identify risks as close as possible to their source. The framework supports the Board in identifying risks directly, in owning risks that are outside the risk tolerance of Phoenix and BSS, and in collating a set of high-impact – or principal – risks relevant to our whole Group.

The roles of everyone involved in ERM come together under our risk governance structure, as set out in the diagram below:

Bytes

Board

Sets Group and operating company risk tolerance and sign-off levels.

Owns Group risks, and those local operating company risks best managed centrally.

Reviews risks using key performance indicators (KPIs) and seeks opportunities to reduce risk impacts.

Audit Committee

Reviews Group and operating company risks.

Reviews effectiveness of risk management frameworks.

Ensures operating company risk processes are aligned.

Reviews decisions and Board KPI objectives to ensure the Board is controlling risks effectively.

Internal review

Using control standards to measure risk management and control effectiveness.

Enterprise risk management framework

FINANCIAL RISK

STRATEGIC RISK

PROCESS AND SYSTEMS RISK

OPERATIONAL RISK

External review

Provides assurance and counters any internal bias in evaluating risk management framework, techniques and control effectiveness.

BSS
Phoenix
(operating companies)

Operating company board

Ensures that risks are managed appropriately, in line with Group guidance.

Sets operating company risk objectives, measures risk, authorises/supports change for risk control and owns board-level risks.

Operating company risk committees

Including Cyber Security Management Forum, Information Security Management Forum, Quality and Environment Forum and Change Boards.

Provide information and KPIs and ensure operational changes reflect risk objectives and corrective action is taken by owners.

Operating company risk owners

Heads of department are responsible for ensuring risks are owned and operated according to board direction and oversight.

Internal experts

Provide expertise on risk management, tolerance, treatment and control; deliver objective advice to Group and operating companies, and ensure training increases knowledge and understanding.

Risk management

How we defend ourselves against risk

We draw on a mass of different sources to identify risks. This includes risk assessments, technical feeds, market information, competitor analysis, financial and operational reviews, and threat intelligence information about potential cyber threats. We use tools relevant to the risk area we are evaluating, for example ISO 27001, the information security management standard, for cyber risk, and ISO 14001, the environmental management standard, for environmental risk. We also draw on senior Bytes staff or subject matter experts, from such teams as HR, health and safety, and information security.

In evaluating and managing risk we use a ‘defence in depth’ model, which provides five elements to identify and then intervene during a build-up of risks:

i. **Identify and own**: first, we identify a risk and select an owner to oversee it. Depending on the severity of risk, the owner may be supported by a senior owner and approver, drawn from our operating company or Group boards.

ii. **Quantify and prioritise**: we then quantify and prioritise the threat by assessing our vulnerability to it (risk probability), and evaluating the impact, before putting in place appropriate controls and policies to control and mitigate the risk.

iii. **Re-evaluate and check**: we then re-evaluate the risk and check that the controls and mitigations are operating effectively, to identify those that are not, or which may become ineffective over time, and to detect opportunities for improvement.

iv. **Audit**: comes from various sources, including our financial auditors, our customers, and our suppliers who have ‘permissions’ to audit our compliance under their contracts and programmes. External audit is also a key requirement for us to obtain and retain our ISO certifications. Such external review provides powerful insights that support us in re-evaluating our risks and the corresponding controls.

v. **Monitor**: ongoing internal monitoring ensures that we continue to use the right controls in an appropriate way across the business as risks evolve. Different Bytes’ teams – from our Audit Committee to our Information Security Management Forum – collaborate in this process to ensure there is a standard, straightforward and aligned approach across the Group.

Adapting risk management to our changing business

We continuously evolve our risk management framework to adapt to the changing nature of our operating environment and our business needs. We have made particularly significant changes since our December IPO, to manage the wider risks and responsibilities we face as a listed business.

These have included:

- Strengthening our Group risk register, which includes both Group-specific risks and those related to BSS and Phoenix
- Drawing from our risk register to establish principal risks and uncertainties relevant to the Group
- Expanding our threat intelligence to track evolving threats and to cover both technical risk, such as leaks of documents that contain technical information about Bytes, and non-technical risk, like threats to our brand
- Implementing cyber threat levels, like those used by the UK Government, to improve the way we evaluate risks and to heighten our response to potential attacks. Our threat levels range from low, meaning an attack is extremely unlikely, to critical, indicating that an attack is highly likely within three months
- Introducing Audit Committee and Group oversight of operating company risks.

Planned innovations for the 2021/22 financial year include greater automation of technology risk evaluations; earlier analysis of strategic and financial risk; and the formation of a Cyber Security Management Forum – including the Group’s Chief Technology Officer, Chief Information Security Officer and Head of IT – to set consistent strategies for the technology, IT, and security of BSS and Phoenix and to improve the way we evaluate risk.

Our principal risks and uncertainties

We have ten principal risks and uncertainties. We define these as risks that could have a significant impact on Group operations and would be better managed by the Group than by BSS or Phoenix. We assign all our principal risks and uncertainties into one of four categories: financial, strategic, process and systems, and operational.

Emerging risks which we watch closely

We also have two emerging risks – climate change and sustainability and the change to the cyber threat landscape, as outlined below – which we have not yet classified as principal risks, but which we may do in the future. Our Board manages and monitors these emerging risks closely, with oversight from the Audit Committee.

Climate change and sustainability

The physical impacts of climate change – such as heavier rain, flooding and heatwaves – are a particular risk to our people and facilities, and those of our customers and suppliers. Climate change's effect on the economic landscape, technology use and regulation could also be a threat.

We're working to reduce our own impact on the climate. As a non-manufacturing business, the greatest contribution we can make to alleviating climate change is by supporting our customers in using technology in a sustainable way, particularly in moving their IT products and services to the cloud. However, we're doing all we can to reduce our own environmental impact, including aligning to the ISO 14001 environmental operating standard, transferring to sustainable renewable energy, and making other efforts to reduce and offset our carbon emissions, as set out in our Corporate Responsibility brochure. Our approach supports organisations who are committed to working with sustainable suppliers, in line with our strategy of delivering high net value solutions.

Our Board continues to analyse what challenges could emerge from further climate change-related legislation or commitments by government, and their impacts on this emerging risk.

A changing cyber threat landscape

Cyber threats, both direct and indirect, are already included within our principal risks. However, the increase in cyber attacks during the pandemic, which has exerted great pressure on targeted organisations' operations, financial stability and even viability, has driven the need for more vigilance and monitoring.

The rising cyber threat, which affects Bytes and our customers, originates from both within and without our national borders. Although we operate mainly within the UK, many of our customers have offices outside the country and we have an international supply chain. This opens us up to geopolitical and macroeconomic factors from different territories, over most of which we would have no direct control. The Board closely monitors and evaluates this area and uses threat intelligence to protect the Group and our customers. They mitigate this risk, for instance, by drawing on expert internal advice, having robust operational controls, continuous monitoring and via audits.

We help our customers to safeguard their IT environments and businesses from cyber threats. Our security offering includes incident response (processes for responding to and managing a cyber attack), live forensic response (which confirms whether a breach has occurred, through analysis of collected data) and threat intelligence monitoring. The Board has therefore been able to balance protecting our operations and our customers, with the opportunity to expand our cyber security business.

How we support the Board on risk

Each principal risk is reviewed, for instance, assessing its level of severity, where it overlaps with other risks, the speed at which it is changing, and its relevance to Bytes. We consider the principal risks both individually and collectively, so that we can appreciate the interplay between them and understand the entire risk landscape. This includes challenging assumptions at all levels to ensure we do not miss any risks, that we identify key dependencies between them, and that we manage the risks in the right way to suit our tolerance levels.

Our principal risks and uncertainties

FINANCIAL

1 ECONOMIC DISRUPTION	Risk owner Chief Financial Officer
The risk This includes the geopolitical risk within the UK post Brexit, and the uncertainties caused by Covid-19. **The impact** Major economic disruption could result in reduced demand for software licensing, hardware and services, which could be compounded by government controls. Such lower demand could arise from reduced customer budgets, cautious spending patterns, or clients 'making do' with existing IT. Major economic disruption could also affect the major financial markets, including currencies, interest rates and the cost of borrowing.	**How we manage it** We have a varied range of customers across different sectors and all tiers of government. We conduct analysis to monitor our exposure to specific sectors, suppliers, vendors or product lines. We consider this risk as part of our viability statement. While specific customer sectors have been hard hit, our Board's direction on maintaining a diverse customer base allows us to monitor this risk and manage it at tolerable levels. As often occurs with risk, the pandemic has also proven to be an opportunity, in that we have been able to help organisations to update their technology and meet the urgent need of enabling staff to work from home.
2 MAJOR SUPPLIER REVENUE CHANGES	**Risk owner** Chief Executive Officer
The risk Commercial changes to vendor licensing programmes and to partner rebates and funding which currently contribute an important revenue stream. **The impact** If major vendors change their commercial arrangements, it could exert pressure on our profit margins and adversely affect our profitability.	**How we manage it** We maintain a diverse portfolio of vendor products and services. Although we do receive major sources of funding from specific vendors, if one source declines we can offset it by gaining new certifications in, and selling, other technologies where new funding is available.

STRATEGIC

3 SUPPLY CHAIN RISK

Risk owner

Chief Executive Officer

The risk

Overreliance on key vendors/suppliers (principally Microsoft).

Suppliers of technology or services being unable to innovate or supply products due to global trade barriers.

The impact

Too heavy a reliance on any one vendor could have an adverse impact on our financial performance, should that relationship break down.

With regards the geopolitical situation, global shortages of computer hardware, components and chips could occur, which might limit our, and our customers', ability to purchase hardware for internal use. This could lead to delays in customers purchasing software, which is linked to, or dependent on, the hardware being available. Reduced access to computer chips could also slow down vendor innovation, leading to delays in the creation of new technology to resell to customers.

How we manage it

As discussed on page 34, we work with our vendors as partners – it is a relationship of mutual dependency since we are their route to the end customer. We maintain excellent relationships with all our vendors, and have a particularly good relationship with Microsoft, which relies on us as a key partner in the UK. Our growth plans, which involve developing business with all our vendors, will naturally reduce the risk of relying too heavily on any single one.

With regards the geopolitical situation, we monitor it continuously, and work closely with suppliers and industry bodies to identify any potential supply chain disruptions and impacts. This enables us to remain fully informed, so that we can respond quickly should the landscape change to ensure that we have diverse supply routes. As this risk is largely driven by geopolitical and macroeconomic factors, we maintain a watching brief so that we can react swiftly if required.

4 COMPETITION AND DISINTERMEDIATION

Risk owner

Chief Financial Officer

The risk

Mergers and acquisitions have consolidated the distribution network, and absorbed specialist services companies causing overlap with our own offerings. A move to direct vendor resale to end customers (disintermediation) could reduce the market opportunity even more.

The impact

Further consolidation could lead to less competition between vendors and cause prices to value-added resellers, like Bytes, to rise and service levels to fall. Direct resale to customers could also increase. This could erode reseller margins, as the purchase cost is less for the distributor than the reseller, and reduce our market, margin and profits.

As consolidating vendors have greater global reach and wider portfolios, the reseller may also become less relevant, which might further affect future revenues and margins.

How we manage it

Our diverse market portfolio means that we are not dependent on one distribution partner. We protect ourselves against this risk by identifying relevant and emerging product sets that vendors do not have, or that come from competing supply chains.

We differentiate ourselves with customers by providing excellent tailored service and building strong, long-standing relationships with them. We achieve this by investing in well trained staff, with high levels of certification, and by behaving in an ethical, can-do manner that builds trust.

Our principal risks and uncertainties

STRATEGIC

5 RELEVANCE AND EMERGING TECHNOLOGY

Risk owner
Chief Executive Officer

The risk
As the technology and security markets evolve rapidly and become more complex, the risk exists that we might not keep pace and so fail to be considered for new opportunities.

The impact
As customers have wide choice and endless opportunities to research options, if we do not offer cutting-edge products and relevant services, we could lose sales and customers, which would affect our profitability.

How we manage it
We stay relevant to our customers by continuing to offer them expert advice and innovative solutions; specialising in high-demand areas; holding superior levels of certification; maintaining our good reputation and helping clients find the right solutions in a complex, often confusing IT marketplace.

We defend our position by keeping abreast of new technologies and the innovators who develop them. We do this, for example, by running a Cyber Accelerator Programme for new and emerging solution providers, joining industry forums and sitting on new technology committees. By identifying and developing bonds with emerging companies, we maintain good relationships with them as they grow and give our customers access to their technologies.

PROCESSES AND SYSTEMS

6 KEEPING PACE WITH DIGITAL CHANGE

Risk owner
Chief Executive Officer

The risk
Failure to transform our internal IT and business processes, so that we cannot keep pace with, nor support, our customers effectively.

The impact
If we could not support or interact with our customers in the way they wanted, it could damage our relationships with them, affect sales and damage our profitability.

How we manage it
To make sure we keep our business processes and systems in the best shape, we draw on insights from our customers, the market and all levels of our business. Transformation working groups – including members of our Group technical, IT and security teams – work in partnership with our operating companies to identify strategies and solutions. Transformation work is then run, managed and monitored locally.

OPERATIONAL

7 CYBER THREATS (DIRECT)	Risk owner Chief Executive Officer
The risk Attacks – ranging from imposters posing as Bytes in emails to a direct threat to our IT infrastructure – leading to data breach. **The impact** Such attacks could affect the confidentiality, integrity or availability of the data that we hold. This could lead to regulatory breaches, liability claims, loss of confidence in our business, reputational damage and potential financial penalties.	**How we manage it** We protect Bytes using intelligence-driven analysis, including research by our internal digital forensics team. This provides insights into vulnerable areas and the impacts of any breaches, allowing us to strengthen Group and operating company security controls. We use a cyber threat level system to adapt our efforts and controls based on intelligence received.
8 CYBER THREATS (INDIRECT)	**Risk owner** Chief Financial Officer
The risk Supply chain attacks that are targeted to gain access to customer systems or information. **The impact** If our IT systems were accessed, this could allow one or more of our customer areas to be infiltrated. This could provide indirect access, or the intelligence required, to compromise or access a customer environment. This would increase the chance of both first and third-party risk liability, with the possible impacts of regulatory breaches, loss of confidence in our business, reputational damage and potential financial penalties.	**How we manage it** We use intelligence-driven analysis, including research by our internal digital forensics team, to protect Bytes. This provides insights into vulnerable areas and the impacts of any breaches, allowing us to strengthen Group and operating company security controls. We establish controls that separate customers' systems and mitigate cross-breaches. Our cyber threat level system also allows us to tailor our approach and controls in line with intelligence.

Our principal risks and uncertainties

OPERATIONAL

9 TECHNOLOGY FAILURE	Risk owner Chief Executive Officer
The risk Failure of Bytes' critical services or solutions. **The impact** Significant downtime in our internal systems would hinder our ability to serve customers and sell solutions. Major outages in systems that provide customer services could limit clients' ability to extract crucial information from their systems or manage their software.	**How we manage it** By using different locations, sites and solutions, we can limit the impact of service outage to customers. Where possible, we use active resilience solutions – which are designed to withstand or prevent loss of services in an unplanned event – rather than just disaster recovery solutions and facilities – which restore normal operations after an incident.
10 LEGAL AND REGULATORY NON-COMPLIANCE	**Risk owner** Group Company Secretary
The risk Unintentional non-compliance with data protection laws and regulations, both in the UK and outside. **The impact** Complex legal and regulatory landscapes can lead to misunderstanding, causing potential regulatory breaches, intervention by regulators, loss of confidence from customers or competitive disadvantage.	**How we manage it** We track and manage contractual and data protection risks with specialist internal team members, seeking expert external advice as required. We have open dialogue with customers and suppliers so that we understand and address their concerns and meet their requirements.

Key events that shaped our operating landscape

In the 2020/21 financial year, Covid-19 and the continuing fallout from Brexit created challenging environments for our operations. We considered these two key events in our review of our principal risks as – although we do not categorise them as direct risks – they have shaped our risk assessment.

Covid-19

We track Covid-19 under several of our different principal risks and, due to the rise in IT security incidents during the pandemic, also under the emerging risk of the change to the cyber threat landscape.

Our Board closely monitors the Covid-19 situation and all related government advice. They have considered the implications of the government's recovery plan and its two projected scenarios – the short- to medium-term impact leading to an economic slowdown and the longer-term global recession with impacts beyond 2021. The Board will continue to manage the situation carefully, engaging with appropriate agencies, talking to our teams, and seeking expert opinions.

How we have operated during the pandemic

We operated flexibly, using innovative solutions across multiple locations, to continue trading and reduce the impact on our business, employees, customers and shareholders. We kept our Leatherhead head office open, as we supply software to crucial industries – such as health and social care, food production and distribution, public safety and national security. While we could support these sectors remotely, by keeping our HQ open we gave them the very best support. We paid special attention to our supply chain.

How we kept our people safe and well

Our utmost priority is the physical and mental wellbeing of our employees. We ensure that our offices are safe and healthy places to work. We carried out comprehensive coronavirus risk assessments which we circulated to all staff. We were mindful of the effect that lockdown had on many people, and enabled our employees to work from our offices if they found remote working challenging. The business has always had a strong ethic of teamwork; during the pandemic, more than ever, our staff supported each other within their own teams, and across the business.

Brexit

We remain committed to ensuring there is no, or very little, impact on the supply of our products and services to our customers, now that the UK has left the EU and the transition period has formally ended.

As we operate mainly in the UK, we are protected against most cross-border issues, aside from those of the supply chain and financial markets. However, our Board continues to monitor the implications for Bytes' operations of EU activity, wider global trade deals negotiated by the UK, and any legislation or regulation that might impact our continued success. Where possible, the Board has established diverse supply chain routes and safeguards against currency fluctuation. However, if trade relationships between the UK and other countries were to become strained, multinational business confidence could falter, which might reduce business spend with Bytes. The Board will watch this situation closely and activate a comprehensive mitigation plan if required. For more details, please see our December 2020 Brexit statement and risk assessment.

Our viability statement

The Board has evaluated the Group's prospects over a three-year-period from the end of the financial year, in line with provision 31 of the UK Corporate Governance Code. Board members have chosen a viability assessment covering a period of three years to February 2024, as they believe it's the most appropriate and realistic span over which they can anticipate events and assess the development of existing risks and the emergence of new ones. Operationally, this reflects the timeline over which the Group has a view of:

- Major customer contracts, typically Microsoft Enterprise Agreements, which run for three years
- The availably of external funding, in the form of the HSBC revolving credit facility, which runs for three years to the end of 2023.

The Board has performed a robust risk assessment of the principal risks and uncertainties facing the company, as outlined on pages 47 to 53, detailing risks that may pose a threat to the Group's future financial performance, our ability to meet future commitments and liabilities as they fall due, and the ongoing viability of our business model.

The Group's gross invoiced income and gross profit increased by 33% and 13% respectively in 2020/21, demonstrating the business's ability to grow against our key performance metrics while remaining resilient to the impact of external disruptions, such as Covid-19. The directors believe that this is due to the Group's corporate customers having a large amount of non-discretionary spend, as IT becomes vital to establishing competitive advantage in an increasingly digital age. Contracts from the public sector, a large and fast-growing area of the business, have been little affected by Covid-19 as organisations have sought efficiencies, resilience and security within their IT infrastructures. The limited impact of external factors such as Covid-19 on customer expenditure, coupled with our proven ability to secure strong levels of customer renewals and to grow the business by winning new customers, are central to the Board's conclusion that the Group and our operating companies will continue to operate and meet our future commitments and liabilities over the next three years.

In reaching this conclusion – having already assessed the viability of the Group and our strategy before our December 2020 IPO – we carried out further stress tests. This helped ensure that our assessment accurately reflects the changes to our business since listing, such as the evolution of our risk management process, and in the overall industry and economic climate.

How we stress tested our business

In our stress testing we evaluated our viability by reconsidering the market forecast models for our industry, our current and planned future strategies and the potential financial impacts of our stated principal risks. The risks were considered collectively, rather than on a case by case basis, in the context of the uncertainty around the impact of Covid-19 and of the UK leaving the EU in the current economic climate.

In assessing our viability we applied potential downside changes to three key financial measures – gross invoiced income, gross profit, and debtor collections – to see how their performance would alter if our principal risks and uncertainties were realised. Such a realisation is considered remote, considering the effectiveness of our risk management and control systems and our current risk appetite. We focused on these three financial measures as we believe they are the most likely to be adversely impacted and to create a progressively negative impact if they deteriorate continuously over the viability assessment period.

The high-level operational mitigations available to the Group are set out below. We also considered the extent to which negative impacts on the three key measures could be offset by savings in discretionary spend and in freezing future pay and recruitment. Further automatic mitigation is 'in-built', as commission payments would fall in line with reduced gross profit and lower dividend payments arising from reduced profit after tax.

Our most extreme downside scenario (see case two below), set within continued uncertainty around the impact of Covid-19, considered the potential effect of a generalised economic downturn on the spending patterns of the Group's customers in sectors most affected by the pandemic. In doing so, we took the most extreme considered downside for each of the key financial measures, with only partial mitigation being considered possible.

Details of stress testing

The Group compared a base case scenario and two downside scenarios. In each of the downside cases, we considered two levels of mitigation, 'full' and 'partial', as set out below.

- Base case: forecast using the growth rates included in the Board-approved budget for the year ending 28 February 2022, extended until 28 February 2024
- Downside case one: this severe but plausible scenario modelled gross invoiced income reducing by 10% year on year, gross profit reducing by 15% in the same period and debtor collection periods extending by five days, in each case from June 2021
- Downside case two: this stressed scenario modelled both gross invoiced income and gross profit reducing by 30% year on year, with debtor collection periods extending by ten days, again in each case from June 2021
- Partial mitigation measures: for both downsides, we modelled freezing future pay and new recruitment from March 2022, with a 'self-mitigating' reduction of commission in line with falling gross profit
- Full mitigation measures: these included, in addition, modelling headcount reductions from March 2022 in line with falling gross profit.

The pay and headcount mitigations applied in the downside scenarios are within the Group's control and could be implemented quickly in response to downward trends – as could a reduction in the level of shareholder dividends in line with the modelled reductions in profit after tax. However, they have not been applied until 1 March 2022 as we are already substantially committed to pay-related costs for the year ending 28 February 2022.

The Board believes that all mitigations have been applied prudently and are within the Group's control. Depending on the severity of the impact of the modelled downside scenarios, the Group could activate additional levels of mitigation than those modelled in the downside scenarios above. In particular, the Group could override budgeted pay-related costs to trigger mitigations earlier than March 2022. Furthermore, given the flexibility of the Group's business model, the Board would be able to take further actions to lower our operating cost base.

Confirmation of viability

Having assessed the financial impact on our results of these stress-tested models, the Board concluded that our reserves of cash, our ability to reduce spending and the availability of the revolving credit facility – along with our projected revenue and profitably over the review period – would enable us to continue trading over the next three years, even if we faced additional uncertainties.

Non-financial information statement

We are obliged to include a non-financial information statement in our strategic report, under sections 414CA and 414CB of the Companies Act 2006, as amended by The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016. We cover the information required by these regulations in our business model (pages 16 and 17), corporate responsibility review (our employees, our communities, planet), (from pages 36 to 43), and our risk and viability statement, (from pages 44 to 55).

Section 172 statement

The Board embraces the principles of the UK Corporate Governance Code, including those aimed at promoting transparency around stakeholder engagement. We consider the interests of the Group's investors, customers, suppliers and vendors, and communities and the environment in our decision-making and in how we deliver our strategy to achieve long-term, sustainable success. Although Covid-19 has made face-to-face meetings more challenging this year, there has never been a more important time to stay connected with all of our stakeholders. Further information on how we, as a Board, have fulfilled our duties to our stakeholders under Section 172 of the Companies Act 2006, can be found on pages 72 to 76.

The Strategic Report from pages 2 to 56 was approved by the Board on 25 May 2021 and signed on its behalf by:

WK Groenewald FCG
Group Company Secretary

Governance report

"Everyone is encouraged to help and support each other, as was seen especially during the pandemic. There is a big focus on accessibility and inclusion, and leadership really do care about employees."

Husain
Cloud Solutions

Board of directors

Patrick De Smedt
Chair

Nationality Belgian
Age 65
Appointed 15 October 2020

Patrick joined the Bytes Group as our Chair on 1 September 2020. He also chairs our Nomination Committee and is a member of our Remuneration Committee.

Patrick has a very strong track record in international business, including 23 years in senior roles at Microsoft. During his two decades at Microsoft, he founded the company's Benelux subsidiaries, led the development of its Western European business and served as chairman of its Europe, Middle East and Africa region.

Since leaving Microsoft in 2006, Patrick has served on the boards of a diverse range of European public and private equity-backed companies. Apart from leading our Board, he is chairman of EMIS Group plc and Nasstar Managed Services Group Ltd, and senior independent director of PageGroup plc. He was previously non-executive director and chairman of the remuneration committee of Victrex plc, senior independent director and chairman of the remuneration committee of Morgan Sindall plc and Anite plc, and interim chairman of KCOM Group plc.

External board appointments

EMIS Group plc, PageGroup plc, Nasstar Managed Services Group Ltd.

Committees

N R

Neil Murphy
Chief Executive Officer

Nationality British
Age 57
Appointed 7 October 2020

Neil became CEO of Bytes Technology Group in 2020, having been MD of the Bytes Group since 2000. Neil has more than 30 years' experience in the IT sector. Before his appointment as Bytes MD, Neil was company sales director for three years, prior to which he was a sales manager with ICL (now part of the Fujitsu group) for seven years. Working closely with Keith Richardson, CFO, Neil has overseen the largely organic growth and development of Bytes, to become a significant value-added reseller in the UK. Neil and Keith are the architects of Bytes' distinctive 'can do' culture, with its strong emphasis on customer service, employee engagement and ethical values.

External board appointments
None.

Committees
Attends by invitation

A N R

Keith Richardson
Chief Financial Officer

Nationality British
Age 62
Appointed 7 October 2020

Keith became CFO of the newly-listed business in 2020, having been with the Bytes Group for 26 years. He joined the company as Finance and Operations Director when it had a turnover of £4 million and just 16 staff. Working closely with Neil Murphy, he has played a significant part in helping to grow the business to its current position within the FTSE 250. During Keith's time at Bytes, his responsibilities have included finance, IT, legal, operations and technical service delivery, as well as taking a leading role with acquisitions. Before joining Bytes, Keith worked for Capita Property Services. He trained as a chartered accountant with Deloitte in South Africa.

External board appointments
None.

Committees
Attends by invitation

A N R

A Audit Committee
N Nomination Committee
R Remuneration Committee
Chair

Mike Phillips
Senior independent non-executive director

Nationality British
Age 58
Appointed 6 November 2020

Mike has served as an executive director at UK-listed companies for 17 years, most recently with Micro Focus International plc as CFO from 2010 to 2018, and as M&A director from 2018 to 2019. Before that, Mike was group finance director, then CEO, at Morse plc, which he left in 2010 following its turnaround and successful corporate sale to 2e2. He was previously group finance director at Microgen plc, playing a lead role in its transformation to a successful international software and services business. His earlier roles include corporate finance work at Smith & Williamson and leading the UK technology team at PricewaterhouseCoopers. Mike qualified as a chartered accountant at Peat Marwick Mitchell & Co (now KPMG). He was a non-executive director of Parity Group plc from 2011 to 2013.

External board appointments
None.

Committees
A N R

Dr Alison Vincent
Independent non-executive director

Nationality British
Age 56
Appointed 6 November 2020

Dr Alison Vincent is an accomplished IT industry leader, with experience in cyber security, R&D, product management and business development, and particular expertise in digital strategy, innovation and M&A. Her recent roles include being group chief information security officer at HSBC from 2017 to 2018, and chief technology officer at Cisco from 2015 to 2017. She has also held technical leadership roles at NDS, Micro Focus International plc and IBM. Alison is a non-executive director of SEI Investments (Europe) Ltd, Synectics plc and Connected Places Catapult. She is a lay member of council at Southampton University and a technical advisor to Telesoft Technologies, Arqit and UMotif. Alison has a PhD in cryptography and combinatorics from London University and is a fellow of the Royal Academy of Engineering, the British Computer Society and the Institution of Engineering and Technology.

External board appointments
Synetics plc, SEI Investments (Europe), Connected Places Catapult.

Committees
A N R

David Maw
Non-executive director

Nationality British
Age 70
Appointed 15 October 2020

David has been a non-executive director of the Bytes Group since 2000. He has extensive experience in international commerce, having held executive positions for a major global company. He started his career as a certified accountant (FCCA) before becoming a senior manager with Peat Marwick Mitchell & Co in Cardiff and Fiji, gaining experience in audit, M&A and receiverships. He then joined Rank Xerox where, in more than 20 years with the business, he was a board member of its holding company and several international subsidiaries. At Rank Xerox, where he was based in both the UK and the US, his roles included being director for tax, treasury and leasing, having responsibility for the company's M&A in EMEA, and being controller of its European manufacturing operations.

David's two decades of support for the UK management team accompanied Bytes' growth from a small business to its current position as a FTSE 250 company. His previous non-executive positions in Bytes UK include being chair of the company, chair of the Audit Committee and a member of the Remuneration Committee.

External board appointments
None.

Committees
A

WK Groenewald FCG
Group Company Secretary

Nationality South African
Age 38
Appointed 7 October 2020

WK spent seven years at Altron, Bytes' former parent company, including four years as their Group Company Secretary, before joining Bytes. He holds a BCom LLB and LLM in corporate law and was admitted as an attorney to the High Court of South Africa. He also holds a post-graduate qualification in general management and is a fellow of The UK Chartered Governance Institute. Before joining Altron, WK worked in company secretarial and legal roles at Merchantec Capital and BDO.

Chair's introduction to corporate governance

Welcome to Bytes' first corporate governance report which, as Chair, it's my pleasure to introduce.

Crafting governance for growth

Bytes may have existed for less than three months as a listed company this financial year, but it has been an extremely busy time for the Board, not least because we met many times – and our work for the company began – in the months before our December 2020 listing.

We have focused on ensuring that Bytes has the right corporate governance framework for our needs, both now and as we continue to grow; one that enables clear delegation of authority from the Board to executive management and beyond, with clear decision-making and the structures in place to ensure we remain focused on delivering our strategic priorities.

Creating a governance framework that suits our business

We are not starting from scratch: as part of the listed Altron group, our parent company prior to our demerger, we enjoyed stable and efficient governance systems. Our task now is to assess all those legacy governance arrangements, and amend them where necessary to ensure that they suit our own strategy and the changing risks and opportunities we face. When we find gaps we will fill them. For example, with Altron no longer providing our internal audit function, as a matter of priority, we are assessing whether to establish our own team or to use an external provider or a combination of both. And we have started the process to recruit another female independent non-executive director to fully align with accepted norms for FTSE-listed companies.

The cornerstone of effective governance is a strong board that is aligned behind a company's purpose, values and strategy. We are extremely fortunate in the calibre and business experience of our directors. Although our Board is not made up solely of independent members, our deliberations are at all times characterised by independent thinking and judgement. All our non-executive directors are frank and direct in challenging the executive on strategy in a constructive, supportive way. We will continue to

"The cornerstone of effective governance is a strong board that is aligned behind a company's purpose, values and strategy."

encourage such honesty during the coming financial year, when we conduct an internal Board evaluation, asking members to give anonymous online feedback on the executive, the Board and our committees – and what we could do better. We will bring in an external facilitator to conduct our 2022/23 Board review and every three years thereafter, in line with regulations, and conduct internal board evaluations in other years.

Supporting the executive in driving our strategy

Alongside the reshaping of our corporate governance framework, we have spent much of our time supporting the executive in honing our strategy; adjusting our executive and leadership teams; and overseeing Bytes' ongoing response to the Covid-19 lockdown and preparations to ensure we continue to seize business opportunities as restrictions lift.

We have also established our committee structure, with our Audit, Remuneration and Nomination Committees meeting regularly before and after our IPO. Committee members have got to work, supported by our Group Company Secretary and advisors, in creating essential policies, including a Directors' Remuneration Policy and a Board and Senior Management Diversity Policy. They have also driven, on behalf of the Board, such important tasks as reviewing, and ensuring the effectiveness of our succession plans for senior roles, appointing our external auditor and launching the search for our new non-executive director. In being as effective as possible, as quickly as possible, we were helped by the immersive induction into Bytes and our industry that we received from the executive directors and senior management.

How we led during lockdown

The pandemic has required us to conduct Board business online, with all scheduled Board and committee meetings being virtual. Although our business has not been disrupted, I regret that we have not been able to enjoy face-to-face contact with our Board colleagues, wider staff, customers and vendors, or to visit Bytes' sites. I am particularly disappointed that, to protect our shareholders, we felt the need to continue to act cautiously and have decided that our first Annual General Meeting should be a closed event. However shareholders are very welcome to attend virtually and ask questions via email or audio facility. The Board – and I believe the entire business – are very much looking forward to spending more time with all our stakeholders when restrictions end.

Ensuring we operate according to our values

The Board has a key role to play in embedding a company's purpose, culture and values which, in Bytes' case, are already integral to the business. In the year ahead, we look forward to helping the Group to regularly measure the vigour of our culture and employee engagement. To ensure they remain robust, David Maw, the non-executive director with responsibility for staff engagement, will have a particularly important role to play.

A proactive stance on environmental, social and governance issues is increasingly core to a company's positive culture – as well as being of mounting interest to investors, regulators and, indeed, all our stakeholders. Bytes, with the enthusiastic involvement of our people, has continued its efforts in this area. In late 2020, we published a new corporate social responsibility policy and, as the new financial year got underway, were laying the foundations of our first formal carbon reduction policy. Our task as a Board will be to support the executive in establishing the best way to measure, monitor and improve our environmental and social performance for the benefit of all our stakeholders.

In the following pages, our three committee chairs outline more about our Board, the committees, our decision-making processes and controls, and the progress we are making to reinforce our governance framework.

Patrick De Smedt
Chair
25 May 2021

Corporate governance report

Board meeting attendance

Board member	From London Stock Exchange admission to 28 February 2021
Patrick De Smedt	2/2
Neil Murphy	2/2
Keith Richardson	2/2
Mike Phillips	2/2
Alison Vincent	2/2
David Maw	2/2

Board leadership and company purpose

Bytes recognises the importance of effective corporate governance in enabling clear delegation of authority from the Board through to our executive management and beyond, and in promoting clear, disciplined decision-making and the effective execution of our strategic priorities. We believe such robust governance, with effective risk management and controls, is crucial to the long-term success and growth of our Group. In the months since listing, our Board has been assessing and strengthening our legacy corporate governance framework to ensure that it fits our present and future needs.

The Board has overall responsibility for establishing Bytes' purpose, values and strategy and, in doing so, delivering our long-term sustainable success and generating value for stakeholders. Central to this role is the need for the Board to set the right tone from the top, in living our values and demonstrating appropriate leadership behaviours. The Board places great importance on ensuring that its conduct and decision-making are suitable for the business and sector in which we operate, and in line with our culture. Our Board is committed to delivering our strategy and to advancing our purpose of 'empowering and inspiring our people to fulfil their potential, so they can help our customers make smarter buying decisions and meet their business objectives through technology'. It also upholds our values.

Since our IPO, the Board has reviewed the strategic direction of Bytes as a listed entity and positioned us for our next stage of growth. This has included assessing and approving our strategy, based on insights gained from immersion in the business, and reshaping our executive and senior management teams (see pages 85 to 87). We have also strengthened our organisational capabilities and governance framework, to equip us further for future growth, by promoting internally for the roles of BSS managing director and sales director (both effective from 1 March 2021).

Over the next year, the Board will focus on ensuring we deliver on the priorities that underpin our strategic objectives.

Board meeting attendance

The Board has met four times since Bytes' admission to the London Stock Exchange, twice before and twice after our year end, as well as on numerous occasions in preparation for our December 2020 IPO. All meetings occurred under Covid-19 restrictions and, in common with all committee meetings during 2020/21, were held via video conference.

Due to the pandemic, the Board has been unable to visit the offices of our primary subsidiaries, BSS and Phoenix. However, our executive have arranged, and continue to set up, frequent virtual sessions for our non-executive directors to engage with the leadership teams at both businesses to gain further insights into our operations.

The company held one meeting of the Audit Committee, one of the Remuneration Committee and three of the Nomination Committee. Directors are expected to attend all Board meetings and relevant committee meetings. Attendance for each committee is shown in its respective report. The table (above left) shows the attendance at scheduled Board meetings.

Board role and responsibilities

The Board is collectively responsible for leading and controlling the company and has overall oversight of our business. The Board leads Bytes by establishing our purpose, values and strategy, and is responsible for our long-term success. It reviews important aspects of the business with management and monitors performance against targets. Our non-executive directors provide strategic guidance to the Board, and constructive challenge to management. The Board sets and has oversight of the company's strategic goals, with management ensuring we have the right skills and resources to meet our objectives.

Board committees

The Board delegates a set of defined responsibilities and authorities to the Audit, Nomination and Remuneration Committees so they can undertake specific functions and duties. Each committee operates within written terms of reference, which were formally approved by the Board in December 2020 and will be reviewed annually. The terms of reference ensure that the committees focus their attention on matters which are relevant for, and promote, good governance across the business. The Board collectively assumes responsibility for the functioning of our Disclosure Committee.

A summary of the key responsibilities of each committee is outlined below. The full terms of reference of our Audit, Remuneration and Nomination Committees are available on our website at bytesplc.com/investors.

Key Board actions since IPO

- Undertook and approved strategy review as a listed Group, and aligned management with its implementation.
- Considered operational insights in driving our strategic direction.
- Oversaw the Group's response to lockdown restrictions and preparations for ensuring operational effectiveness in a post-Covid-19 business environment.
- Reviewed our corporate governance structures and the plan to further strengthen them.
- Approved more efficient Group funding arrangements.
- Oversaw repositioning within our executive and senior leadership teams.

Division of responsibilities

Operations of the Board

The Board is collectively responsible for the long-term success of the Group and ensures that it operates within a framework of effective controls.

Board information

The Board has a detailed workplan that ensures operational and financial performance, risk, governance, strategy, culture and stakeholder engagement are considered at appropriate times during the year.

At Board meetings, directors receive and consider papers and presentations from the executive directors, senior management and specialist third parties. The Board challenges management to ensure that the flow and quality of information to members is of a high standard. A review of Board and committee papers has been undertaken since admission and we seek to continuously improve the content and standard of the papers to ensure that high-quality, clear and timely information is provided to support Board decision-making.

If a director is unable to attend a meeting, wherever possible the respective chair will discuss the matters proposed with them in advance, to seek their support and opinion. The chair will then present their views at the meeting.

Board balance

The collective experience of the directors and their diverse skills and experience underpin the functioning of the Board and ensure that leadership and decision-making is focused, balanced and approached with independent thought and judgement. The relationship between our directors is based on trust and mutual respect; open and frank conversations ensure that challenging decisions are taken for the benefit of the entire company, with due consideration for all stakeholders who may be affected.

Board roles

The UK Corporate Governance Code requires that we clearly set out certain Board roles. In line with this requirement, the Board has a formal document outlining the key aspects of the roles of the Chair, CEO and senior independent director. This was put in place in December 2020 and will be reviewed annually. The detailed division of responsibilities can be found at bytesplc.com/investors. Role statements set out the division of responsibilities between the Chair and CEO, and the responsibilities of the senior independent director and non-executive directors to ensure challenge and debate and an independent and objective mindset.

Chair

The Chair is responsible for effective leadership of the Board and for maintaining a culture of openness and transparency at its meetings. He promotes good communications between executive and non-executive directors and ensures all directors contribute effectively to discussions and feel comfortable in engaging in healthy debate and constructive challenge. The Chair ensures all directors receive accurate, timely and clear information to assist them in their decision-making. Going forward, he will identify training and development needs as required and ensure that new directors have appropriate induction programmes.

Chief Executive Officer

The CEO has day-to-day responsibility for effective management of the Group's business and for ensuring that Board decisions are implemented. He plays a key role in devising and reviewing Group strategies for discussion and approval by the Board. The CEO is tasked with providing regular operational updates to the Board on all significant matters relating to the Group's business or reputation, and for ensuring effective communication with shareholders and other key stakeholders.

Senior independent director

The senior independent director is a sounding board for the Chair and acts as an intermediary for the non-executive directors, where necessary. He is available to shareholders if they have any concerns, where communication through normal channels has not been successful or where such channels are inappropriate. The senior independent director has regular contact with the non-executive directors and will meet with them at least once each year in future, when leading the non-executive directors appraisal of the Chair's performance.

Non-executive directors

Our non-executive directors bring insight and experience to the Board. They are responsible for constructively challenging the strategies proposed by the executive directors and scrutinising management's performance in achieving agreed goals and objectives. They also play leading roles in the Board committees, bringing an independent view to discussions. They meet with the senior independent director to review the Chair's performance and other matters.

Group Company Secretary

The Group Company Secretary is secretary to the Board. His responsibilities include ensuring the Board has the information, time and resources to discharge its duties and to function effectively and efficiently. He provides briefings and guidance to the Board on governance, legal and regulatory matters and facilitates induction programmes for new directors. The Group Company Secretary attends all Board and committee meetings.

Matters reserved for the Board

The Board has a formal schedule of reserved matters which is subject to review and update. The schedule sets out those powers reserved for the Board and not delegated to the executive directors. It also contains some matters which the Board cannot legally delegate. While the Board has appointed committees to exercise certain of its powers, with specific areas of delegation set out in its terms of reference, the final decision on these matters must be taken by the whole Board.

Matters reserved for the Board include:

- Our long-term objectives, strategic direction and business plans to ensure we can deliver long-term value to our stakeholders
- The Group's annual budget, including the operating and capital expenditure budgets and any material changes to them
- Overseeing the accuracy and timeliness of Bytes' formal business disclosures, including those in the Group's half- and full-year results
- Trading statements and any preliminary announcement of the final results and the Annual Report
- Our dividend policy, declaring the interim dividend and recommending the final dividend
- Material acquisitions, disposals and contracts
- Major changes to internal controls and our financial reporting policies and procedures
- Risk management policies and determining our risk appetite
- Changes to capital, corporate or management structure
- Changes to the structure, size and composition of the Board, following recommendations from the Nomination Committee
- Succession planning for the Board and senior management.

Matters reserved for the Board can be found at bytesplc.com/investors.

Time commitment

Regular Board and committee meetings are scheduled throughout the year to ensure that directors allocate sufficient time to discharge their duties effectively. During the period from our IPO to 28 February 2021, the Board held two scheduled meetings and strategy and planning sessions, which included senior management presentations on each business area. As well as their scheduled meetings, the Board met to consider matters of a time-sensitive nature. Directors are expected to attend all meetings of the Board and relevant committees. The record of attendance at our scheduled Board and committee meetings are set out in this Annual Report. The nature of the non-executive director role means that the maximum time commitment involved varies. However, it is likely to take up at least 20 days each year, after the induction phase, plus additional time for preparation ahead of each meeting. Directors are also required to regularly update and refresh their skills, knowledge and familiarity with the company. We also recognise that it may be necessary to convene additional Board, committee or shareholder meetings at certain times.

Before appointing a candidate, the Nomination Committee will assess their commitments, including other directorships, to ensure they have sufficient time for the role. The committee will generally reassess the directors' time commitments to ensure that they each still have sufficient time for their role. This takes into account the number of each director's external commitments and the potential additional time required in the event of corporate actions. Our directors are required to obtain approval before undertaking additional external appointments.

Conflicts of interest

The Group's Conflicts of Interest Policy aims to protect Bytes, and our Board and employees, from any appearance of impropriety. In addition to the policy, under section 175 of the Companies Act 2006, the directors have a duty to avoid situations in which they, or their connected persons, have an interest that conflicts or may possibly conflict with the company's interests. Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if appropriate, authorisation. If such conflicts exist, directors excuse themselves from consideration of the relevant matter. All declarations of conflict of interest, whether actual or potential, and any authorisations given, are recorded in Board meeting minutes. The Chair or Group Company Secretary is consulted about the procedure for handling conflicts of interest, should they occur, particularly if there is uncertainty about an aspect of the policy.

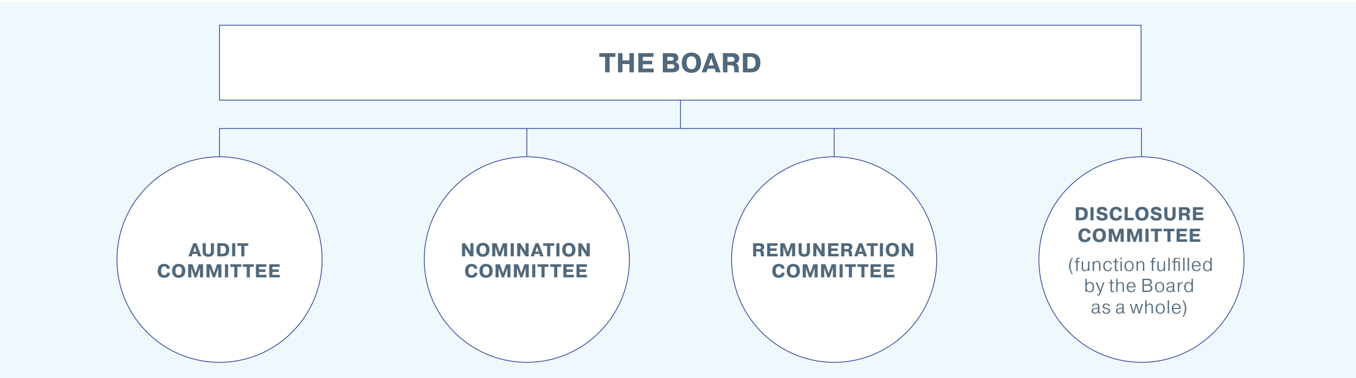
Details of our directors' service contracts and terms of appointment, and their interests in the company's shares, are shown in the directors' remuneration report on pages 90 to 113.

Independent advice

All directors have access to the Group Company Secretary's advice and, as appropriate, may obtain independent professional advice at the company's expense. While the Board worked closely with Bytes' advisers leading up to the IPO, and at subsequent intervals, no requests for independent advice outside of the listing process were made during the 2020/21 financial year.

A directors' and officers' liability insurance policy is maintained for all directors, with each director also having the benefit of a deed of indemnity.

Corporate governance framework



Our corporate governance framework supports the Board in delivering the Group's strategy and furthers long-term sustainable growth. Through such components as matters reserved for the Board, committee terms of reference and a robust delegated authority system, it sets out how the business is managed and ensures effective and efficient decision-making through defined authority levels. Efficient internal reporting, internal controls and oversight of current and emerging risks are embedded into our business processes which align to the Group's strategy, purpose and values.

The Board has delegated specific responsibilities to three key committees, which each focus on specific areas of its responsibilities. The Board committees are each chaired by an independent non-executive director.

The Nomination Committee reviews the composition of each committee annually, and at the time of any Board changes. Cross-committee membership provides visibility and awareness of matters relevant between the committees. Each committee chair provides a report on committee activities to the Board after each committee meeting. Committee papers and minutes are shared with all directors.

The Board delegates responsibility for the day-to-day operational management of the company to the CEO, who is supported by the Group's executive leadership. Meetings are convened by the Board to consider timely and accurate disclosure of sensitive information, when the need arises.

The Board is supported by the activities of each of the committees, which ensures that the right level of attention and consideration are given to specific matters.

Committee roles

Audit Committee

The Audit Committee assists the Board with the discharge of its responsibilities in relation to internal and external audits and controls. This includes reviewing the Group's annual financial statements, considering the scope of the annual audit and the extent of non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of Bytes' internal control systems. The Audit Committee normally meets at least four times a year.

Nomination Committee

The Nomination Committee assists the Board in determining its composition and make-up. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates as directors, as the need arises, and ensuring the Board's diversity and balance of skills. It reviews executive succession plans, and progress against diversity targets, and determines succession arrangements for the Chair. The committee's remit includes overseeing the performance evaluation of the Board, its committees and individual directors. It normally meets at least three times a year.

Remuneration Committee

The Remuneration Committee sets, reviews and recommends Bytes' policy on executive remuneration, determines the levels of remuneration for each director, and recommends and monitors the remuneration of senior management. It sets the pay of executive directors and agrees their participation in bonus plans and share-based incentives. The committee also sets a remuneration policy for approval by shareholders and manages the implementation of the policy and the compilation of the annual remuneration report. It normally meets at least three times a year.

Terms of reference

Our committees' terms of reference were put in place when we listed and are available on our corporate website – bytesplc.com/investors. They are subject to review each year, or more often as required. We are satisfied that they reflect our roles and responsibilities in line with the UK Corporate Governance Code (the code) and associated regulations.

Executive leadership

The Board delegates responsibility for the day-to-day management of the Group to the executive leadership team. The executive team, led by our CEO, is collectively responsible for developing and implementing our strategy, operational plans and budgets, monitoring overall operational and financial performance, overseeing key risks, and management development.

Composition, succession and evaluation

The Group's stakeholders benefit from having a Board with varied expertise, perspectives, insights and viewpoints, as such diversity leads to better business performance.

Board composition

	Number of directors
Chair (independent upon appointment)	1
Executive directors	2
Independent non-executive directors	2
Non-executive director	1

Board gender split

	Number of directors
Men	5
Women	1

Diversity and inclusion

Bytes recognises the importance of diversity and inclusion across the Group, seeing it as a key driver towards our strategic goals. We are passionate about maintaining a positive and dynamic workplace culture where our employees can contribute and use their talents, skills and experiences to ensure we remain one of the UK's leading providers of software, security and cloud services. A diverse Board, with a broad range of skills, backgrounds, knowledge and experience, is essential to maintaining Board effectiveness and competitive advantage. Diversity of skills, background, knowledge and gender will be fundamental considerations for future appointments to the Board. All appointments are made on merit, taking into account a potential candidate's suitability for the role, and how well they will complement the composition and balance of the Board.

The Board is committed to considering suitably qualified applicants from a wide range of backgrounds. It has adopted a Board and Senior Management Diversity Policy which includes a commitment to appointing at least 33% female directors on the Bytes Board and within our executive management over the short to medium term. The Board ensures that procedures are in place to support our diversity policy, including in its succession planning for senior management.

Board appointments

The Board, on the recommendation of the Nomination Committee, makes decisions on appointing and removing directors, with an agreed formal and transparent procedure for future appointments. In line with the code, all our directors will stand for re-election at each Annual General Meeting. As our Board is newly constituted, all directors are eligible for election at our first Annual General Meeting on 22 July 2021. The Board believes each director standing for election makes, and will continue to make, an effective contribution and encourages shareholders to support their election.

Non-executive directors' independence

The Nomination Committee considers whether each of the non-executive directors continues to be independent in character and judgement in line with the code. The independence of the non-executive directors was considered on their appointment and reviewed by the Nomination Committee during its meeting on 24 February 2021. The continued independence of the Chair, Alison Vincent and Mike Phillips were again confirmed, as was the non-independence of David Maw. As standard practice, the non-executive directors meet with the Chair in the absence of the executive directors, as was the case on 26 January 2021. The directors will annually meet with the senior independent director to review the Chair's performance.

Appointment, induction and development

Directors are nominated by the Nomination Committee and are subsequently approved by the Board for election, or for annual re-election by shareholders at our Annual General Meeting. After three years' service, a non-executive director's performance will be thoroughly assessed by the Nomination Committee. Development needs, as and when identified, will be discussed by the Chair with the non-executive director and actions taken to address them. The contribution that each director brings is set out in the Board biographies on pages 58 to 59 and in the Notice of Annual General Meeting. New directors receive a comprehensive induction, to give them a better understanding of Bytes and our operations. Inductions include briefings from senior managers on key areas of the business and meetings with external advisers. After the Covid-19 restrictions are lifted, our induction process will be complemented by site visits to our primary locations in Leatherhead and York, which will include opportunities for directors to engage with our employees. Going forward, our Chair and the Group Company Secretary will be responsible for delivering the programme, which will cover our core purpose and values, strategy, key areas of the business and corporate governance.

Board effectiveness

The Board is strongly committed to developing our directors, holding discussions around their training requirements. Corporate governance and technical updates are provided at Board and committee meetings to keep directors up to date with key regulatory and business events, as part of their ongoing development. Directors are also encouraged to attend training sessions to stay abreast of relevant legal, regulatory and financial developments. Leading up to Bytes' admission to the London Stock Exchange and our year end, the Board received numerous presentations about the conditions and challenges in our markets. Directors have also spent time, individually and collectively, learning about operational areas in detail, including meeting with senior management for insights into their businesses. Through this immersion into Bytes' operations, our directors are better able to contribute their expertise and experience and to challenge the business effectively as we position ourselves for our next growth phase.

Our Board is at the heart of Bytes' robust corporate governance framework and business success. To ensure that the Board continues to operate effectively, and that each director is fully committed to their role, the Board will conduct regular evaluations of its performance, and that of its committees and directors. These will be conducted annually and led by our Chair.

As our Board is newly constituted, we will conduct our first Board effectiveness review internally, in 2021/22. We will use an online questionnaire format, with directors being asked to comment anonymously on subjects such as Board composition, succession and culture; the performance of the Chair, senior independent director and the committees; risk management; and stakeholder engagement. Our Chair and Group Company Secretary will oversee the evaluation, with the results and recommended actions presented to the Board for discussion. The outcome – including perceptions of the performance of the Board, how directors work together in discharging their duties, and opportunities for improvement in Board processes – will be covered in our next Annual Report.

The Board will conduct an externally facilitated review of the effectiveness of its performance and that of its committees and directors every three years from the 2022/23 financial year.

Relations with shareholders

We are committed to communicating openly with our shareholders, to ensure that they fully understand our strategy and performance. Our CEO and CFO attended numerous engagements with potential shareholders at investor roadshows in the run up to our IPO. Since our admission to the London Stock Exchange, we have continued to actively engage with shareholders as set out on page 76 in our Section 172 statement.

Results and routine announcements

We communicate with shareholders through full-year and half-year announcements and trading updates. We invite institutional shareholders and analysts to attend presentations either in person or virtually, following our results announcements. The presentation slides and webcasts of our full-year results presentation for the financial year ended 28 February 2021 are available at bytesplc.com/investors.

Shareholder meetings

Our Annual General Meeting is our principal forum for dialogue with private shareholders. We look forward to our first such meeting, which will be held on Thursday, 22 July 2021 at our head office in Leatherhead, Surrey. After much consideration, the Board has regretfully concluded that, due to the continuing disruption caused by the pandemic, the interests of all our stakeholders are best served by this being a meeting to attend to formal business only. Shareholders will therefore be requested to not attend in person, although they will be able to join by webcast. Our Board Chair, the chair of each committee and other directors, will be in attendance and available to answer shareholders' questions submitted via email or an audio facility.

Details of the meeting, the resolutions to be proposed for voting by poll, and how shareholders can join and raise questions, are set out in the Notice of Annual General Meeting, which is available to download on our website, bytesplc.com/investors, and will be sent to shareholders at least 21 days before the meeting.

Website and shareholder communications

Our website, bytesplc.com, provides a range of corporate information on our business, results and financial performance, including copies of our Annual Report, announcements and presentations.

Meetings and results roadshows

The directors actively seek to build understanding of our mutual objectives with institutional shareholders. The CEO and CFO primarily manage our shareholder relations, supported by our Chair and Group Company Secretary. As well as holding roadshows, we review analysts' notes and brokers' briefings to deepen our understanding of investors' views. The Board is kept informed of the views and concerns of major shareholders through briefings from the CEO, and investment reports from analysts. The non-executive directors, including our senior independent director, are available to meet with major shareholders to discuss issues as they arise.

Following the release of our full-year preliminary results announcement, the CEO and other members of our senior leadership team will undertake extensive investor engagement roadshows.

Stakeholder engagement

Our strong bonds with our customers, vendors, employees and investors are central to our success, while our support for our communities and the environment – which we also consider a stakeholder – underpins our values and purpose.

How we consider stakeholders in our decision-making

Bytes' key stakeholders have an important role to play in the successful operation of our business. Throughout the strategic report you'll see how our decisions and actions have been influenced by our relationships with our stakeholders to the benefit of the business as a whole. In this section we look more specifically at how the Board has factored stakeholder considerations into decision-making. This is in line with the UK Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations 2018, which require boards to understand the views of their company's key stakeholders and to describe how their interests, and the matters outlined in Section 172(1) of the Companies Act 2006 (the act), have been considered in board discussions and decision-making. Section 172 imposes a duty on a director to act in a way that he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole.

Our Board are fully aware of, and take seriously, their responsibilities to those stakeholders under Section 172. They believe that it is appropriate to consider the potential impact on our stakeholders when they are considering Bytes' strategy or other actions. Indeed, these responsibilities are rooted in our culture, values and company purpose.

Section 172 imposes a duty on a director to act in a way that he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. Further information on how Bytes' Board engages with our stakeholders is set out in the following pages.

Engaging with our stakeholders

Bytes' key stakeholders have an important role to play in the successful operation of our business. Our Board is fully aware of, and takes seriously, its responsibilities to those stakeholders under the act. It believes that it is appropriate to consider the potential impact on our stakeholders when it is considering Bytes' strategy or other actions. Indeed, these responsibilities are rooted in our culture, values and company purpose.

The Board considers that, in its decisions and actions to date, it has acted in a way that would promote the success of Bytes for the benefit of its members as a whole, while having regard to stakeholders and matters set out in Section 172(1) (a–f) of the act. It has identified Bytes' key stakeholders as our employees, customers, suppliers and vendors, the environment and communities in which we operate, and investors. It receives updates on each of these and takes steps to ensure that it remains well informed about them.

The Board believes strongly in doing business in the right way, with all its decisions underpinned by the impact they have on our five main stakeholder groups. We set out below two areas where our Board had regard to Section 172 when discharging its duties and the effect of this on certain of its decisions.

How our stakeholders have shaped our actions

- Remuneration policy: Having taken external advice on shareholder expectations, we revised our approach to executive remuneration by introducing KPIs aimed at our customer and staff satisfaction ratings. Both represent key stakeholder groups and we have therefore prioritised them in our executive director incentive measurements. In implementing the remuneration policy, we further considered the perceptions of our people by setting our executive compensation far lower than our remuneration consultants recommended.
- Corporate responsibility (CR): Our employees are passionate about the societal, economic and environmental impact of the Group. During the past year, they took the initiative in developing our BSS CR brochure. This project was overseen by our executive directors, in the months before the establishment of the current Board. The brochure sets out our belief that modern technology has a positive impact on the world, offering a path to sustainability, carbon neutrality, equality and education – so directly affecting all our stakeholders. This is certainly true for the cloud and security solutions we provide. The Board will ensure that the aspirations set out in the brochure are taken into account when we draft our CR policies in the year ahead.

The detailed content in this Annual Report further outlines how during 2020/21 our directors strove to comply with their duty under Section 172 in considering stakeholders in the Group's decision-making process in order to promote the company's success. We will continue to consider our stakeholders in the year ahead as the Board makes further decisions in overseeing the Group's strategy. The following text summarises our approach.

Long-term decision-making

The Board has put in place a structured governance model, with scheduled Board meetings and clear documentation and authority levels to control its decision-making process. Our governance model supports the Group in ensuring that decisions are considered, documented and reported upon, to illustrate clear processes and alignment with our strategic plans. Detailed budgets and reforecasts are prepared to enable the Board to track performance and ensure that is as expected, or that mitigation steps are taken to deliver performance in line with, or close to, expectations. The Board and individual directors operate within this structure, with the aim of promoting the success of the company and delivering long-term shareholder value. Business proposals are documented in line with, and performance tracked against, levels of authority.

High standards of business conduct

We have a Code of Conduct setting out the behaviours and values expected of Bytes and our people, which we communicate to our employees and third parties. We have processes to update our Board and management on the operation of our code and an independent whistleblowing service to enable employees and third parties to anonymously raise concerns. Through its oversight and monitoring role, the Board requires Bytes' employees to work to the highest standards of business conduct. This is supported through ongoing communication and awareness of, and training in, acceptable company conduct. Any reports of inappropriate behaviour are independently investigated and action taken where necessary.

We set out below how the Board has engaged with, and been influenced by, the interests of our different stakeholders. Such engagements have been well established in Bytes over several years, apart from that with our investor community which, given our December 2020 listing, is relatively new to us.

1 Employees

Our employees work to the highest professional and corporate standards. They are rewarded fairly and incentivised to deliver our strategy.

We consider our people to be among the most talented and skilled in their respective fields. They directly contribute to the successful delivery of our strategy, performance and reputation. We know our people prioritise opportunities for personal development and career progression; a safe, diverse and inclusive working culture; and the ability to deliver market-leading solutions for our customers.

How we engage with our people

The Board keeps abreast of the interests of our employees in many ways, such as through updates on talent and succession plans. It is also kept informed on employee remuneration, benefits (including pension arrangements) and engagement through the Remuneration Committee. Furthermore, our Board will monitor our all-employee Sharesave scheme, which launches on 1 June 2021, to ensure our people are able to take full advantage of its benefits. David Maw, our Board-appointed non-executive director with responsibility for employee engagement, is building on his long-standing relationship with Bytes to assess workforce engagement through online platforms and face-to-face meetings. When Covid-19 restrictions have fully lifted and it is safe to mix freely, our non-executive directors will go on site visits and meet employees to gain first-hand views of working at Bytes.

During the pandemic, the physical and mental health and safety of all our employees has been a top priority for the Board. Bytes used virtual sessions to enable leaders to remain close to employees and created opportunities for them to continue to engage with management and their teams. We established health support networks for our employees via internal qualified teams, and through partnering with an independent health and wellbeing specialist. Our employees were able to take free virtual fitness, mindfulness and wellness sessions during lockdown, with direct confidential channels available for anyone to raise personal concerns.

Feedback on these activities was shared with the Board and management to help us further improve employee engagement and take action where required.

2 Customers

Bytes aims to deliver the latest technology to a diverse customer base.

We have a diverse customer base across private and public sector organisations. This includes organisations in professional services, technology, media and telecoms, manufacturing and retail, and in the areas of education, charities, housing, local and central government, healthcare and emergency services. We enable effective and cost-efficient technology sourcing, adoption and management across software, security and cloud services. Our customers work with us for help in identifying their software needs, selecting and deploying appropriate software products, managing licence compliance and, ultimately, optimising their software assets.

How we gain customer insights

The Board is kept informed about our varied customers and their changing needs and buying patterns. Bytes' people meet frequently with our customers both in person and via virtual events, tradeshows, conferences, social media and podcasts. We regularly gather feedback and insights on our clients' strategies and future investment plans through contract reviews and our customer success teams. We also meet our customers in roundtable and summit events, like Cloud Security Week, that bring together our network of vendor partners.

In conjunction with our partners, we host informative webinar series for many different industries, tailored to ensure we are addressing their unique business challenges. These provide rich feedback to help us to keep evolving and adapting our offering to customers across our segments.

We screen our large customers for reputational and financial risks to ensure that there are no apparent issues that could damage Bytes' reputation or finances. We clearly document terms and conditions, including service levels, payment terms and working practices.

3 Suppliers and vendors

We build close and mutually-beneficial relationships with our suppliers and vendors to provide leading IT software offerings and solutions.

The Group has strategic relationships and trusted partnerships with a large number of vendors and their distributors.

Recognition from our vendors

The strength and depth of these partnerships is clear from the many accreditations and awards that Bytes receives from its vendor partners. In 2020/21 such honours included BSS being named a Varonis Partner, Check Point Software Technologies Cloud Partner of the Year for EMEA, and Amazon Web Services' Microsoft Workloads Partner of the Year.

Our other operating company, Phoenix, attained Azure Expert Managed Service Provider status, the highest-level of Microsoft Azure accreditation. The business also achieved Azure Migration Program Advanced Specialisation status for Microsoft Windows and SQL Server Migration, for Windows Virtual Desktop, and for Adoption and Change Management. In 2021, Phoenix also had its top Dell Titanium status renewed. The business was further named Dell Growth Partner of the Year in 2020 and secured the Fastest Growth Partner of the Year, UK and Ireland, award at the Veeam partner summit.

The Board is kept informed about the major third parties with which we do business, including our suppliers, banks and regulators. The integrity of our supplier arrangements is a key consideration, with robustness of supply our priority. We screen our major third parties for reputational and financial risks to ensure that there are no apparent issues that could damage our reputation or finances. We clearly document terms and conditions, including service levels, payment terms and working practices.

Our Board recognises that Bytes strives to comply with all legal obligations in the territories in which we operate.

4 Community and environment

Doing the right thing for our community and our environment is a core part of our values.

We aim to conduct business in an ethical way. This means we take account of the social, economic and environmental impact of everything we do. We encourage our employees to volunteer for good causes and support their charitable efforts by making donations and in giving them time off to volunteer. Employee welfare is one of our top priorities, with efforts to encourage diversity and inclusion at all levels within Bytes central to our philosophy.

How we contribute to society

Our directors are increasingly aware of the need to ensure that our operations, products and services do not adversely impact the environment and that we positively contribute to the communities in which we operate. We provide engaging and well-paid local employment and minimise our impact on the environment in our responsible use of natural resources and energy, and in cutting down on waste and harmful emissions, components or by-products. A corporate responsibility (CR) programme, with clear objectives, is in place across both our operating companies.

We are committed to delivering social value for our customers, staff and community. Our aim is to help shape the everyday practices of Bytes and our people, so that everyone is involved in fulfilling our social purpose. We are working with our staff to select several charities who we can support over the year with fundraising activities. We have introduced a policy to provide one day's paid leave per year for our employees to perform voluntary work for a charity or good cause.

Bytes is an active partner of, and makes regular donations to, the World Land Trust, which helps to protect threatened land and supports rainforest restoration efforts. To protect the environment, we participate in and encourage many forms of recycling and carbon reduction. We have taken further action to reduce the Group's carbon footprint by engaging a specialist third party to support our environmental including new carbon emissions targets.

5 Investors

Our clear strategy is focused on delivering long-term growth and value creation.

Our investors are our source of capital, without whom we could not grow nor invest for future success. In regard to our business, they are interested in a wide range of issues, including our financial and operational performance, the execution of our strategy, our governance and remuneration, acquisitions capital allocation and our approach to corporate responsibility.

How we engage with investors

During the financial year leading up to our listing, our executive team attended numerous engagements with investors, taking on board their views and future expectations for the Group. The Board oversees our proactive approach to investor relations and to providing shareholders with regular updates on financial and operational performance. This has delivered regular market announcements, presentations, discussions with investors and an investor relations hub on the Group website with relevant, up-to-date information for the market.

Directors are aware that they have a duty to treat all members fairly, with Board decisions taken with all members' long-term interests in mind. The Chair and CEO explain their approach to shareholder engagement in the governance report on page 71.

Audit Committee report

From appointing Bytes' external auditor to formalising our principal risks, our Audit Committee took significant steps this year to ensure our new plc had a firm foundation.

Committee attendance

Committee member	From London Stock Exchange admission to 28 February 2021
Mike Phillips	1/1
Alison Vincent	1/1
David Maw	1/1

The Board established the Audit Committee's terms of reference on 30 November 2020, as part of the IPO process; these are available at bytesplc.com/investors. This report sets out how the committee discharged their duties during 2021/21 and highlights the areas we will focus on for the coming financial year. From Bytes' admission to the London Stock Exchange up until the date of this report, the committee met four times, once during the financial year ended 28 February 2021, and three times between the year end and the date of this report.

Our duties cover financial reporting, narrative reporting, internal control and risk management systems, compliance and fraud, internal review and external audit. During the past months, we have also paid keen attention to the ongoing impact of Covid-19 on the business, in terms of financial performance, new and emerging risks, crisis management, business continuity and resilience.

Mike Phillips
Audit Committee chair

All committee members were Bytes directors when our IPO prospectus was published on 1 December 2020 (see bytesplc.com/investors). We therefore had full access to the legal and financial due diligence undertaken as part of the IPO process. As newcomers to the Group, Alison Vincent and I benefited from a series of briefings from key members of the management teams of BSS and Phoenix, as an induction to how the Group operates.

Membership

The members of our committee were selected to provide an appropriate level of financial, commercial and institutional knowledge of the Group at this time. We are made up of three non-executive directors, two of whom are independent. I am the committee's designated financial expert, for the purposes of the UK Corporate Governance Code (the code). This reflects my experience as a qualified chartered accountant, and as a recent CFO of a UK-listed company with American depositary receipts listed on the New York Stock Exchange. Alison Vincent has considerable sector expertise, particularly around cyber security, and has been an audit committee member with other companies. David Maw has substantial institutional and financial knowledge, as he has been a non-executive director of Group companies since November 2000 and is a qualified accountant.

The Board recognises that our committee's current composition does not align to the code, as not all members are independent non-executive directors, but it firmly believes it is what Bytes needs at this time. The Bytes Nomination Committee will continue to focus on our composition in the year ahead, making recommendations to the Board as appropriate.

"We have paid keen attention to the ongoing impact of Covid-19 on the business, in terms of financial performance, new and emerging risks, crisis management, business continuity and resilience."

How the committee operates

Our committee meetings generally occur on the same day as Board meetings, to make interacting with the rest of the Board as efficient as possible. Our external auditor, Ernst & Young LLP (EY), is invited to attend our meetings, as are Bytes' CEO, CFO, Chair and Group Company Secretary. Depending on the agenda, other members of senior management are also invited. Time is regularly set aside to meet EY without executive management being present.

The Board receives a monthly financial reporting pack for the Group, and at each Board meeting the CFO provides a written and verbal report on financial performance and outlook. This gives committee members a good understanding of the Group's financial performance, with further information provided around financial reporting periods.

Our committee has reviewed and approved its terms of reference and agreed a schedule of items for each of our four planned meetings for the 2021/22 financial year.

Demerger from Altron

The IPO was the culmination of the demerger of Bytes Technology Limited (formerly Bytes Technology Group Limited or Bytes UK) and its subsidiary undertakings (Bytes UK Group) from its South African parent company, Altron, which was announced on 2 April 2020. The company and its subsidiary, Bytes Technology Holdco Limited, were established to facilitate the demerger of Bytes UK Group, with the transaction being accounted as a demerger rather than an acquisition, as detailed in the prospectus and note 1 in our accounting policies on page 141 of this report.

In preparation for the IPO, processes and procedures were developed in the UK for the demerged Bytes UK Group to report on a consolidated basis, whereas these activities were previously undertaken in South Africa by Altron, which received results directly from BSS and Phoenix.

Responsibilities

Our committee's principal responsibilities are to:

- Advise the Board on proposed full-year, half-year and periodic reporting, and related announcements
- Review the annual and half-year financial statements and accounting policies, internal and external audits and controls
- Recommend to the Board the payment of final and interim dividends
- Assess the effectiveness of financial reporting procedures
- Oversee the relationship with the external auditor – advising on its appointment and effectiveness and reviewing and monitoring the scope of the annual audit and the extent of non-audit work
- Review the effectiveness of the internal controls, anti-fraud and bribery systems, and consider the need for an internal audit function
- Review the whistleblowing procedures, where employees and contractors can raise concerns in confidence
- Review the Group's finance and risk management policies for ensuring regulatory and legal compliance
- Through the committee chair, engage with shareholder interests relevant to our remit
- Advise the Board on whether the Annual Report is fair, balanced and understandable.

Accounting judgements and matters

The committee receives very good support from the Bytes finance team. This has enabled us to consider the approach to take on the key areas of judgement and estimates that affect the financial results, before the end of our reporting period. The review of the 2021 Annual Report included:

Area of focus	Issue/role of the committee
Accounting for the demerger of Bytes UK Group from Altron in the preparation and presentation of the financial statements of Bytes Technology Group plc.	The committee reviewed the technical accounting papers produced by the Bytes finance team and the corresponding feedback from the external auditor to confirm the appropriateness of the treatment, and consistency with the pro forma balance sheet presented within the investor prospectus ahead of the IPO.
The going concern basis for the preparation and presentation of the financial statements of Bytes Technology Group plc.	The committee considered the appropriateness of the key assumptions underpinning the Group's going concern assessment, and the sensitivities modelled; this required more focus this year in light of the potential impact of Covid-19 on the Group. The committee reviewed the associated disclosures in the year-end financial statements and the outputs of the external auditor's review to confirm the appropriateness of the going concern conclusion.
The correct preparation and presentation of the financial statements of Bytes Technology Group plc in the first set of consolidated financial statements for the Group under International Financial Reporting Standards (IFRS).	The committee reviewed the financial statements and obtained confirmation from the external auditor on the appropriateness of the preparation and presentation of the consolidated results in accordance with International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006 and IFRS and to ensure they were prepared using the accounting policies set out in the notes to the accounts.
Inappropriate revenue recognition: misstatement of revenue recognised at or near the year end.	The committee reviewed the Group's revenue recognition policy and discussed with management the processes applied to record revenue accurately at period ends, and concluded that the timing and disclosure is in line with current IFRS requirements. The management team gives the committee detailed monthly reports on business performance which include revenue recognition data and trends against budget and prior periods.
Misstatement of rebate income.	The committee reviewed the Group's policy in relation to recognising supplier and vendor rebates, and concluded that rebates had been, and continue to be, recorded accurately and allocated to the correct period. The management team gives the committee detailed monthly reports on business performance which include rebates against budget and prior periods.
Application of IFRS 15: presentation and disclosure in respect of principal vs agent.	The committee is aware that inappropriate application of IFRS 15 may result in erroneous presentation and disclosure of revenue. EY has audited the disclosure of IFRS 15 and presented the results of their procedures to the committee. The committee concluded that an appropriate approach continues to be taken on the presentation of revenue under IFRS 15 that is consistent with the level of control within each sales transaction.

The committee also approved the key performance indicators to be included in the strategic report and believes they have been appropriately disclosed. EY also comments on many of the above key areas of judgement and estimates in its auditor's report on pages 124 to 136. The committee has carefully reviewed EY's opinion and considers that the auditor's views closely align with its own.

External auditor

The committee has primary responsibility for overseeing the relationship between Bytes and the external auditor and assessing its performance. This includes recommending the firm's appointment, reappointing and removing it, assessing its independence on an ongoing basis and negotiating the audit fee.

Engagement

As part of the IPO due diligence process, Bytes UK's Board approached three firms (EY, Deloitte and PricewaterhouseCoopers (PwC)) to submit proposals for the IPO accounting work with the assumption that the appointed firm would become the external auditor for the listed Group. EY's successful proposal, which included an estimated ongoing audit fee, was assessed as the most suitable and closely aligned with what we were looking for.

Bytes UK and its subsidiaries were audited by BDO for periods up to February 2018 and by PwC for the two years ending 29 February 2020. As part of EY's engagement on the IPO process, James Harris was proposed as the external audit engagement partner for the 2020/21 financial year and subsequent year ends. James is due to continue in his role until the year ending 28 February 2025 when he would be expected to rotate off the assignment.

EY put forward its provisional audit plan and fee proposal for the 2020/21 financial year, together with its engagement letter, to our February 2021 committee meeting. At this meeting, we reviewed the Financial Reporting Council's (FRC's) latest Audit Quality Inspection report on EY, from July 2020, together with the firm's responses to the matters raised. EY's fee proposal of £425,000 was in line with the range given as part of the IPO proposal and took account of knowledge gained during the IPO process. Our committee approved EY's fee, along with its engagement letter.

The committee does not intend to put the Group's audit out to competitive tender until June 2030, ten years from the IPO and audit work tenders. However, we'll continue to review the auditor's appointment and the need to tender the audit, ensuring Bytes' best interests are considered. In this regard, the committee will monitor the implementation of recommendations from Sir Donald Brydon's Report of the Independent Review into the Quality and Effectiveness of Audit (the Brydon Review) and the complementary reviews by Sir John Kingman on the effectiveness of the UK audit regulator, the FRC (the Kingman Review), and by the Competition and Markets Authority on the audit market for large listed entities (the CMA Review). The committee will closely monitor how regulation develops and take action as required.

Audit risks

At the start of the audit cycle, we received a detailed audit plan from EY identifying its audit scope, along with materiality planning and assessment of key audit risks. We consider the process of identifying audit risk as a key factor in the overall effectiveness of the external audit process, and our key risks for the 2020 financial year closely align with the significant judgements and issues set out above. The key risks identified by EY were:

- overstatement of revenue
- presentation of revenue in respect of IFRS 15
- misstatement of rebate income
- accounting for the demerger from Altron.

EY also noted certain other audit matters which included a combination of standing matters usually associated with the annual external audit. The committee has the authority to ask EY to review other areas as needed, if they are deemed to be relevant for the integrity of our financial statements. The committee or the Board review key audit risks regularly.

Working with the external auditor

EY was invited to, and attended, all of our meetings up to the date of this report and received all committee papers. Time was set aside at regular meetings for us to meet EY without executive management. Outside of our formal meetings, the external auditor has direct access to the committee chair.

External audit process effectiveness and auditor independence

Our committee approved EY's terms of engagement and reviewed the effectiveness of the external audit through the year-end reporting period. We considered the auditor's performance, based on our own evaluation and the feedback of senior finance staff across the Group, taking into account a range of factors relevant to audit quality. We concluded that the auditor showed appropriate focus, critical analysis and challenge on the key audit areas and applied robust challenge and scepticism throughout the audit. We recommended to the Board which, in turn, will recommend to shareholders for approval at our Annual General Meeting that EY should continue as external auditor.

The external auditor reported to the committee on its independence from Bytes, in line with UK regulatory and professional requirements, and that the objectivity of the audit partner and staff is not impaired. Our committee further confirmed that Bytes has adequate policies and safeguards to ensure EY remains objective and independent.

Non-audit services

The Board has a policy on the Group's relationship with EY and non-audit work. All proposals for any non-audit services above £50,000 must be approved in advance by our committee and must not be prohibited by the FRC Revised Ethical Standard 2019. EY may only provide such services if its advice does not conflict with its statutory responsibilities and ethical guidance.

Our review of EY's performance during the year-end reporting period included non-audit services and the auditor's ability to maintain its independence while providing these services.

The Bytes UK Board approved the appointment of EY as reporting accountant during the IPO process. The fees paid to EY for non-audit related work in this role in the 2020/21 financial year totalled £1,243,000. Although these fees exceed the current year audit fee, the committee considers EY's independence not to be impacted, due to: the one-off nature of these costs; the arrangements in place for the approval of non-audit services going forward; and the IPO having been undertaken by a separate EY team. EY performed no other non-audit related work for the Group during 2020/21.

Internal controls and risk management systems

The Board has overall responsibility for establishing and maintaining Bytes' internal control and risk management systems. On behalf of the Board, our committee keeps the adequacy and effectiveness of the company's internal financial controls and risk management systems under review. It assesses and approves the Annual Report statement concerning internal control and risk management, including the assessment of principal and emerging risks, and the viability statement.

Risk management is inherent to our management thinking and business-planning processes, as highlighted in the strategy and risk sections of our strategic report. For more on our risks and mitigation and our risk management framework, see the risk report on pages 44 to 53.

BSS and Phoenix reported directly, but separately, to Altron before and for most of the IPO process. Each subsidiary has separate accounting systems and internal control processes reflecting their different heritage. Risk management registers for BSS and Phoenix have been in place for several years and, while they have slightly different methodologies, comply with the ISO standards applicable to each. The risk registers are reviewed by executive management twice a year. The Group risk register was developed as part of the IPO process and adopted the Bytes methodology.

The committee reviewed all three risk registers (for BSS, Phoenix and the Group) at our first meeting, as part of a review of the company's approach to enterprise risk management. This included the underlying methodologies, the inherent risk scores (IRS) of the identified risks and what mitigation, if any, could be applied to the IRS depending upon the classification of red, amber or green. Green (low) risks can be accepted without mitigation; amber (medium) risks should be mitigated where possible; and red (high) risks must be mitigated as much as possible. Once mitigations are taken into account, management scrutinises the net red risks to determine if they are compatible with the Group's risk appetite.

Our committee intends to formally review the Group risk register twice a year, using a consistent process, to identify the likelihood and business impact of any material or emerging risk, as well as any mitigating factors or controls. A robust assessment of the principal and emerging risks facing the Group was carried out by management, and reviewed and incorporated into the register by the committee, during the year.

The boards of BSS and Phoenix have implemented internal controls and processes to deliver financial control and reporting, including controls incorporated into their underlying systems. On a day-to-day basis, the Group system of internal control is managed and coordinated by Bytes' CFO.

Our committee asked EY for feedback from the IPO process on improvements that could be made by the company and its subsidiaries. This feedback, presented at our February 2021 meeting, covered specific issues in the areas of governance and oversight, financial accounting and reporting, and the IT environment. After these items were reviewed by management, our committee received a workplan which we'll monitor over the coming year.

The committee considered the process by which management evaluates internal controls across the business. Key themes included IT security risk in respect of data security breaches around the Group's own data and that held on behalf of third parties, and financial fraud, collusion, errors or omission risk in respect of receipts, payments and IT assets.

The committee is of course aware of the dramatic impact of Covid-19 in the UK and internationally. Bytes UK reacted very quickly to the onset of the first lockdown in March 2020, with management re-evaluating systems of risk management and internal control. The business rapidly adapted to new ways of operating, switching most of our people to remote working. This brought new risks, at the same time as mitigating others. A Covid-19-specific risk register was established, in addition to the bi-annual business risk review, to capture associated risks including changes or movement in existing risks due to the pandemic. The BSS and Phoenix boards regularly review the Covid-19 risk register.

Our executive teams monitored the pandemic from early 2020, to allow us to respond swiftly to developments and new guidance. Our business continuity plans (BCPs) for BSS and Phoenix were updated to include the specific scenario of a forced office closure for an extended period. While Covid-19 has seriously tested the Group's resilience and limits, we maintained operations throughout and learnt a great deal about business continuity. Beyond Covid-19, our business continuity focus for 2021/22 is on reviewing and refreshing our full suite of BCPs to improve resilience and robustness, to incorporate Covid-19 learnings, and improve scenario-specific plans. An annual BCP management cycle will also be embedded, to better track, review and evolve our business continuity plans.

Our committee is satisfied that Bytes' Group-wide risk management and internal controls systems operated effectively for the 2020/21 financial year, up to and including the date of this report.

Going concern and viability statements

We considered Bytes' going concern and viability statements for the purpose of this Annual Report. We also challenged the nature, quantum and combination of the unlikely but significant risks to our business model, future performance, solvency and liquidity, which were modelled as part of the scenarios and stress-testing for our going concern and viability statements. As part of this review, we considered our financial forecasts over the period to August 2022 (for the going concern assessment) and over the next three years (for the viability assessment), conducted a principal risk assessment, and analysed the impact of sensitivities on cash and available funding, individually and collectively, in a reasonable worst-case scenario. These scenarios considered the mitigating actions we could take. We are satisfied that our going concern statement, on pages 119 to 121 of the directors' report, and our viability statement, on page 54 of the strategic report, have been prepared appropriately.

Internal audit

Bytes does not currently have an internal audit function. The business has experienced and addressed significant disruption over the last financial reporting period and has also been subject to a thorough IPO due diligence process. This process helped identify areas for improvement and we receive progress reports against a plan to deal with these areas at each of our meetings.

We will consider the need to establish an internal audit function, and whether it should be in house, outsourced or co-sourced, in the first half of the 2021/22 financial year.

As part of this process and in light of the feedback from EY on the IPO process and the year-end audit, the committee have identified areas that should be subject to internal audit. The committee intends to outsource this work in the first instance.

Financial reporting

Our committee's primary responsibility, in relation to the Group's financial reporting, is to review the quality and appropriateness of the annual and half-yearly financial statements with management and the external auditor. For the period under review, we focused on and assessed:

- The quality, appropriateness and completeness of our significant accounting policies and practices and any resulting revisions
- The reliability of processes underlying the integrity of our financial reporting
- The clarity, consistency and completeness of our disclosures, including compliance with relevant financial reporting standards and other reporting requirements
- Significant issues where management judgements and estimates were material to our reporting, or where discussions took place with the external auditor to reach a judgement or estimate.

Our committee also assessed whether this Annual Report is fair, balanced and understandable and whether it provides the necessary information for shareholders to evaluate the Group's performance, business model and strategy. We also advised the Board on the long-term viability statement.

We received reports from management on the identification of critical accounting judgements, significant accounting policies and the ongoing application of accounting standards in financial year-end reporting.

Our committee paid specific attention to Bytes' enterprise risk management framework, risk appetite and tolerance levels after our admission to the London Stock Exchange. We agreed that the following risks should be reviewed and assessed in 2020/21:

- The IT security risk of data security breaches of the Group's own data and that held on behalf of third parties
- Financial fraud, collusion, errors or omission risk in respect of receipts, payments and IT assets
- Consideration of the ongoing impact of Covid-19, given its significant impact on the global economy, customer behaviours and associated cash flows, and the carrying amount of assets and projected future cash flows in the context of going concern and impairment assessments.

We reviewed the appropriateness of management's actions in relation to each of these risks.

Dividends and distributable reserves

Between 28 February 2020 and our admission to the London Stock Exchange on 17 December 2020, Bytes UK declared significant dividends to Altron as part of the IPO process and to remove cross-guarantees given by Bytes UK and its subsidiaries to Altron's bankers. At each of our committee meetings up to the date of this report, we reviewed the level of distributable reserves within the Group and the company to plan for the declaration of future dividends. Bytes' intended dividend policy is to distribute between 40% and 50% of post-tax adjusted operating profit to shareholders. We intend to declare our first dividend as an interim dividend for the year ending 28 February 2022, and then on an ongoing basis.

Fair, balanced and understandable

The committee considered this Annual Report as a whole, and the processes and controls underlying its production, in light of the requirement that it must be fair, balanced and understandable. This included making sure that we addressed the areas listed below.

Process

- All team members involved in the process were properly briefed on the fair, balanced and understandable requirement.
- The core team responsible for the co-ordination of content submissions, verification, detailed review and challenge had the necessary experience to carry out their work well.
- The committee received drafts early enough to review and comment in a timely manner.

Content

- The report includes accurate key messages, market and performance reviews, principal risks and all other disclosures required for good corporate governance.
- The report is balanced in describing potential challenges and opportunities, and includes relevant forward-looking information.
- Information in the different parts of the report is consistent.
- The report is written concisely, without unnecessary verbiage, and avoids jargon as far as possible.
- Senior management confirmed that they believe that the information included about their respective areas of responsibility is fair, balanced and understandable.

On the basis of this review, we recommended to the Board that this Annual Report is indeed fair, balanced and understandable, and gives readers the information they need to assess the Group's position and performance, business model and strategy.

2021/22 focus areas

Our committee will carry out a series of reviews into specific financial, operational and regulatory areas. As part of this programme, we'll meet with the business functions responsible for each area. Our 2021/22 priorities include:

- The ongoing economic impact of, and recovery from, Covid-19, as covered in the CEO's statement on page 10
- Discussing and defining Bytes' proper level of risk appetite
- Increasing our oversight of various aspects of company risk management and improving the quality of risk discussions at meetings
- Thorough scrutiny of cyber security to assess both risks and necessary mitigating actions
- A review of our GDPR and data protection compliance arrangements
- Supplier contracts, and adherence to them
- Continuing to monitor and respond to regulatory developments arising from the Brydon, Kingman and CMA reviews
- Deliberating on the establishment of an internal audit function, and reviewing internal financial controls and monitoring to ensure they remain effective.

On behalf of the Board.

Mike Phillips

Mike Phillips
Audit Committee chair
25 May 2021

Nomination Committee report

To strengthen Bytes' current and future leadership, following our IPO, our Nomination Committee approved an executive diversity policy, advanced our succession plans and initiated a process of appointing an additional Board member.

Committee attendance

Committee member	From London Stock Exchange admission to 28 February 2021
Patrick De Smedt	3/3
Alison Vincent	3/3
Mike Phillips	3/3

Our Nomination Committee works to ensure that we have the right executive and non-executive leaders now, and in the future, to execute our strategic plans and maximise our business potential. As such, we drive the Group's processes for establishing and maintaining a Board that is 'fit for purpose', as set out in the UK Corporate Governance Code (the code). This requirement follows Bytes' admission to the London Stock Exchange on 17 December 2020 and the additional Board responsibilities entailed. Our remit can be broken down into three complementary elements: ensuring appropriate leadership and succession planning for our Board and senior management; overseeing the development of a diverse and inclusive succession pipeline; and promoting the Group's long-term sustainable success in the interests of our stakeholders.

Our committee consists of three independent non-executive directors. I am chair of the committee, as well as being Chair of the Board, with the Group Company Secretary acting as secretary to the committee. We invite other Board members to attend our meetings, where there is no conflict of interest. Further information on the committee members can be found in the directors' biographies section on pages 58 and 59 of this Annual Report.

Terms of reference

Our committee terms of reference were put in place when we listed and are available on our corporate website bytesplc.com/investors. We are satisfied that they reflect our roles and responsibilities in line with the code and associated regulations.

Patrick De Smedt
Nomination Committee chair

"The Board wants a multi-faceted leadership team and an open and inclusive culture that supports our core values."

STRATEGIC REPORT
GOVERNANCE REPORT
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Responsibilities
Our committee's main responsibilities are to:

- Oversee the composition of the Board and committees (including size, skills, knowledge, experience and diversity), ensuring that they remain appropriate and making recommendations of change, as necessary, to the Board
- Lead the process regarding appointments to the Board, including that of the Chair
- Succession planning for the Board and senior executives, including recruitment, talent development, identification of potential internal or external candidates with diverse backgrounds, and making recommendations to the Board.

Since our December 2020 constitution, we have focused particularly on Board composition and diversity and succession planning as discussed below.

Board composition and diversity

We are pleased with the strength of our Board and committees. Our committee is, however, focused on the membership of the Board and Audit Committee, which is currently not aligned to the code. While the composition is the best mix for Bytes at the present time, given its blend of expertise, experience and Group knowledge, we are taking active steps towards becoming compliant. We have already launched the process to identify an additional independent non-executive director, in line with the Group's diversity commitments below. A subsequent appointment will enable us to comply with provisions 11 and 24 of the code.

A list of potential candidates, from a diverse range of backgrounds, is being prepared for the additional role. As well as wanting to satisfy its diversity aspirations, the Board has identified certain required skills and personal attributes to enhance its effectiveness in strategic direction and Group oversight.

In early 2021, our committee reviewed the independence and potential conflicts of interest of the non-executive directors. We concluded that they each demonstrate challenge and independent judgement and have sufficient time to discharge their duties. The committee also assessed whether David Maw should continue to be classified as a non-executive director, given his long-standing tenure with Bytes. We agreed that David continues to constructively challenge management and hold them to account, as a non-executive should, and that the Board benefits from his knowledge of the Group.

Bytes is committed to diversity across all parts of our business. We're keen to embed a culture which reflects the diverse communities in which we do business and that provides equal opportunity for all our people to make the most of their skills and experience. We believe that a Board and senior management team which is diverse in skills, experience, gender, age and ethnicity is central to driving our diversity commitment. The diversity and inclusion tone is set from the top and the Board wants a multi-faceted leadership team and an open and inclusive culture that supports our core values. As well as being true to our values and societal expectations, establishing a diverse leadership team will ultimately benefit our stakeholders by enabling us to perform better.

To this end, on the recommendation of our committee, the Board approved a Board and Senior Management Diversity Policy in February 2021. The policy aims to:

- Appoint at least 33% female directors to the Board and executive management in the short to medium term, as recommended by the Hampton-Alexander Review on gender diversity
- Consider candidates for non-executive director roles from a diverse gender and racial background
- Develop a pipeline of diverse high-calibre candidates by encouraging a cross-section of our workforce with different ethnic, gender and experiential backgrounds to take on additional responsibilities and roles.

Succession planning

We evaluated Group succession planning with a particular focus on senior executive roles. This included assessing the strengths of senior managers, areas which need improvement, and the plans to address them. We identified immediate and future candidates among internal leaders who would be ready to take on an enhanced role, if needed, and whether further training and development is required.

Our committee oversaw Neil Murphy's transition from BSS MD to CEO of the listed Bytes Group as part of the IPO process. We also oversaw the appointment of Jack Watson as Neil's successor to the BSS MD role, and other changes to further strengthen the Group's management team. This is in line with Bytes' commitment to create opportunities for future leaders to grow into more senior company roles.

During the 2021/22 financial year, we will agree emergency succession plans for each of our non-executive positions on the Board, including for the chairs of the committees and Board. Although we could identify strong emergency successors from within our collective networks, some external recruitment is likely to be required for permanent successors, as the Board is not large enough to carry a pool of candidates for a wide range of roles.

2021/22 focus areas

New director appointment process

Our committee members are working to identify suitable candidates. We will work with external executive search consultants, where necessary. Initial interviews will be held with our Board chair, senior independent director and CEO, after which a shortlist will be created, reflecting candidates' skills and cultural fit with the Board and senior management. Following further meetings, a preferred candidate will be chosen. Each Board member will then engage with them to ensure they have the right skills, diversity and approach.

Subject to the outcome of the search process, the Nomination Committee will make a formal recommendation on an appointment to the Board for approval. Our committee members will be kept informed throughout the process, with the new director being announced once the Board has confirmed their appointment.

External board and committee evaluation

The Board, executive directors and committees will be evaluated internally later in the financial year to assess their effectiveness. In 2022/23, and every subsequent three years, we will have an external Board evaluation, in line with regulations. Going forward, we will conduct effectiveness reviews regularly by assessing, among other areas:

- Plans for a specific year's effectiveness review
- Progress against actions identified in the previous review
- Non-executive director time commitments
- Non-executive director independence.

Other focus areas include

- Reviewing our directors' skills to ensure they support the implementation of the Group's growth strategy and will maximise the potential of the business
- Considering and recommending the formal election of directors at our Annual General Meeting
- Concluding the appointment of an additional independent non-executive Board member and ensuring they follow an appropriate induction process
- Continuing our succession planning process with an emphasis on non-executive Board positions
- Using non-executive, director-only sessions to focus on strategic issues.

On behalf of the Board.

Patrick De Smedt
Nomination Committee chair
25 May 2021

Compliance with the UK Corporate Governance Code

Our Board is committed to high standards of governance and to applying the principles of the UK Corporate Governance Code (the code) throughout the Group.

We have complied with all the code's provisions, except for 11 – which requires at least half of board members, excluding the Chair, to be non-executive directors, and 24 – which advises that the audit committee should be made up of independent non-executive directors. We are taking steps to comply fully with the code, as explained.

Our Board is responsible for monitoring compliance with the code and will continue to receive regular updates on this from its appointed committees and management. On our IPO, we prepared and approved our Board-reserved matters and committee mandates and terms of reference in line with the updated code.

Board leadership and company purpose

Our Board's objective is to create and deliver Bytes' long-term sustainable success, generating value for shareholders and contributing to wider society, supported by the right culture and behaviours. For more detail on our culture, purpose and values, see pages 16 to 17.

The Board ensures that the necessary resources are in place for Bytes to meet its objectives and to continuously measure its performance against them. Through the Audit Committee, it oversees the Group's control environment and risk management frameworks.

Division of responsibilities

Our Board has agreed a clear division of responsibilities between its own function managing the Group's business, supported by our corporate governance framework. To ensure that no individual has unrestricted powers of decision-making and no sub-group of directors can dominate the Board, we have defined responsibilities clearly in our role statements and in the matters reserved for the Board. Committee terms of reference determine the authority given to each Board committee. For more on our Board composition, leadership and role statements see pages 58 and 59.

Mike Phillips, as senior independent director, provides a sounding board for the Chair and serves as an intermediary for our other directors and shareholders. Mike will oversee an appraisal by the non-executive directors of the Chair's performance during the year, in line with the code. Our non-executive directors scrutinise the performance of the executive management team and hold it to account against agreed objectives. Since our admission to the London Stock Exchange, our Chair has held discussions with the non-executive directors without the executive directors being present, a practice which will continue in the year ahead.

The responsibilities of our Chair, CEO and senior independent director, and our Board and committees, have been clearly defined, as set out on pages 62 to 68 and on our corporate website.

Composition, succession and evaluation

The Board, with the Nomination Committee's support, continuously reviews the composition of itself and its committees, succession planning, diversity, inclusion and governance-related matters. It is directing particular attention to the composition of our Board and Audit Committee, as set out above, and is currently addressing the appointment of an additional Board member with a formal process.

Executing an internal evaluation of the performance of the Board and committees will be another key focus for the Chair and Nomination Committee during the 2021/22 financial year. The Board will annually review the effectiveness of itself, its committees and directors, with a combination of self-assessment and external evaluation. See the Nomination Committee report for more details on Board effectiveness and our Nomination Committee's activities.

Audit, risk and internal control

Our Board is accountable to stakeholders for ensuring Bytes is managed appropriately. It sets the Group's risk appetite, satisfies itself that its financial controls and risk management systems are robust, and ensures that it is adequately resourced. We have followed the code's key requirements on risk management and control. For example, as the code requires, our Board has:

- Carried out a robust assessment of our emerging and principal risks
- Confirmed that we have completed this assessment in our Annual Report, along with describing our principal risks and indicating how we identify emerging risks and how we manage or mitigate risks
- Monitored and reviewed the effectiveness of our material risk management and internal control systems and summarised this effectiveness review in our Annual Report.

The Board receives regular updates on audit, risk and internal control matters, with the Audit Committee having detailed oversight and reporting its findings to the Board. See the Audit Committee report for more on audit, risk management and internal control and the Audit Committee's work. Bytes does not currently have an internal audit function although, before the IPO and for most of the 2020/21 financial year, it was part of a larger group with an established internal audit function. The Audit Committee is in the process of establishing a Group internal audit function, including considering which form it will take and the date of implementation. Other than this task, the Audit Committee has other roles and responsibilities as required by the code.

Remuneration

Our Board, supported by the Remuneration Committee, ensures that our remuneration policies support Bytes' strategy and promote long-term sustainable success. Executive remuneration is aligned to the successful delivery of our long-term strategy and takes into account overall Group remuneration policies and practices. See our directors' remuneration report for more on our remuneration policy and its implementation.

Further details on how we have applied the code's principles and provisions can be found throughout this Annual Report.

Directors' remuneration report

In developing our post-IPO remuneration policy, our drivers were the long-term success of the Group, our culture and values and regulatory good practice.

Committee attendance

Committee member	From London Stock Exchange admission to 28 February 2021
Alison Vincent	1/1
Patrick De Smedt	1/1
Mike Phillips	1/1

Our committee consists of three independent non-executive directors. I am chair of the committee, with the Group Company Secretary acting as our committee secretary. We invite other Board members to attend our meetings, where this is appropriate. More information about the committee members are in the directors' biographies section of this Annual Report.

Terms of reference

Our committee terms of reference were put in place when we listed and are available on our corporate website bytesplc.com/investors. We're satisfied that they reflect our roles and responsibilities in line with the UK Corporate Governance Code and associated regulations.

Dr Alison Vincent
Remuneration Committee chair

Annual statement from the chair of the Remuneration Committee

Welcome to our first directors' remuneration report which, in line with UK reporting regulations, is divided into three sections:

- This annual statement, which summarises the work of the committee and our approach to remuneration
- The directors' remuneration policy, which outlines Bytes' approach to remuneration and the parameters within which we will implement our pay arrangements, and how this links to our strategy
- The annual report on remuneration, which sets out the remuneration arrangements and incentive outcomes for 2020/21, and how the committee intends to implement the new remuneration policy in the 2021/22 financial year.

As this is the first financial year since our admission on 17 December 2020, we will present two remuneration-related resolutions at our Annual General Meeting on Thursday, 22 July 2021:

- A binding vote on the directors' remuneration policy
- An advisory vote on the annual statement and the annual report on remuneration.

Given that the Remuneration Committee's responsibilities began from our date of admission, the extent of our executive compensation is from our IPO onwards and has been pro-rated as appropriate.

"In designing our post-IPO remuneration policy, we carefully considered good governance principles and the provisions of the UK Corporate Governance Code."

The work of the Remuneration Committee

Our successful listing made the year ended 28 February 2021 a transformational year for Bytes. In anticipation of our IPO, the committee comprehensively reviewed the existing senior executive remuneration structure and considered how to move to a post-listing model.

In designing our post-IPO remuneration policy, and in planning for its implementation, we carefully considered good governance principles and the provisions of the code, which is a key reference for the committee. We also took account of the views of institutional shareholders and the major shareholder representative bodies, with which we will continue to engage.

Promoting the Group's long-term success is the overarching goal of our remuneration policy. That goal, and the design of the policy, is underpinned by the following principles:

- Arrangements should be clear, simple and aligned with the interests of shareholders and other stakeholders
- A significant proportion of the package should be linked to the Group's performance and KPIs
- Remuneration should be competitive, but not excessive, and sufficient to recruit, retain and motivate individuals of the calibre to deliver long-term success
- The approach should support our culture and values.

The framework supports the building and maintenance of an entrepreneurial culture and, in complement, aims to instil a culture of shared ownership via share-based incentives. Our two executive directors are major shareholders and a number of our people have meaningful share interests. In recognition of the contribution made by many key employees to the success of our IPO we awarded around 280 staff, excluding executive directors, restricted share awards. We will be following this up with awards of market value share options under our company share option plan (CSOP) in June 2021 and we have also introduced an approved save as you earn plan which will be launched in the same month.

Reflecting these principles and considerations, the proposed directors' remuneration policy provides a simple and transparent structure comprising salary, modest benefits and pension and, subject to stretching performance conditions, an annual bonus and a single long-term incentive plan (LTIP) – the performance share plan (PSP). Incentive pay is subject to withholding and recovery provisions where part of any annual bonus payment is deferred into shares for a period of time; the LTIP has a post-vesting holding period, and significant in-employment and post-cessation share ownership guidelines apply. These features align the interests of our executive directors and shareholders and contribute to risk mitigation.

Remuneration in 2020/21

Prior to admission, senior executive packages consisted of fixed pay made up of a base salary and modest benefits and pension contributions, and a performance-related cash bonus based on targets set at the start of the year. In addition, the executive directors and certain members of senior management participated in a pre-IPO long-term incentive arrangement which was in place from 2016 until the IPO in December 2020. On admission, the executive directors participated in the maturity of this long-term plan (full details of which can be found in the IPO prospectus); no further payments are due under this arrangement.

The 2020/21 bonus opportunity for the executive directors was 67.5% of base salary, the annual bonus plan having operated without amendment for the full year, including the post-IPO period. Seventy per cent of the bonus was based on operating profit and 30% on non-financial KPIs. Our performance resulted in an annual bonus payout of 67.5% of salary to both executive directors, reflecting both strong Group and personal performance over the year. For further details, see page 110. In line with the 2020/21 annual bonus plan terms, these bonuses will be paid in cash. The committee considered this level of payout was appropriate, having assessed the company's overall performance, including the actions taken by the senior executive team to promote staff wellbeing throughout the Covid-19 period as well as the successful IPO process.

Implementation of the remuneration policy in 2021/22

The salaries of our CEO and CFO were adjusted as part of the IPO and, effective from 1 December 2020, are £375,000 and £320,000, respectively. The CEO and CFO waived their right to any increase, however, until 1 March 2021. The salaries will next be eligible for an increase from 1 March 2022, should it be considered appropriate at that time. Executive directors' pension contributions as percentages of salary are aligned to (or are lower than) the rates of contributions of the majority of employees.

The annual bonus opportunity in 2021/22 will be 100% of salary, subject to the achievement of challenging targets based on adjusted operating income (up to 80% of salary) and key strategic objectives (up to 20% of salary). Two-thirds of any bonus will be paid in cash, with the remaining one-third deferred in shares for two years.

Our executive directors will not participate in the CSOP or PSP during the 2021/22 financial year, due to their significant shareholdings. The policy does not preclude them from participating in the PSP in the future; this point will be reviewed annually. Our shareholding guidelines require the guideline level (normally 200% of salary in shares) to be held for two years following termination of employment.

Further engagement

We are committed to a responsible approach to executive pay, as I trust this report demonstrates. In line with this commitment, the committee recognises the importance of building a close relationship with shareholders in developing our pay arrangements. If any shareholders have questions or feedback on our approach to executive remuneration or on this report, I would be happy to meet or speak with you. Please get in touch via our Group Company Secretary at wk.groenewald@bytes.co.uk.

Dr Alison Vincent
Remuneration Committee chair
25 May 2021

At a glance

Promoting the Group's long-term success

Our executive remuneration policy is designed to promote our long-term success. It is underpinned by the principles of simplicity and clarity; alignment to stakeholders' interests and our culture and values; linkage to performance, and competitiveness not excessiveness. Below we set out how we plan to implement it for our executive directors in 2021/22.

Implementation of our policy in 2021/22

Fixed pay	Salary	– CEO – £375,000 – CFO – £320,000
	Pension	– CEO – 1.48% of salary – CFO – 1.69% of salary – Executive director pension contributions will be no higher than the rate for most employees
	Benefits	– Medical health and life insurance
Annual bonus	Maximum	– 100% of salary
	Performance measures	– Adjusted operating profit (80%) – Key strategic objectives (20%)
	Operation	– One-third deferred into shares for two years – Recovery and withholding provisions apply
Performance share plan	Award level	– Up to 150% of salary – Executive directors will not participate in 2021/22
	Performance measures	– To be set by the Bytes Board in relation to future awards – Performance measures may include, but are not limited to, financial, total shareholder return (TSR), strategic and ESG-related objectives
	Operation	– Performance measured over three years – Two-year additional holding period applies to vested awards – Recovery and withholding provisions apply
Share ownership guidelines	In-employment guideline	– 200% of salary
	Post-cessation guideline	– 200% of salary to be held for two years post-employment
	Current shareholding	– CEO – 63.3 times salary – CFO – 72.8 times salary

Directors' remuneration policy

Our new directors' remuneration policy will be put to a binding shareholder vote at our 2021 Annual General Meeting on Thursday, 22 July 2021 and will take formal effect from that date, subject to shareholder approval. The policy will formally apply for three years unless a new policy is presented to shareholders before then. Following approval, all payments to directors will be consistent with the approved policy.

Considerations in determining our policy

The main goal of our remuneration policy is to promote the Group's long-term success. In pursuit of this objective, the Remuneration Committee adheres to the following principles:

- Remuneration packages should be clear and simple
- Arrangements should be closely aligned with the interests of shareholders and other key stakeholders
- Remuneration should align with, and support, our values and entrepreneurial culture
- A significant proportion of remuneration should be based on performance-related components. Rewards should be subject to achieving challenging performance targets based on measures linked to the Group's KPIs and the best interests of stakeholders
- Salaries, and the overall level of potential remuneration, should be competitive but not excessive when compared with companies of a similar size, scale and geographical reach. They should be sufficient to recruit, retain and motivate individuals of the calibre to deliver long-term success.

In designing our policy, and in planning for its implementation, the code was a core source. The committee took full account of the code's remuneration-related provisions, as we illustrate below in describing how we sought to comply with the six factors in provision 40:

- **Clarity** – Our remuneration framework supports financial delivery and the achievement of strategic objectives, aligning the interests of our executive directors and shareholders. Our proposed policy is transparent and has been well communicated to our senior executive team. It will also be clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during consultation, if any changes are considered necessary).
- **Simplicity** – Our framework has been designed to be straightforward to communicate and operate.
- **Risk** – Our incentives have been structured to align with the Board's system of risk management and risk appetite. Inappropriate risk-taking is discouraged and mitigated by, for example:
  - A balance of fixed pay to performance-related incentive pay and through multiple performance measures based on a blend of financial and non-financial targets
  - Deferring a proportion of annual bonus into shares and operating a post-vesting holding period for the LTIP
  - Significant in-employment and post-employment shareholding guidelines
  - Robust recovery and withholding provisions.
- **Predictability** – Our incentive plans have individual caps, with share plans also subject to market standard dilution limits. The committee has full discretion to alter the payout level or vesting outcome to ensure payments are aligned with our underlying performance.
- **Proportionality** – Our approach is underpinned by the principle that failure should not be rewarded. There is a clear link between individual awards, strategic delivery and our long-term performance. This is demonstrated, for example, by the connection between executive directors' arrangements and their building and maintaining of meaningful levels of shareholding; through linking our incentive measures and our KPIs; by our ability for, and openness to, using discretion to ensure appropriate outcomes; and through the structure of our executive directors' contracts. As mentioned above, the committee reviews formulaic incentive outcomes and may adjust

them in the light of overall Group performance and our wider employee remuneration policies and practices.

- **Alignment to culture** – Our policy is aligned to our dynamic, can-do culture and strongly-held values. The committee strives to embed a sustainable performance culture at management level that can cascade down throughout our business. The Board sets the framework of KPIs against which we monitor the company's performance and the committee links the performance metrics of our incentive arrangements to those indicators. We are also keen to foster a culture of share ownership and operate employee share schemes.

Considering shareholders' views

The committee is committed to ongoing dialogue with shareholders and welcomes feedback on our directors' remuneration. We will seek to engage with major shareholders and their representative bodies on changes to the policy. The committee will also consider shareholder feedback on remuneration-related resolutions following each year's Annual General Meeting. This, along with any additional feedback received (including on any updates to shareholders' remuneration guidelines), will be considered as part of our annual review of our remuneration policy and its implementation.

The committee also actively monitors changes in the expectations of institutional investors, and considers good practice guidelines from institutional shareholders and shareholder bodies.

Assessing the Group-wide employment environment

The committee closely monitors the pay and conditions of the wider workforce, and has drawn on the Group-wide policy for staff in designing the directors' remuneration policy. While employees are not formally directly consulted on the design of the policy, the Board engages with our people more broadly through, inter alia, CEO townhall sessions and the non-executive director for employee engagement, David Maw.

The committee also receives periodic updates on remuneration arrangements and employment conditions across the Group from our HR functions.

Differences in pay policy between executive directors and employees

The overall approach to employee reward is a key reference point when setting executive directors' remuneration. As with the executive directors, to attract and retain employees, our general practice is to recruit staff at competitive market levels of remuneration, incentives and benefits, in line with national and regional talent pools. When reviewing our executive directors' salaries, the committee pays close attention to pay and employment conditions across the wider workforce. The increase for executive directors will normally be no higher than the average increase for employees generally. The pension contribution for current and future executive directors will be no higher than for most of our people. All employees can earn annual bonuses for exceptional performance.

We foster a culture of share ownership across the Group; all employees, including executive directors, will have the opportunity to participate in any UK HMRC-approved share incentive plans that we operate. In recognition of the contribution made by certain employees to our success and to ensure key employees are retained and motivated, on listing, restricted share awards were made to around 280 of our people. It is also our intention to make periodic awards of market value share options under our CSOP, the first awards of which will be made in June 2021.

The key difference between executive directors' and employees' reward is that, at senior levels, remuneration is increasingly long-term and 'at risk' with an emphasis on performance-related pay linked to business results and share-based remuneration. This ensures that senior-level remuneration will increase or decrease in line with business performance and aligns the interests of executive directors and shareholders. In particular, performance-based long-term incentives only go to the most senior executives as they are considered to have the greatest potential to influence overall performance levels.

Policy table for directors

The table below sets out the main components of the proposed policy, together with information on how they will operate, subject to approval by shareholders at our 2021 Annual General Meeting. The committee has the discretion to amend remuneration to the extent described in the table and text below.

Policy table for executive directors

Base salary

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To provide competitive fixed remuneration. To attract and retain executives of a superior calibre.	Salaries are usually reviewed annually, with any increases typically effective on 1 March. Salaries are generally set after considering: – Pay and conditions elsewhere in the Group – Overall Group performance – Individual performance and experience – Progression within the role – Competitive salary levels in companies of a broadly similar size, scale and complexity.	While there is no prescribed maximum salary or increase, rises will normally be in line with the typical range awarded (in percentage of salary terms) to the wider workforce. Larger salary increases may be awarded to take account of individual circumstances, such as where: – An executive director has been promoted or had a change in scope or responsibility – The committee sets the salary of a new hire at a discount to the market level and a series of planned increases can be implemented in the next few years to raise it to the appropriate market position, subject to individual performance – The committee considers it fitting to adjust salaries to reflect the company's continuing development. This may be appropriate as the company develops post-IPO, but would normally only be considered where adjustments could be made on a phased basis (and after consultation with leading shareholders). Increases may be implemented over a time period that the committee deems appropriate.	Although there are no formal performance conditions, any increase in base salary is only implemented after careful consideration of an individual's contribution and performance and with regard to the factors in this table's 'operation' column.

Policy table for executive directors continued

Benefits

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To provide competitive fixed remuneration. To attract and retain executives of a superior calibre.	Executive directors are entitled to benefits, including medical and life insurance. Executives directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms, and for other benefits that might be provided based on individual circumstances, if the committee decides it is appropriate. For external and internal appointments or relocations, Bytes may pay certain relocation or incidental expenses as appropriate (for up to two years from recruitment). Any reasonable business-related expenses can be reimbursed (and any related tax met if determined to be a taxable benefit). Executive directors can also participate in all-employee share plans on the same basis as other employees.	As it is not possible to calculate in advance the cost of all benefits, a maximum is not pre-determined. The maximum level of participation in all-employee share plans is subject to the limits imposed by the relevant tax authority.	Not applicable.

Pension

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To provide employees with long-term savings to allow for retirement planning.	The Group may offer participation in a defined contribution pension plan or permit executive directors to take a cash supplement in lieu of pension up to the same value.	The maximum defined contribution or cash allowance in lieu of pension is limited to the contribution level available to most other employees (in percentage of salary terms, currently 4% of salary). The current CEO and CFO elected contributions of up to 1.48% and 1.69% of salary respectively.	Not applicable.

Policy table for executive directors continued

Annual bonus

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Rewards achievement of annual financial and business targets aligned with the Group's KPIs. Bonus deferral encourages long-term shareholding, supports retention and discourages excessive risk taking.	Awards are based on performance, typically measured over one year. Any payment is discretionary and payout levels are determined by the committee after the year end based on performance against pre-set targets. Bonuses are normally paid in cash, except one-third of any bonus which is deferred into shares, typically for a two-year period. Dividends or dividend equivalents may accrue on deferred shares. The vesting of deferred shares is not subject to additional performance conditions. The annual bonus plan includes provisions which enable the committee (in respect of both the cash and the deferred elements of bonuses) to recover or withhold value in the event of certain defined circumstances – in cases such as misconduct, material misstatement of financial results, error in calculation of a bonus and reputational damage.	The maximum annual bonus opportunity is 100% of base salary.	Targets are set annually with measures linked to our strategy and aligned with key financial, strategic and individual targets. The performance measures applied may be financial or non-financial, corporate, divisional or individual, and in such proportions as the Remuneration Committee considers appropriate. The committee would, however, expect to consult with its major shareholders if it proposed changing materially the current performance measures applied for the annual bonus (or the relative weightings between such measures) in subsequent financial years. A graduated scale of targets is set for each measure, with no payout for performance below the threshold level. The committee has the discretion to amend the payout should any formulaic outcome not reflect its assessment of overall business performance.

Policy table for executive directors continued

Performance share plan (PSP)

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To incentivise executive directors and deliver long-term performance-related pay, with a clear line of sight for executives and direct alignment with shareholders' interests.	Awards will be in the form of share options, conditional shares or other forms that have the same economic effect. Awards will be granted with vesting dependent on the achievement of performance conditions set by the committee, with performance normally measured over at least three years. Awards will be subject to a two-year holding period following the end of the performance term, with shares typically not being released to participants until the end of the holding period. Dividends or dividend equivalents may accrue on awards to the extent they vest. The PSP includes provisions which enable the committee to recover or withhold value in the event of certain defined circumstances, in cases such as misconduct, material misstatement of financial results, error in calculation of a bonus and reputational damage.	The normal maximum PSP award is 150% of salary in a financial year. The normal maximum will only be exceeded in exceptional circumstances, such as on the recruitment of an executive director, and is subject to an overall limit of 300% of salary in a financial year. Our current executive directors have waived the right to receive PSP awards in respect of the first year of this policy (2021/22).	PSP performance measures may include, but are not limited to, financial, TSR, strategic and ESG-related objectives. The committee retains the discretion to set alternative measures and weightings for awards over the life of the policy. Targets are set and assessed by the committee on its discretion. A maximum of 20% of any element vests for achieving the threshold target, with 100% for maximum performance. The committee has the discretion to amend the vesting level should any formulaic outcome not reflect its assessment of overall business performance.

Policy table for non-executive directors continued

Non-executive directors' fees

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To attract high-calibre individuals and appropriately reflect knowledge, skills and experience.	Fees are normally reviewed annually, taking into account factors such as the time commitment and contribution of the role and market levels in companies of comparable size and complexity. The Chair is paid an all-inclusive fee for all Board responsibilities. Fees for the other non-executive directors may include a basic fee and additional fees for further responsibilities (for example, chairing of Board committees or holding the office of senior independent director). Bytes repays any reasonable expenses that a non-executive director incurs in carrying out their duties, including travel, hospitality-related and other modest benefits and related tax liabilities, if appropriate. In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the Board may pay extra fees on a pro rata basis to recognise the additional workload. Non-executive directors cannot participate in any of the Group's incentive arrangements.	There is no prescribed maximum fee or maximum fee increase. Increases will be informed by internal benchmarks such as the salary increase for the general workforce, with due regard to the factors in this table's 'operation' column.	Not applicable.

Explanation of performance measures

Annual bonus performance measures are selected annually to align with the Group's KPIs and strategic imperatives and the interests of our shareholders and other stakeholders. Financial measures (for example, operating profit levels, gross margin increase and year-on-year growth) will normally influence most of the bonus with any remainder based on key strategic or personal objectives designed to ensure executive directors are incentivised across a range of objectives. Target performance is typically set in line with the year's business plan, with the threshold to stretch targets set around the plan, based on a sliding scale that reflects relevant commercial factors. Only modest rewards are available at threshold performance levels, with rewards at stretch requiring material outperformance of the business plan. Details of the specific measures used for the annual bonus are set out in the annual report on remuneration.

PSP performance measures will be selected to: provide a robust and transparent basis on which to measure the Group's performance; link remuneration outcomes to delivery of the business strategy over the longer term; and provide strong alignment between senior management and shareholders. The policy provides for committee discretion to alter the PSP measures and weightings from year to year. This is to ensure that it can continue to measure performance appropriately, if the Group's strategic ambitions evolve over the life of the policy.

When setting performance targets for the bonus and PSP, the committee will take into account a number of different factors. These may include the Group's business plans and strategy, external forecasts and the wider economic environment.

The committee retains the discretion to amend the bonus payout and to reduce the PSP vesting level if any formulaic outcome does not reflect its assessment of overall business performance over the relevant period.

Flexibility, discretion and judgement

The Remuneration Committee operates the annual bonus and LTIP according to the rules of each respective plan which, consistent with market practice, includes discretion in a number of respects to the operation of each plan. Discretions include:

- Who participates in the plan, the quantum and timing of awards and payments
- Determining the extent of vesting
- Treatment of awards and payments on a change of control or restructuring of the Group
- Whether an executive director or senior manager is a good/bad leaver for incentive plan purposes and if the proportion of awards that vest do so at the time of leaving or at the normal vesting date(s)
- How and whether an award may be adjusted in certain circumstances (for example, for a rights issue, a corporate restructuring or special dividends)
- What the weighting, measures and targets should be for the annual bonus plan and LTIP awards from year to year
- The ability, within the policy, to adjust targets and set different measures or weightings for the applicable annual bonus plan and LTIP awards, if the committee determines that the original conditions are no longer appropriate or do not fulfil their initial purpose. Such changes would be explained in the subsequent directors' remuneration report and, if appropriate, be discussed with our major shareholders
- The ability to override formulaic outcomes in line with policy.

All assessments of performance are ultimately subject to the committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the annual remuneration report.

Legacy arrangements

In approving this remuneration policy, Bytes has the authority to honour any previous commitments entered into with current or former directors (such as the payment of a pension or the unwinding of legacy share schemes or historic share awards) that remain outstanding.

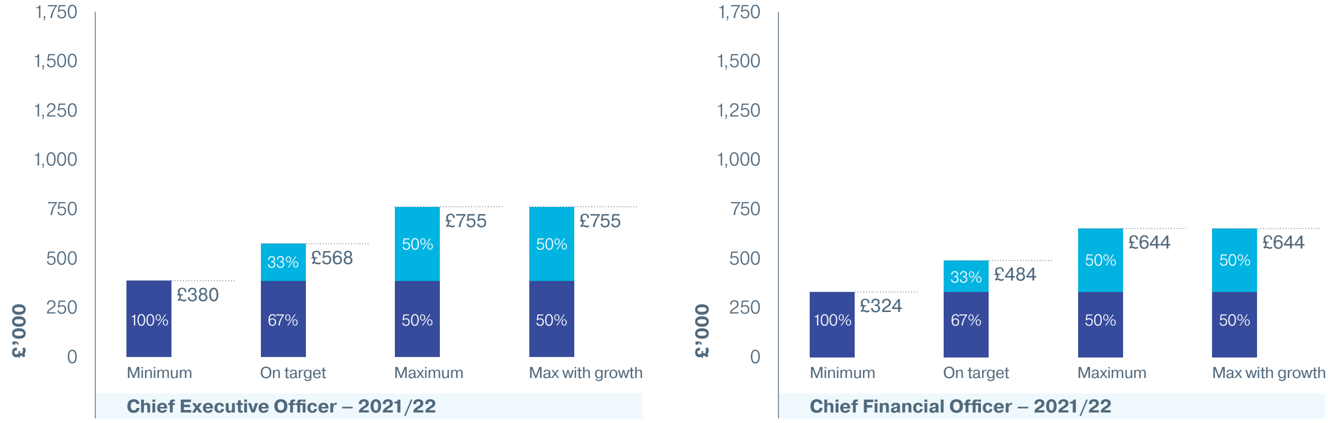
Shareholding guidelines

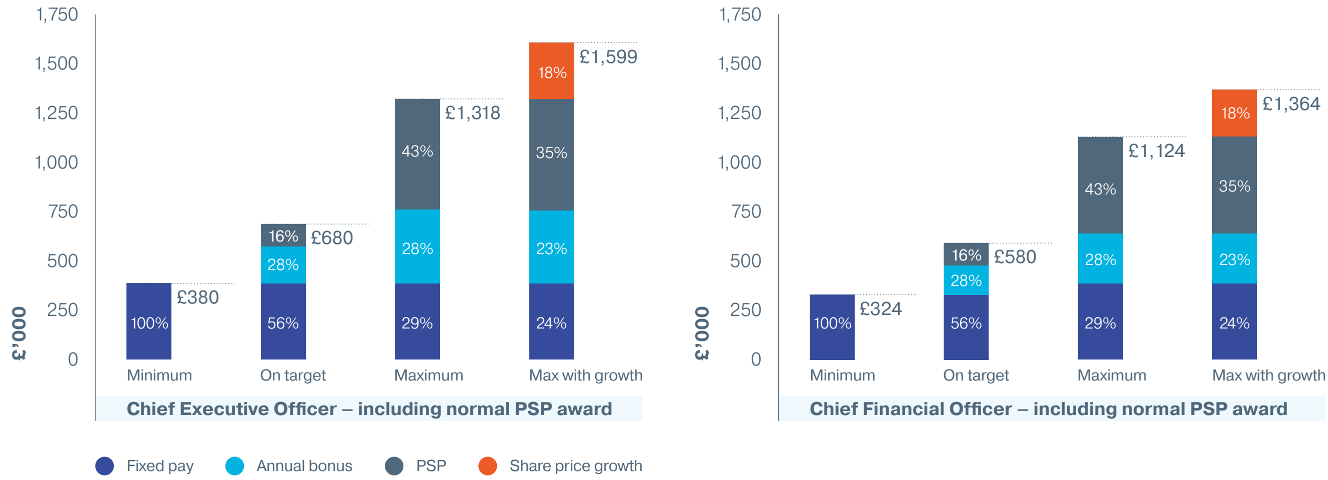
To further align executive directors' and shareholders' long-term interests, the Group operates share ownership guidelines. These require executive directors to build up and maintain (as relevant) a level of shareholding in the Group equivalent to 200% of base salary. This guideline will apply while the executive directors are in post and for two years afterwards.

Illustrative applications of our policy

The following charts illustrate the application of the policy for our CEO and CFO. They show the split of remuneration between fixed pay and annual bonus and PSP on the basis of minimum remuneration, remuneration for performance in line with the Group's expectations, and maximum remuneration – both with no share price appreciation and with 50% share price growth.

Our executive directors have waived the right to receive PSP awards in the initial year of the policy; the charts for 2021/22 therefore exclude any value relating to the PSP. (For comparison, we show charts that include a PSP award at the normal policy level.)





In illustrating the potential reward, the following assumptions have been made:

<table>
<tr><th></th><th>Fixed pay</th><th>Annual bonus
(including any amount deferred)</th><th>PSP
(normal policy level)</th></tr>
<tr><td>Minimum performance</td><td rowspan="4">Fixed elements of remuneration only – base salary (being the salary effective from 1 March 2021, estimate of benefits payable for 2021/22 and pension contributions of 1.48% of salary for the CEO and 1.69% for the CFO).</td><td>No annual bonus awards.</td><td>No vesting.</td></tr>
<tr><td>Performance in line with expectations</td><td>50% of salary awarded for achieving target performance.</td><td>20% of maximum award vesting (equivalent to 30% of salary) for achieving target performance.</td></tr>
<tr><td>Maximum performance</td><td rowspan="2">100% of salary awarded for achieving maximum performance.</td><td>100% of maximum award vesting (equivalent to 150% of salary) for achieving maximum performance.</td></tr>
<tr><td>Maximum performance plus 50% share price growth</td><td>100% of maximum award vesting (equivalent to 150% of salary) for achieving maximum performance plus hypothetical share price growth of 50%.</td></tr>
</table>

Notes to the methodology:

- Annual bonus includes amounts deferred into shares
- PSP is measured at face value, that is, with no assumption of dividends or share price growth (other than in the fourth scenario)
- Any potential amounts relating to all-employee share schemes have been excluded.

Recruitment remuneration

The policy aims to facilitate the appointment of individuals of sufficient calibre to lead the business, execute Bytes' strategy effectively and promote our long-term success for the benefit of our shareholders and other stakeholders. When appointing a new executive director, the committee seeks to ensure that arrangements are in the best interests of the Group and to not pay more than is appropriate.

The committee will take into consideration a number of relevant factors. These may include the calibre and experience of the candidate, their existing remuneration package, and their specific circumstances, including from where they are recruited.

When hiring a new executive director, the committee will typically align the remuneration package with the above policy. It may include other elements of pay which it considers are appropriate; however, this discretion is capped and subject to the following principles and limits:

- New executive directors will be offered a basic salary in line with the policy. This will take into consideration such factors as external market forces, the individual's expertise, experience and calibre and their current level of pay. Where the committee has set the salary of a new appointment at a discount to the market level until proven, the individual may receive an uplift or a series of planned increases to raise the salary to the appropriate market position over time.
- For both external and internal appointments, the committee may agree that we will meet relocation and incidental expenses as appropriate.
- Annual bonus awards, LTIP awards and pension contributions would not be above the levels stated in the policy table above.
- Depending on the appointment's timing, the committee may set different annual bonus performance conditions for the first year of performance. An LTIP award can be made following an appointment (assuming Bytes is not in a close period).
- Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements will be allowed to continue according to the original terms, adjusted as relevant to the appointment.
- The committee may also offer additional cash or share-based buyout awards when it considers it is in the best interests of Bytes (and therefore shareholders) to take account of remuneration given up at the individual's former employer. This includes the use of awards made under 9.4.2 of the Listing Rules. Such awards would represent a reasonable estimate of the value foregone and reflect, as far as possible, the delivery mechanism and time horizons and whether performance requirements are attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment or in the next Annual Report. The value of buy-out awards is not capped.
- For the appointment of a new Chair or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy.

Service contracts and letters of appointment

Bytes' policy is that executive directors should normally be employed under rolling service contracts with notice periods of either 6 or 12 months (both from each party), as shown below.

All non-executive directors have letters of appointment on a rolling annual basis, which may be terminated with one month's notice by either party, also as shown below. All director appointments are subject to Board approval and election and re-election by shareholders at each Annual General Meeting.

Copies of executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at our registered office during normal hours of business.

Executive directors' service contracts

The table below summarises key details of the executive directors' contracts:

	Date of joining Bytes	Date of service contract	Notice period (from either party)
Neil Murphy	1997[1]	30 October 2020	12 months
Keith Richardson	1994[2]	30 October 2020	6 months

1 Neil Murphy, appointed as CEO in 2020, has been the MD of the Bytes Group since 2000 and, prior to becoming MD, was Sales Director of the Bytes Group for three years.

2 Keith Richardson, appointed as CFO in 2020, has spent 26 years at the Bytes Group where he has been responsible for Finance and Operations.

Non-executive directors' letters of appointment

The table below summarises key details of the non-executive directors' contracts:

	Date of joining Bytes	Date of letter of appointment	Notice period (from either party)
Patrick De Smedt	1 September 2020	27 July 2020	1 month
David Maw[3]	15 October 2020	23 October 2020	1 month
Mike Phillips	6 November 2020	19 October 2020	1 month
Alison Vincent	6 November 2020	21 October 2020	1 month

3 David Maw has been a Bytes non-executive director since 2000.

Payments for loss of office

The principles underpinning determination of payments for loss of office are set out below:

Payment in lieu of notice	Bytes may terminate a contract with immediate effect with or without cause by making a payment, in lieu of notice, of base salary. The default approach will be to make the payment in lieu of notice by monthly instalments, with reductions for any amounts received from providing services to others during this period. However, the committee retains the discretion to make the payment as a lump sum. There are no obligations to make payments beyond those disclosed in this report.
Annual bonus	This will be at the discretion of the committee on an individual basis. The decision as to whether to award an annual bonus in full or in part will depend on a number of factors, including the circumstances of the individual's departure and their contribution to the business during the relevant annual bonus period. Any amounts paid will be pro-rated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the committee retains the discretion to pay the annual bonus award earlier). Any bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the committee's discretion. On a change of control, annual bonuses will either continue for the full year or be paid to the time of completion on a pro-rata basis.
Deferred bonus awards	The extent to which any unvested deferred bonus award will vest will be determined in accordance with the rules of the deferred bonus plan. If a participant leaves Bytes for any reason (other than summary dismissal, in which case the award will lapse), the award will usually continue until the normal vesting date. The committee retains the discretion to release awards when the participant leaves. On a change of control, awards will generally vest on the date that control alters, unless the committee permits (or requires) awards to roll over into equivalent shares in the acquirer.
PSP	The extent to which any unvested award will vest will be determined in accordance with the rules of the PSP. Any outstanding awards will ordinarily lapse. However, in 'good leaver' cases, awards will generally vest subject to the original performance condition and time proration and the holding period will continue to apply. For added flexibility, the policy allows the committee to decide not to prorate (or to prorate to a different extent) if it decides it is appropriate, and to allow vesting to be triggered at the point of leaving, rather than waiting until the end of the performance period. On a change of control, any vesting of awards will be subject to assessment of performance against the performance conditions and will normally be pro-rated.
Mitigation	The committee strongly endorses the obligation on an executive director to mitigate any loss on early termination and will seek to reduce the amount payable on termination where appropriate. The committee will also take care to ensure that, while meeting its contractual obligations, poor performance is not rewarded.
Buy-out awards	Where a buy-out award is made under the Listing Rules, the leaver provisions would be determined at the time of the award.
Other payments	Bytes may pay outplacement and professional legal fees incurred by executives in finalising their termination arrangements, where appropriate. It may also pay any statutory entitlements or settle compromise claims in connection with a termination of employment, in the best interests of the company. Outstanding savings/shares under all-employee share plans would be transferred in accordance with the terms of the plans.

Where the committee retains discretion, it will be used to provide flexibility in certain situations, taking into account the circumstances of the director's departure and performance.

External appointments

Bytes recognises that its executive directors may be invited to become non-executive directors of other companies, and that such appointments can broaden a director's experience and knowledge to the Group's benefit. Subject to approval by the Board, executive directors are allowed to accept non-executive appointments, provided that they are not likely to lead to conflicts of interest. The committee will consider its approach to fees received by executive directors for external non-executive roles as they arise.

Annual report on remuneration

The Remuneration Committee's role and composition

The Board is ultimately accountable for executive remuneration and delegates this responsibility to the Remuneration Committee. The committee is responsible for developing and implementing a remuneration policy that supports the Group's strategy and for determining executive directors' individual packages and terms of service, together with those of other members of senior management (including the Group Company Secretary). When setting the remuneration terms for executive directors, the committee reviews and has regard to wider employee reward and related policies. It also takes close account of the remuneration-related provisions of the UK Corporate Governance Code, including the requirements relating to clarity, simplicity, risk mitigation, predictability, proportionality and alignment to culture.

The committee is formally constituted and operates on written terms of reference, which are available on our website at bytesplc.com.

The committee comprises Alison Vincent (chair), Mike Phillips and Patrick De Smedt. Alison, Mike and Patrick have been members from the committee's constitution, upon admission to the London Stock Exchange, to the end of the financial year on 28 February 2021. The committee met once during the period between admission and the end of the financial year, and three times leading up to the IPO, with full attendance at all meetings.

By invitation of the committee, the CEO, CFO and Group Company Secretary (who acts as committee secretary) also attend its meetings. They are consulted on matters discussed by the committee, unless these relate to their own remuneration. Advice or information is sought from other employees where the committee feels it will assist its decision-making.

The committee is authorised to take such internal and external advice as it considers appropriate in carrying out its duties, including the appointment of external remuneration advisers. During the year, it was assisted by FIT Remuneration Consultants LLP. FIT was appointed in September 2020 and provided advice on general remuneration matters and the design of the policy. Fees paid to FIT for advising the committee during the year to 28 February 2021 were £42,000 (excluding VAT), charged on a time/cost basis. FIT also provided advice on non-executive directors' fees during the year, but other than this did not provide any other services to Bytes. FIT is a member of the Remuneration Consultants Group and, as such, voluntarily operates under its code of conduct on executive remuneration consulting in the UK. The committee is satisfied that FIT's advice was objective and independent.

The committee considered the following significant items during the period of last financial year that followed the IPO:

- Development of a new remuneration policy designed to promote Bytes' long-term success
- Preparation of the policy for approval by shareholders at the 2021 Annual General Meeting
- Review and approval of remuneration packages for the current executive directors
- Setting of annual bonus and long-term incentive plan targets for 2021/22
- Monitoring of external market practice, and developments in the governance expectations of institutional shareholders and shareholder representative bodies

- Review of the impact of the Group's IPO on legacy remuneration arrangements
- Appointment of FIT as committee advisers.

Since the end of the financial year, the committee has:

- Determined the outcomes under the 2020/21 bonus plan
- Agreed the annual bonus structure for the 2021/22 financial year
- Made preparations for the first awards to be made under our new post-IPO share plan arrangements.

The information that follows has been audited (where indicated) by Bytes' auditors, Ernst & Young LLP.

Single total figure of remuneration for each director (audited)

The table below reports the total remuneration for those directors who performed qualifying services for Bytes from our admission on 17 December 2020 until the conclusion of our financial year on 28 February 2021. The amounts in the table have been pro-rated to reflect this period.

Directors' total remuneration

£	Base salary/ Fees[1]	Benefits[2]	Annual bonus[3]	Long-term incentives[4]	Pension[5]	Total	Total fixed	Total variable
Executive directors								
Neil Murphy	54,279	372	36,638	–	736	92,025	55,387	36,638
Keith Richardson	47,198	–	31,859	–	733	79,790	47,931	31,859
Non-executive directors								
Patrick De Smedt[6]	36,000	–	–	–	–	36,000	36,000	–
David Maw[6]	10,000	–	–	–	–	10,000	10,000	–
Mike Phillips[7]	14,000	–	–	–	–	14,000	14,000	–
Alison Vincent[7]	12,000	–	–	–	–	12,000	12,000	–
Total	**173,477**	**372**	**68,497**	**–**	**1,469**	**243,815**	**175,318**	**68,497**

1 The 2020/21 annual salaries for Neil Murphy and Keith Richardson up until 30 November 2020 were £271,396 and £235,991, respectively. The annual salaries of Neil Murphy and Keith Richardson were set at £375,000 and £320,000, respectively, effective 1 December 2020. However, the increases were voluntarily waived until 1 March 2021 and were then implemented at that time. The annual non-executive directors' fees for Patrick De Smedt, David Maw, Mike Phillips and Alison Vincent were set at £180,000, £50,000, £70,000 and £60,000 respectively, effective from the date they joined the Board, in accordance with the table set out on page 113.

2 Non-salary benefits included the provision of private medical insurance.

3 The annual bonus pay-out was based on a figure of 67.5% of salary. The figures in the table have been pro-rated over the period from admission on 17 December 2020. Further details on this pay-out are set out below.

4 No post-IPO long-term incentives were capable of vesting for performance ending in the period.

5 The amount of employer contribution based on a fixed percentage of base salary.

6 Joined the Board on 15 October 2020.

7 Joined the Board on 6 November 2020.

Annual bonus for the year ended 28 February 2021 (audited)

For the 2020/21 financial year, executive directors were eligible for an annual discretionary cash bonus, for which performance objectives with suitably challenging 12-month goals were set at the beginning of the period. These comprised measures based 70% on operating income (adjusted for amortisation, share-based payment charge and exceptional costs) and 30% on key strategic objectives. The maximum annual bonus payable was 67.5% of salary. The performance-related outcomes were as follows:

Performance metric	Proportion of bonus determined by metric	Target performance (£m) (66.67% of max payable)	Stretch performance (£m) (100% of max payable)	Actual performance (£m)	Bonus earned (% of max)	Bonus earned (% of salary)
Adjusted operating income	70%	32.96	36.25	37.48	100%	47.25%
Key strategic objectives	30%	Given the significant importance of the IPO for the Bytes Group, this element of the bonus was wholly linked to the success of the IPO process. This process started around the beginning of the 2020/21 financial year and continued until its conclusion in mid-December 2020. Having assessed the outcome of the IPO and the initial performance of the Group since listing, the committee deemed the IPO to have been enormously successful (demonstrated, for example, by the listing price being at the top end of the range set out in the prospectus). The executive directors were instrumental in this success. Achieving this outcome – while effectively and successfully managing the operational responsibilities of the company against the backdrop of the pandemic – was considered by the committee to be an exceptional result.			100%	20.25%
Total					100%	67.5%

PSP awards vesting in the year (audited)

There were no long-term incentive awards capable of vesting in relation to performance during the year in the period following the IPO.

PSP awards granted in the year (audited)

No PSP awards were granted during the year.

Payments for loss of office and to past directors (audited)

No such payments were made during the year.

Statement of directors' shareholding and share interests (audited)

The following table shows the interests of directors and their connected persons in Bytes' ordinary shares at 28 February 2021.

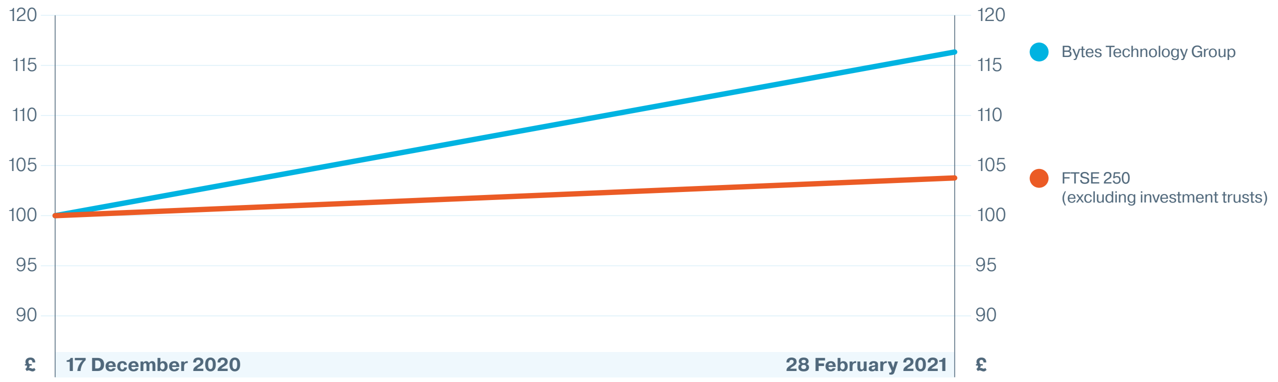
	Number of shares owned outright (including connected persons)	Unvested shares not subject to performance conditions	Unvested shares subject to performance conditions	Shareholding as a % of salary at 28 February 2021	Shareholding guideline as a % of salary	Shareholding guideline met
Neil Murphy	4,190,941	–	–	6,331%	200%	Yes
Keith Richardson	4,190,941	–	–	7,281%	200%	Yes
Patrick De Smedt	92,593	–	–	N/A	N/A	N/A
David Maw	14,815	–	–	N/A	N/A	N/A
Mike Phillips	74,074	–	–	N/A	N/A	N/A
Alison Vincent	3,704	–	–	N/A	N/A	N/A

These interests did not change between 28 February 2021 and the date the financial statements and reports were signed.

Total shareholder return performance

The graph below shows the value at 28 February 2021 of £100 invested in Bytes at the IPO price of 270 pence on 17 December 2020, the date of our admission to trading on the London Stock Exchange, compared to £100 invested in the FTSE 250 Index (excluding investment trusts), on the assumption that dividends are reinvested for additional equity.

The FTSE 250 Index (excluding investment trusts) was selected as a comparator as Bytes is a constituent. This allows our performance to be compared against the index as a whole.



Chief Executive Officer's remuneration

The total remuneration figure for the CEO in 2020/21 is shown in the table below, along with the value of bonuses paid, and PSP vesting, as a percentage of the maximum opportunity. This table will show 10 years' worth of data over time.

Year	CEO	CEO single figure of total remuneration	Annual bonus payout % of maximum	PSP vesting % of maximum
2021	Neil Murphy[1]	£92,025	100%	N/A

1 Total remuneration is the pro-rated post-IPO figure (for the period from admission to 28 February 2021); no PSP awards were eligible to vest during the period.

Change in directors' remuneration compared with other employees

As this is the first period reported since listing it is not possible to provide meaningful year-on-year comparative data. Full disclosure of movements will be provided in future remuneration reports.

Relative importance of spend on pay

Similarly, as this is the first period reported since listing there is no disclosure relating to the percentage change in dividend distributions between 2020 and 2021. Full disclosure of the year-on-year movement will be provided in future remuneration reports.

CEO to employee pay ratio

The table below sets out the ratio between the total pay of the CEO and that of employees at the 25th, 50th (median) and 75th percentiles of Bytes' UK workforce.

Year	Method	25th percentile	50th percentile	75th percentile
2021	A	14:1	9:1	5:1

The 25th, 50th and 75th percentile-ranked individuals were identified using 'option A' in the reporting regulations, selected on the basis that this is the most robust and statistically accurate means of identifying the relevant people. As ratios could be unduly impacted by joiners and leavers who may not participate in all remuneration arrangements in the year of joining and leaving, the committee has modified the statutory basis to exclude any employee not employed throughout the financial year. The 25th, 50th and 75th percentile employees were identified on 28 February 2021.

The CEO pay figure is the total remuneration sum set out in the single figure table, with corresponding figures (on a full-time equivalent basis) calculated for the 25th, 50th and 75th percentile employees. The total pay and benefits amounts used to calculate the ratios for each of the 25th percentile, median and 75th percentile employees are £6,650, £10,634 and £18,254, respectively. The salary element for each are £6,100, £10,000 and £12,012, respectively. The total pay and benefits amounts and the salary elements for the 25th, 50th and 75th percentile employees have been pro-rated from the admission date on the same basis as for the CEO's remuneration figures.

The committee is satisfied that the CEO's remuneration is reasonable and consistent with our wider policies on employee pay, reward and progression.

External appointments

Neither Neil Murphy nor Keith Richardson are currently non-executive directors of any company outside the Group.

Implementation of policy for the year ending 28 February 2022

Basic salary

The committee reviews the executive directors' base salaries on an annual basis, with any increases taking effect from 1 March each year. Salaries were set at the IPO, with no increase proposed for the 2021/22 financial year. Base salaries effective from 1 March 2021 are set out below:

	Base salary 2020/21	Base salary 2021/22
Neil Murphy	£271,396	£375,000
Keith Richardson	£235,911	£320,000

Benefits and pension

No changes are proposed to pension and benefits for 2021/22. Executive directors will continue to receive benefits that include private medical and life insurance and pension contributions equal to 1.48% of salary for the CEO and 1.69% for the CFO, in line with the policy.

Annual bonus

The maximum opportunity under the annual bonus plan will be 100% of base salary for both executive directors. One-third of the total bonus payment will be deferred into shares for two years.

Bonuses will be based on targets relating to operating income (adjusted for amortisation, share-based payment charge and exceptional costs) (80% of bonus) and a number of key strategic objectives (20% of bonus). The strategic objectives will include targets relating to maintenance of efficiency ratios, employee satisfaction and customer satisfaction. The committee has not disclosed the detailed performance targets for the forthcoming year in advance, as it considers that they include commercially sensitive matters. Retrospective disclosure of the performance against targets will be made in next year's Annual Report on remuneration, if the targets are no longer considered commercially sensitive.

PSP

Reflecting the levels of their current shareholdings, both executive directors have waived the right to participate in the PSP for 2021/22.

Non-executive directors' fees

Non-executive directors' fees for 2021/22 have remained unchanged since admission, and are as follows:

	Fee 2021/22
Chair	£180,000
Base fee	£50,000
Senior independent director fee	£10,000
Audit Committee chair fee	£10,000
Remuneration Committee chair fee	£10,000

On behalf of the Board.

Dr Alison Vincent
Remuneration Committee chair
25 May 2021

Directors' report

Our directors' report includes a variety of information – from our greenhouse gas emission data and going concern statement to the details of our main shareholders and our Annual General Meeting.

Directors

Name	Effective date of joining the Bytes Technology Group plc Board	Position
Patrick De Smedt	15 October 2020	Independent non-executive Chair
Neil Murphy	7 October 2020 (Bytes Group managing director since 2000)	Chief Executive Officer
Keith Richardson	7 October 2020 (Bytes Group finance and operations executive roles since 1994)	Chief Financial Officer
Mike Phillips	6 November 2020	Independent non-executive director
Alison Vincent	6 November 2020	Independent non-executive director
David Maw	15 October 2020 (Bytes Group non-executive director since 2000)	Non-executive director

WK Groenewald FCG
Group Company Secretary

The report has been prepared in accordance with the requirements outlined in The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and forms part of the management report as required under Disclosure Guidance and Transparency Rule (DTR) 4. Certain information that fulfils the requirements of the directors' report can be found elsewhere in this report and is referred to below. The information is incorporated into this directors' report by reference.

The directors' report is made up of the governance report and this report. Other relevant information which is incorporated by reference can be found in the strategic report, including:

- An outline of the important events that occurred during the year, on pages 8 to 13
- An indication of likely future developments in the business of Bytes and its subsidiaries, BSS and Phoenix, on pages 10 to 13
- Financial performance on pages 26 to 33
- Business environment on pages 14 and 15
- Outlook and financial management strategies are included on pages 10 to 15, and 26 to 33
- Internal controls, principal risks and risk management framework on pages 44 to 53
- Stakeholder engagement on pages 72 to 76
- Directors' biographies on pages 58 and 59
- Section 172 statement on page 56.

Requirements of Listing Rule 9.8.4

Information to be included in the Annual Report under Listing Rule 9.8.4 may be found as follows:

Relevant Listing Rule	Page
LR 9.8.4R(5)	88-113

Directors

The directors who held office at 28 February 2021, and up to the date of this report, are set out on pages 58 and 59 along with their biographies. There were no changes to the Board since the appointment of the directors and up to the date of approval of the financial statements.

The company's Articles of Association govern the appointment, removal and replacement of directors and explain the powers given to them. All current directors will be standing for appointment at the forthcoming Annual General Meeting to be held at 10am (BST) Thursday, 22 July 2021. The remuneration of the directors, including their respective shareholdings in the company, is set out in the Directors' remuneration report.

Avoiding conflicts of interest

Since their respective dates of appointment, and up to the date of this report, no director held any beneficial interest in any contract significant to the company's business, other than a contract of employment.

The Board regularly reviews each director's interests outside Bytes and considers how the Chair ensures he is applying objective judgement in his role, as required by the UK Corporate Governance Code. To assist directors avoiding conflicts (or possible conflicts) of interest, the Board must first give clearance to any potential conflicts, including directorships or other interests in outside companies and organisations. This is recorded in a statutory register. Should a director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the Group, they are required to notify the Board or the Group Company Secretary as soon as reasonably practicable. In such an instance, unless allowed by the company's Articles of Association, the director cannot take part in any decisions about the contract or arrangement.

Directors' and officers' liability insurance and indemnification of directors

The company maintains directors' and officers' liability insurance which gives appropriate cover should legal action be brought against its directors. The company has also provided an indemnity for its directors, which is a qualifying third-party indemnity provision, for the purposes of Section 234 of the Companies Act 2006. This was in place since admission and up to the date of approval of the financial statements.

Share capital

The issued share capital of the company upon Admission on 17 December 2020 and at 28 February 2021 was 239,482,333 ordinary shares of 0.01 pence nominal value, with no shares held in treasury. Except for 1,480,110 nil cost options granted to key employees below Board level as part of the IPO, no additional shares or share options were issued as at the year ended 28 February 2021. Note 19 to the consolidated financial statements on page 185 contains full details of the issued share capital. As far as the company is aware, there are no restrictions on the voting rights attaching to its ordinary shares and there are no agreements which may result in restrictions in the transfer of securities or voting rights. No securities carry any special rights.

An analysis of shareholdings is shown below right. The closing share price of the company on admission and on 28 February 2021 was 358.80 pence and 418.60 pence respectively.

Dividends and dividend policy

As disclosed in the IPO prospectus, the Board intends to initially target an annual dividend of between 40% and 50% of the Group's profit after tax before any exceptional items in each financial year. Subject to any cash requirements for ongoing investment, the Board will consider returning excess cash to shareholders over time. The Board expects that the first dividend that may be declared by the company after admission will be the interim dividend in respect of the year ending 28 February 2022, which, if declared, will be payable in the final quarter of 2021. The Board may revise the company's dividend policy from time to time.

Substantial shareholdings

As at 25 May 2021, the company had been notified under the Disclosure Guidance and Transparency Rules, or had ascertained from its own analysis, that the following held notifiable interests in the voting rights in the company's issued share capital of 3% or more if its ordinary share capital:

Shareholder	Number of voting rights	% of voting rights
Aberdeen Standard Investments	22,470,154	9.38%
Biltron	18,262,478	7.63%
Public Investment Corporation	14,665,326	6.12%
JPMorgan Asset Management	14,225,449	5.94%
BlackRock	9,320,737	3.89%
Jupiter Asset Management	9,061,523	3.78%
Vanguard Group	8,790,457	3.67%
T Rowe Price Global Investments	8,000,642	3.34%

Committees of the Board

The Board has established Audit, Nomination and Remuneration Committees. The Audit Committee has been mandated to oversee and monitor the Group's enterprise risk management. Further details of these committees, including membership and key focus areas for the 2021/22 financial year, are contained in the governance section of this Annual Report.

Companies Act 2006 disclosures

In accordance with Section 992 of the Companies Act 2006, the directors disclose the following information:

- The company's capital structure and voting rights are summarised in note 19 in the consolidated financial statements on page 185, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights
- The company does not hold any shares in treasury
- There exist no securities carrying special rights with regard to the control of the company
- Details of the substantial shareholders and their shareholdings in the company are listed in the table on page 116
- No shares were awarded under the company's deferred bonus plan for the year ended 28 February 2021. The deferred bonus plan will be implemented from 28 February 2022
- The rules concerning the appointment and replacement of directors, amendment to the Articles of Association and powers to issue or buy back the company's shares are contained in the Articles of Association of the company and the Companies Act 2006
- There exist no agreements to which the company is party that may affect its control following a takeover bid
- There exist no agreements between the company and its directors providing for compensation for loss of office that may occur because of a takeover bid.

Articles of Association

The company's Articles of Association set out the rights of shareholders, including voting rights, distribution rights, attendance at general meetings, powers of directors, proceedings of directors, borrowing limits and other governance controls. A copy of the Articles of Association can be requested from the Group Company Secretary.

Political donations

Further to the disclosure in the IPO prospectus and in accordance with Section 366 of the Companies Act 2006, during the period from admission until the conclusion of the company's first Annual General Meeting it is authorised to make political donations provided that the aggregate amount shall not exceed £100,000. It is confirmed that no donations were made for the year ended 28 February 2021 and up to the date of this report. Generally, the company's policy is to not make political donations.

Greenhouse gas (GHG) disclosure

We recognise the importance of reducing our GHG emissions and operating in a more environmentally sustainable way to drive cost efficiencies and meet the expectations of all our stakeholders. Building on our strong commitment to environmental improvement, we are currently resetting our targets as we move into a post-Covid-19 working environment, including aligning with science-based targets, to further reduce our carbon emissions.

We are working with environmental consultants to draft our response to the Task Force on Climate-related Financial Disclosures which, as a newly-listed business, we will include in next year's Annual Report.

Our current carbon emissions

Emissions scope/Activity: 2020/21	Energy equivalent (kWh)	Carbon emissions (tCO_2e)
Scope 1: Direct emissions		**54.5**
Gas consumption	188,084	34.7
Company vehicles	–	–
Diesel	11,924	3.1
Refrigerants	–	16.7
Scope 2 energy: Indirect emissions	**–**	**233.0**
Electricity consumption	999,135	233.0
Scope 3: Other indirect emissions		**27.6**
Directors' cars	50,999	11.9
Grey fleet	67,263	15.8
Hire cars	–	–
Total energy, kWh	1,317,405	
Total emissions, tCO_2e		**315.1**
Relative emissions, normalised by turnover, tCO_2e/£m	–	0.5

Scope

We report Scope 1, Scope 2 and Scope 3 emissions as defined by the GHG protocol as follows:

- Scope 1 emissions are direct emissions produced by the burning of fuels of the emitter
- Scope 2 emissions are indirect emissions generated by the electricity consumed and purchased by the emitter
- Scope 3 emissions are indirect emissions produced by the emitter's activity, but owned and controlled by a different emitter than the one who reports on them.

Methodology

We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013 and have followed the requirements of the Streamlined Energy & Carbon Reporting (SECR) framework. We have used the GHG Protocol Corporate Accounting and Reporting Standard to calculate our GHG emissions and applied the emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019. We have worked with external consultants to enable us to have an up-to-date view of Bytes' carbon footprint and will continue to work with them as part of our environmental management efforts.

Energy efficiency projects

The Group has undertaken a number of environmental and energy projects over the year. The Phoenix training suite has been updated with 'smart' energy efficient lighting and improved, more efficient air conditioning and, at Blenheim House, there has been a major overhaul of the uninterruptible power supply system enabling smoother, more efficient performance. There has been a move away from desktop-based equipment to more energy-efficient laptops, which can also be utilised for working at home. Company vehicles have been withdrawn and charging points have been installed to encourage the use of electric vehicles. Various actions have been taken to engage with staff on environmental issues, for example, Sustainable Christmas promoted the use of recyclable wrapping paper and decorations, and a webinar on sustainable investing informed staff how to move their pensions and ISAs to sustainable funds.

Going concern

The going concern of the Group is dependent on maintaining adequate levels of resources to continue to operate for the foreseeable future. The directors have considered a number of key dependencies which are set out in the Group's risk management section, specifically the Group's exposure to credit risk, as described in note 15 to the financial statements, and liquidity risk, currency risk and foreign exchange risk as described in note 24 to the financial statements. The directors continue to monitor the effects of the Covid-19 pandemic on the business and will react accordingly to the associated risks presented in note 1.4 to the financial statements.

When assessing the going concern of the Group, the directors have reviewed the year to date financial actuals, as well as detailed financial forecasts for the period up to 31 August 2022.

The assumptions used in the financial forecasts are based on the Group's historical performance, management's extensive experience of the industry and reflect expectations of future market conditions. Taking into consideration the impact of Covid-19 on the wider economic environment, the forecasts have been assessed and stress tested to ensure that a robust assessment of the Group's working capital and cash requirements has been performed.

Further details, including the analysis performed and conclusion reached, are set out below.

Operational and business impact of Covid-19

Covid-19's impact on the business is described in note 1.4. In preparing its going concern assessment, management have considered the potential future impact of Covid-19 on the business, considering the limited impact it has had to date. Over this period many customers were transitioning to home working and responding to the impact of Covid-19 on their own businesses and this contributed to the Group achieving strong double-digit growth in gross profit in the current financial year.

Whilst both operating profit and profit before taxation were down in the current financial year compared to 29 February 2020, this was mainly due to the one-off costs associated with the IPO, see note 5, as opposed to any potential impacts of Covid-19. The underlying performance of the Group, ignoring these one-off costs, saw similar double-digit growth in both operating profit and profit before tax. Whilst the Group reported a net current liability at 28 February 2021, this was due to the payment of significant one-off amounts pre-IPO totalling £46.7 million, as noted below under "Liquidity and financing position". Post year end the Group has remained cash positive with closing trade receivables substantially settled within 35 days of year end whilst most trade payable amounts are paid over the three months to the end of May 21. This continues to be the case as the Group generates profits and collects customer receipts ahead of making the associated supplier payments.

The directors believe that the Group operates in a resilient industry and that the Group has demonstrated profitable growth, despite the pandemic, since 1 March 2020. The Group's customer base incorporates a large volume of non-discretionary spend from UK corporates as IT has become vital to establish competitive advantage in an increasingly digital age. Public sector organisations, a large and fast-growing area of the business, have shown minimal negative sensitivity to Covid-19 to date as they've sought efficiencies, resilience, and security within their IT infrastructures. This mix of private and public customers means that a downturn in one area can be compensated for by upturns in others. Risk is further mitigated by the fact that the Group's business is derived from over 5,000 customers, none of which contribute more than 5% of total gross income or more than 1% of total gross profit.

Due to the nature of licensing schemes and service contracts, a high proportion of business is repeatable in nature with subscriptions needing to be renewed for the customer to continue to enjoy the benefit of the product or service. The most significant software contracts, the Microsoft Enterprise Agreements (EAs), run for three years and it is rare to lose a contract mid-term which removes the risk of income disappearing over a cliff edge. The Group has very high success rate in securing renewals of existing agreements and winning new ones. The renewal rate for the year was 107%, a measure of the rate of growth in gross profit from existing customers who contributed 95% of total gross profit in the year. The Group will continue to focus on increasing its customer base and spend per customer during the going concern period.

Just over 50% of the income is generated from sales of Microsoft (MS) products and associated service solutions. Whilst there is a notable move towards more agile "pay as you go" contracts around cloud based applications, this makes agreements even more "sticky" by increasing the dependency of the customer on the cloud infrastructure and products which MS provides.

Further, it has created the opportunity for the Group to develop a host of skill sets so it is best placed to advise and support the customers in whatever direction they choose to fulfil their licensing requirements from a programmatic, purchasing and consumption perspective. To this end, the Group has attained the highest levels of MS Expert status, specialist Competencies and Advanced Specialisations in numerous MS technology areas. In turn, MS rewards partners who have these awards with additional levels of funding. The Group Board is engaged directly with MS Executives in developing the partnership further and MS business is currently growing at high double-digit rates.

Liquidity and financing position

At 28 February 2021, the Group held instantly accessible cash and cash equivalents of £20.7 million. This amount is after the Group paid during the year to that date an interim dividend of £18.6 million and a pre-initial public offering (IPO) dividend of £30 million to its shareholder, Bytes Technology Group Proprietary Limited, a subsidiary of Altron and a further £16.7 million paid as part of the consideration to acquire the B ordinary shares held by management in Bytes Technology Limited and Blenheim Group Limited.

On admission the Group gained access to a committed revolving credit facility of £50 million with HSBC, which reduces to £40 million after 12 months and to £30 million thereafter. Hence it extends well beyond the going concern period. To date, the Group has not been required to use the revolving credit facility.

Approach to stress testing

The going concern analysis reflects the actual trading experience through the financial year to date, as well as detailed financial forecasts for the period up to 31 August 2022. The Group has taken a measured approach to its forecasting and has balanced the expected trading conditions with available opportunities.

Given the uncertainty around the impact of Covid-19, the Board has also in its assessment of going concern considered the potential impact of a generalised economic downturn leading to a greater impact on the spending patterns of the Group's customers than has been experienced to date, and the extent to which this could adversely affect the Group's future revenue, gross invoiced income, operating profit, adjusted operating profit and debtor days, as well as the extent to which this might be offset by savings in commissions and bonuses and discretionary areas of spend. As part of the stressed scenario, where only partial mitigation of downsides is possible, the Board confirmed that the revolving credit facility would not be used during the going concern period up to 31 August 2022 and therefore the Group would remain in compliance with the covenant limits required as part of the facility.

Details of stress testing

The Group assessed the going concern by comparing a base case scenario to two downside scenarios and in each of the downside cases taking into consideration two levels of mitigation, "full" and "partial". These scenarios are set out below:

- Base case was forecast using the growth rates included in the Board-approved budget for the year ending 28 February 2022 and extended across the first six months of the following year to 31 August 2022.

- Downside case 1, Severe but plausible, modelled gross invoiced income reducing by 10% year on year, gross profit reducing by 15% year on year and debtor collection periods extending by five days, in each case from June 2021.
- Downside case 2, Stressed, modelled both gross invoiced income and gross profit reducing by 30% year on year and debtor collection periods extending by 10 days, again in each case from June 2021.
- Partial mitigation measures modelled for the downsides were to freeze future pay and new recruitment from March 2022 and "self-mitigating" reduction of commissions in line with falling gross profit.
- Full Mitigation additionally modelled headcount reductions from March 2022 in line with falling gross profit.

The mitigations applied in the downside scenarios relate to pay costs and headcount which are within the control of the Group to implement quickly in response to any downward trends should they be necessary. However, they have not been applied until 1 March 2022 since pay-related cost are already substantially committed for the year ending 28 February 2022.

Under all scenarios assessed, the Group would remain cash positive throughout the whole of the going concern period.

Going concern conclusion

Based on the analysis described above, the Group has sufficient liquidity headroom through the forecast period. The directors therefore have reasonable expectation that the Group has the financial resources to enable it to continue in operational existence for the period up to 31 August 2022. Accordingly, the directors conclude it to be appropriate that the consolidated financial statements be prepared on a going concern basis.

Important events since the end of the financial year

The directors have considered the period from the balance sheet date up to the date of this report and concluded that there are no subsequent events requiring disclosure. Information related to Covid-19 is outlined on pages 144 to 145.

Auditor and disclosure of information

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware:

- There is no relevant audit information of which the company's auditor is unaware
- Each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information, and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

EY has expressed its willingness to continue in office as auditor and separate resolutions will be proposed at the forthcoming Annual General Meeting concerning its appointment and to authorise the Board to agree its remuneration.

Annual General Meeting

The 2021 Annual General Meeting will be held at 10am (BST) Thursday, 22 July 2021 at Bytes House, Leatherhead, Surrey, UK, with shareholders encouraged to attend virtually this year. Shareholders will be able to ask questions either by email or by audio function. The company will be making use of the electronic voting facility provided by its registrars, Computershare Limited. The facility includes CREST voting for members holding their shares in uncertificated form. For further information, please refer to the section on online services and electronic voting set out in the notes to the notice of the Annual General Meeting.

The notice of the Annual General Meeting and an explanation of the resolutions to be put to the meeting accompanies this Annual Report. The Board fully supports all the resolutions set out in the notice and encourages shareholders to vote in favour of each of them as they intend to in respect of their own shareholdings.

By order of the Board.

WK Groenewald FCG
Group Company Secretary
25 May 2021

Statement of directors' responsibility

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- State whether applicable IFRSs as adopted by the EU have been followed for the Group and parent company financial statements, subject to any material departures disclosed and explained in the financial statements
- Make judgements and accounting estimates that are reasonable and prudent
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors recognise their overall responsibility for the Group's system of internal controls and for monitoring its effectiveness and confirm that there is an ongoing process for identifying, evaluating and managing significant risks. The directors have assessed the system of internal controls and remain satisfied that it continued to be effective in identifying, assessing and ranking the various risks facing the Group, and in monitoring and reporting progress in managing and mitigating the potential impact on the Group. The Board have approved the statement of the principal risks set out in the Annual Report.

Directors' confirmations

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent company's position and performance, business model and strategy. In the case of each director in office at the date the directors' report is approved:

- So far as the director is aware, there is no relevant audit information of which the Group and parent company's auditors are unaware
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company's auditors are aware of that information.

This responsibility statement was approved by the Board of directors on 25 May 2021 and is signed on their behalf.

By order of the Board.

WK Groenewald FCG
Group Company Secretary
25 May 2021

Financial statements

"All teams are working towards the same goal and are therefore always willing to help."

Rebecca
Operations

Independent auditor's report to the members of Bytes Technology Group plc

Opinion

In our opinion:

- Bytes Technology Group plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 28 February 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bytes Technology Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 28 February 2021 which comprise:

Group	Parent company
Consolidated statement of financial position as at 28 February 2021	Balance sheet as at 28 February 2021
Consolidated statement of profit and loss for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 10 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 30 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included the following.

- Performing a walkthrough of the Group's financial close process to confirm our understanding of management's going concern assessment process and engaging with management early to ensure all key risk factors we identified were considered in their assessment.
- Obtaining management's going concern assessment, including the cash flow forecasts and covenant calculations for the going concern period which covers the period to August 2022, then performing procedures to confirm the clerical accuracy of the underlying model including validating the credit facility assumptions.
- Assessing the Group's base scenario for consistency with cash flow forecasts used in the goodwill impairment assessment over which we have performed detailed audit procedures to challenge the base case assumptions.
- The Group has modelled a base scenario and then two downside scenarios, being a severe but plausible downside scenario and a stressed scenario in their cash forecasts and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity of the Group. We have performed detailed audit procedures to challenge the base case and the severe case assumptions included in each modelled scenario for the cash forecast and covenant calculation and we have considered the impact of Covid-19. As part of our understanding of managements base case and various downside scenario's modelled, we noted that the key assumptions present were the forecasted gross invoiced income growth rates, gross profit growth rates, headcount and base pay growth rates, overhead growth rates and debtor days. We performed enquiries with management to understand the basis of the key assumptions and performed substantive procedures to independently determine their appropriateness, such as reviewing the growth rate assumptions within the context of historic performance and critically assessing management's ability to accurately forecast through lookback analysis on the last three years of historic financial data. We considered the appropriateness of the methods used to calculate the cash forecasts and covenant calculations and determined that they were appropriately sophisticated, and sufficiently comprehensive and precise to be able to make an assessment on going concern.
- Reviewing and reperforming management's stress test of their cash forecasts and covenant calculations in order to quantify then assess the likelihood of the downside scenarios required to exhaust the Group's forecast liquidity and breach the Group's covenant ratios.
- Considering the impact and feasibility of potential mitigating activities that are within control of the Group, such as freezing planned growth in capital expenditure headcount and pay rises and reducing dividend payments.
- Reviewing the Group's going concern disclosures included in the Annual Report in order to assess their completeness and conformity with the reporting standards.

We observed that at 28 February 2021 the Group had cash and cash equivalents of £20.7 million in addition to the Group's RCF facility of £50.0 million. We also noted as part of our enquiries that the RCF is due for renewal in January 2024, which falls outside of the going concern period. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for a period of 15 months from when the financial statements are authorised for issue.

Independent auditor's report to the members of Bytes Technology Group plc

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	– We performed an audit of the complete financial information of three components and audit procedures on specific balances for a further five components. – The components where we performed full or specific audit procedures accounted for 100% of adjusted profit before tax, 100% of revenue and 100% of total assets.
Key audit matters	– Overstatement of performance through the misstatement of revenue recognised at or near year end. – Misstatement of rebate income to overstate reporting results. – IFRS 15 presentation and disclosure in respect of principal vs agent. – Accounting for demerger and IPO-related costs and transactions.
Materiality	– Overall Group materiality of £1.7 million which represents 5% of profit before tax, adjusted for non-recurring costs predominantly related to IPO expenses (adjusted profit before tax).

An overview of the scope of the parent company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls and changes in the business environment when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected all of the eight reporting components of the Group, all being entities in the UK and which represent the principal business units within the Group.

Of the eight components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("other scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Audit procedures performed on the full scope components, located in two different locations in the UK, accounted for over 99% of the Group's adjusted profit before tax, 99% of the Group's revenue and 99% of the Group's total assets.

The remaining five components together represent less than 1% of the Group's adjusted profit before tax, revenue and total assets and therefore are immaterial for the Group. To respond to any potential risks of material misstatement to the Group financial statements, we performed a number of other procedures on these components, including analytical review, confirmation of bank balances and verification of intercompany and investment balances, which were eliminated as part of the consolidation.

Involvement with component teams

In establishing our overall approach to the Group audit, the Senior Statutory Auditor, James Harris, determined the type of work that needed to be undertaken at each of the components.

As Bytes Group management and trading components (Bytes Software Services and Phoenix Software) operate solely in the UK, we have performed the audit using a single integrated Group audit team. Therefore, of the three full scope components, audit procedures were performed on all of these directly by the primary audit team. Overseen by the Senior Statutory Auditor, the Group audit team designs, executes, reviews and concludes on all work performed, operating as a single audit team across both locations. This integrated team performed all audit procedures at all three full scope components as well as procedures at other scope components. Procedures over all components were overseen by the Senior Statutory Auditor including the design, execution and conclusion on all work performed.

Impact of the Covid-19 pandemic

Due to the travel restrictions put in place by UK government, the Senior Statutory Auditor was unable to travel to either major site during the current year and the audit was performed remotely. This was facilitated by being an integrated team and the EY electronic audit file platform. This allowed the Senior Statutory Auditor to direct the audit and to review all key working papers, focusing his time on the significant risks and judgmental areas of the audit. This was supplemented with regular video conference calls with Group audit team members. In addition, the audit team, including the Senior Statutory Auditor, had regular video conference calls with management in both key locations throughout the audit process.

Based upon the above approach we are satisfied that we have been able to perform sufficient and appropriate oversight of the audit work performed across all components.

Independent auditor's report to the members of Bytes Technology Group plc

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 and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Overstatement of performance through the misstatement of revenue recognised at or near year end Refer to the Audit Committee report (page 79); Accounting policies (pages 151 to 155); and note 3 of the consolidated financial statements (pages 167 and 168). The Group has reported revenue of £393.6 million (2020: £373.1 million). Revenue is a key value driver for the business as a whole and is one of the key performance indicators used to measure the performance of the business. Compensation incentives are also based on sales or margin targets, creating a risk of revenue misstatement through management override. Management's process for accounting for certain revenue transactions, particularly the review process at or near the year end related to rendering of services, is mostly manual and therefore susceptible to error (either deliberate or without intent). There is therefore a risk that revenue is recognised prematurely, fictitiously, or without the associated cost of goods sold around the year end.	We performed the following audit procedures: – Understood management's process in determining the revenue recognition point and understood the process of entering into a contract and agreeing terms with customers, and how contracts are then assessed to ensure correct revenue recognition terms are applied. – Assessed revenue cut-off by testing transactions recorded before and after the year end on a sample basis by vouching to invoices and proof of delivery to confirm these have evidence that the performance obligations are satisfied and revenue has been recorded in the correct period. – Addressed the risk of management override by testing a sample of manual journal entries recorded at or near year end by verifying to supporting documentation and testing credit notes issued subsequent to the year end. – Tested a sample of sales transactions related to the rendering of services which were deferred at the year end and recalculated the deferred elements to obtain assurance over the calculation of deferred revenue. – Utilised data analytics tools to analyse a full population of sales-related journal entry data to track sales from revenue through to accounts receivable through to cash collection. We used this analysis to validate the appropriateness of transaction flows and tested a sample of transactions to determine if the journals accurately reflected the substance of transactions recorded.	Through our procedures performed we have not identified any unsupported manual adjustments to revenue, or any unexplained anomalies from our revenue recognition procedures. We concluded that the revenue recognised at or near year end was properly accounted for and that revenue has appropriately been recognised in accordance with IFRS 15.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Misstatement of rebate income to overstate reported results Refer to the Audit Committee report (page 79); Accounting policies (page 155); and note 3 of the consolidated financial statements (pages 167 and 168). The Group has reported rebate income of £24.4 million (2020: £22.9 million) and a year-end rebate receivable of £2.9 million (2020: £2.9 million). Bytes Technology Group has rebate arrangements with suppliers, which are based on agreed percentages of sales made to the customers during the current rebate period. While most rebates are agreed with the supplier and received during the year, there is an increased degree of estimation as in order to recognise rebate income and receivables accurately, The Group is reliant on information which is not available at the time that the rebate is recognised. The resulting estimation uncertainty around the rebate receivable balance therefore provides scope for the use of management override to influence reported amounts through the estimated rebate adjustments posted to cost of sales.	We performed the following audit procedures: – Understood the procedures and controls in place over the recognition and recording of rebates including key assumptions made by management within estimates. – Tested the year-end rebate receivable by confirming a sample of rebates due from suppliers to third-party source documentation. – Tested a sample of rebate transactions recorded to the statement of profit and loss through the year and obtained underlying support to consider whether the transactions have been recorded in the correct period and if they have been classified appropriately against cost of goods sold. – Analysed the rebate receivable by vendor and compared the largest vendor-level balances against 29 February 2020. Performed analysis to understand the drivers of increases or decreases in the underlying balances.	We concluded that management's judgements were materially consistent with our expectations and recalculations based on external sources. We concluded that the rebates income recognised during the year and the receivable at the period end is appropriate.

Independent auditor's report to the members of Bytes Technology Group plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
IFRS 15 presentation and disclosure in respect of principal versus agent Refer to the Audit Committee report (page 79); Accounting policies (pages 151 to 155); and note 3 of the consolidated financial statements (pages 167 and 168). The Group has recognised £564.5 million (2020: £349.1 million) of agency adjustment to revenue. The Group makes a judgement over the level of control for all products and services sold and continues to assess this position. There is a risk that the reported revenue may be incorrectly presented as a result of incorrectly assessing whether the Group has control over the products or services sold and consequently if the Group is principal or agent in its arrangements with customers. The process to categorise the population between principal or agent treatment is highly manual and judgemental and therefore it is susceptible to error. The risk is that management will fail to appropriately recognise sales that are made on the agency basis, which would lead to the reported revenue being materially overstated.	We performed the following audit procedures: – Completed an accounting technical review to challenge whether management's application of the requirements of IFRS 15 complied with the standard and to challenge the key judgements made by management. – Understood management's judgement over the split of transactions between gross and net presentation. We met with key members of the Bytes sales and services teams to develop an understanding of the advisory element of Bytes' customer offering, and challenged the distinction between sales effort and service delivery in order to help ascertain the level of control of goods prior to their delivery, and ultimately concluded if the principal (gross) or agent (net) treatment applied was appropriate according to the criteria set out within the standard. – Tested a sample of transactions across the year by obtaining evidence for each transaction and agreeing back to underlying data to determine the Group's control over the product or service and therefore if the Group is principal or agent. We also challenged the presentation of revenue as gross or net where appropriate by holding meetings with relevant individuals and inspected correspondence with customers. – Reperformed management's filtering process to identify and categorise transactions as principal (gross) or agent (net). We verified that the filtering process appropriately considers any new product types. – Ensured that any alternative performance measures (APM), such as gross invoiced income, are appropriately defined and reconciled to GAAP measures. – Assessed the disclosures in the financial statements relating to revenue.	Audit procedures have identified that management's judgement is consistent with the level of control present within each sales transaction. We concluded that the underlying disclosures have been prepared in accordance with IFRS.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for demerger and IPO-related costs and transactions Refer to the Audit Committee report (page 79); Accounting policies (page 150); and note 1.3 of the consolidated financial statements (pages 142 and 143). Following the demerger from Altron, Bytes Technology Group plc completed its IPO with the dual listing on the London and Johannesburg stock exchanges. Accounting for the associated reorganisation and demerger-related transactions can be complex and judgement can be required. In addition, the classification of the costs associated with the IPO requires judgement as to whether these costs can be considered and reported as exceptional in the statement of comprehensive income.	We performed the following audit procedures: *With respect to the demerger:* – Understood management's process and key assumptions for the demerger process, as well as obtaining the underlying documentation. Assessed management's specialist's competence, capabilities and objectivity and reviewed underlying demerger accounting workings. – Engaged EY's technical reviewer to assist in assessing the reasonableness of management's assessment of the demerger accounting assumptions and on the appropriateness of conclusions reached. Assessment focused on the key judgements, including whether the transaction represents a business combination and the application of pooling of interest method. *With respect to the IPO:* – Verified whether equity correctly reflects all effects of the IPO including transfers between share capital and share premium and other accounts by tracing underlying transactions to IPO documentation. – Verified the presentation of transactions with shares and other events impacting equity in the parent company, Bytes Technology Group plc, and consolidated accounts by discussing disclosures made with EY's technical reviewer. – Vouched a sample of IPO transaction costs to supporting documentation and tested the appropriateness of the accounting treatment applied. – Verified that the accounting for all transactions executed as a result of the IPO have been accounted for in accordance with the requirements of IFRS. – Understood management's process for ensuring that all distributions are appropriately authorised and performing procedures to ensure that they comply with the requirements of Part 23 of Companies Act 2006 and the company's constitution. Assessed the disclosures in the financial statements relating to the demerger and IPO, in particular relating to the classification and presentation of exceptional items.	Management's conclusions reached in relation to the demerger transactions are in accordance with the applicable accounting standards. IPO transactions have been appropriately recorded and disclosed and audit procedures performed over IPO costs have not identified any inconsistencies.

Independent auditor’s report to the members of Bytes Technology Group plc

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1.7 million, which is 5% of profit before tax, adjusted for non-recurring costs relating to IPO costs. We believe that this basis provides us with the most relevant performance measure to the stakeholders of the entity.

We determined materiality for the Parent Company to be £12.7 million, which is 2% of total equity.

STARTING BASIS	– Consolidated profit before tax – £26.7 million
ADJUSTMENTS	– IPO costs – £8.1 million
MATERIALITY	– Totals £34.7 million adjusted profit before tax – Materiality of £1.7 million (5% of materiality basis)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group’s overall control environment, our judgement was that performance materiality should be 50% of our planning materiality, namely £0.9 million. We have set performance materiality at this percentage due to this being our first year as auditor of the Group.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.4 million to £0.7 million.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1 million, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 122, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance statement and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Independent auditor's report to the members of Bytes Technology Group plc

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the company.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 119;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 119;
- Directors' statement on fair, balanced and understandable set out on page 122;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 47 to 52;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 89; and;
- The section describing the work of the Audit Committee set out on pages 77 to 84.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 122, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union for the Group financial statements, and as regards the parent company financial statements, as applied in accordance with Section 408 of the Companies Act 2006, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the UK.
- We understood how Bytes Technology Group plc is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We corroborated our enquiries through enquiries of component and Group management and those charged with governance. We also performed journal entry testing, with a focus on key areas of focus, referred to in the key audit matters section above, testing of manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business.

Independent auditor's report to the members of Bytes Technology Group plc

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by discussing with management from various parts of the business to understand where it considered there was susceptibility to fraud and by assessing key assumptions over significant estimates made by management for evidence of bias. We also considered performance targets and their propensity to influence efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls.
- Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration following the IPO, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition, rebates, demerger and IPO transactions detailed above as well as testing manual journals; and were designed to provide reasonable assurance that the financial statements were free from fraud and error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company in February 2021 to audit the financial statements for the year ending 28 February 2021 and subsequent financial periods. We were appointed as auditors by the Audit Committee and signed an engagement letter on 24 February 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Harris (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton

26 May 2021

Consolidated statement of profit or loss

For the year ended 28 February 2021

	Note	28 February 2021 £'000	29 February 2020 £'000
Revenue	3	**393,569**	373,103
Cost of sales		**(303,995)**	(293,886)
Gross profit		**89,574**	79,217
Administrative expenses	4, 5	**(62,397)**	(49,373)
Increase in loss allowance on trade receivables	15	**(333)**	–
Operating profit		**26,844**	29,844
Finance income		**12**	158
Finance costs		**(193)**	(82)
Finance income/(costs) – net	8	**(181)**	76
Profit before taxation		**26,663**	29,920
Income tax expense	9	**(6,730)**	(5,762)
Profit after taxation		**19,933**	24,158
Profit for the period attributable to owners of the parent company		**19,933**	24,158
		pence	pence
Basic earnings per ordinary share	29(a)	**8.52**	10.39
Diluted earnings per ordinary share	29(b)	**8.47**	10.39

The consolidated statement of profit or loss has been prepared on the basis that all operations are continuing operations.

There are no items to be recognised in other comprehensive income and hence, the Group has not presented a statement of other comprehensive income.

Consolidated statement of financial position

As at 28 February 2021

	Note	As at 28 February 2021 £'000	As at 29 February 2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**8,275**	8,521
Right-of-use assets	11	**1,097**	1,332
Intangible assets	12	**44,443**	46,053
Contract assets	3(d)	**214**	1,056
Deferred tax assets	18	**357**	–
Total non-current assets		**54,386**	56,962
Current assets			
Inventories	13	**591**	688
Contract assets	3(d)	**7,179**	5,085
Trade and other receivables	15	**106,664**	77,094
Cash and cash equivalents	16	**20,734**	47,357
Total current assets		**135,168**	130,224
Total assets		**189,554**	187,186
Liabilities			
Non-current liabilities			
Lease liabilities	11	**(1,176)**	(1,295)
Contract liabilities	3(d)	**(2,324)**	(1,001)
Deferred tax liabilities	18	**(1,738)**	(1,895)
Total non-current liabilities		**(5,238)**	(4,191)
Current liabilities			
Trade and other payables	17	**(157,121)**	(133,187)
Contract liabilities	3(d)	**(10,038)**	(10,205)
Current tax liabilities		**(207)**	(3,191)
Lease liabilities	11	**(202)**	(307)
Total current liabilities		**(167,568)**	(146,890)
Total liabilities		**(172,806)**	(151,081)
Net assets		**16,748**	36,105
Equity			
Share capital	19	**2,395**	2,325
Share premium	19	**633,636**	625,373
Other reserves	20	**317**	1,170
Merger reserve	21	**(644,375)**	(644,375)
Retained earnings	22	**24,775**	51,612
Total equity		**16,748**	36,105

The consolidated financial statements on pages 137 to 200 were authorised for issue by the Board of directors on 25 May 2021 and were signed on its behalf by:

Neil Murphy
Chief Executive Officer

Keith Richardson
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 28 February 2021

	Note	Attributable to owners of the company					
		Share capital £'000	Share premium £'000	Other reserves £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 March 2019	1.3	2,325	625,373	899	(644,375)	41,254	25,476
Total comprehensive income for the year		–	–	–	–	24,158	24,158
Dividends paid	25(b)	–	–	–	–	(13,800)	(13,800)
Share-based payment transactions	28	–	–	271	–	–	271
Balance at 29 February 2020		2,325	625,373	1,170	(644,375)	51,612	36,105
Total comprehensive income for the year		–	–	–	–	19,933	19,933
Dividends paid	25(b)	–	–	–	–	(48,600)	(48,600)
Shares issued during the year	19	70	8,263	–	–	–	8,333
Deferred tax	18	–	–	15	–	–	15
Transfer to retained earnings	20	–	–	(1,830)	–	1,830	–
Share-based payment transactions	28	–	–	962	–	–	962
Balance at 28 February 2021		**2,395**	**633,636**	**317**	**(644,375)**	**24,775**	**16,748**

Consolidated statement of cash flows

For the year ended 28 February 2021

	Note	**Year ended 28 February 2021 £'000**	Year ended 29 February 2020 £'000
Cash flows from operating activities			
Cash generated from operations	23	**41,546**	41,699
Interest received	8	**12**	158
Interest paid	8	**(122)**	(2)
Income taxes paid		**(10,213)**	(4,784)
Net cash inflow from operating activities		**31,223**	37,071
Cash flows from investing activities			
Payments for property, plant and equipment	10	**(607)**	(1,745)
Deferred consideration payments	17	**(16,677)**	–
Net cash outflow from investing activities		**(17,284)**	(1,745)
Cash flows from financing activities			
Proceeds from issues of shares	19	**8,333**	–
Principal elements of lease payments	11	**(295)**	(207)
Dividends paid to shareholders	25(b)	**(48,600)**	(13,800)
Net cash outflow from financing activities		**(40,562)**	(14,007)
Net (decrease)/increase in cash and cash equivalents		**(26,623)**	21,319
Cash and cash equivalents at the beginning of the financial year		**47,357**	26,038
Cash and cash equivalents at end of year	16	**20,734**	47,357

Notes to the consolidated financial statements

1 Accounting policies

1.1 General information

Bytes Technology Group plc, together with its subsidiaries ("the Group" or "the Bytes business") is one of the UK's leading providers of IT software offerings and solutions, with a focus on cloud and security products. The Group enables effective and cost-efficient technology sourcing, adoption and management across software services, including in the areas of security and cloud. The Group aims to deliver the latest technology to a diverse and embedded non-consumer customer base and has a long track record of delivering strong financial performance. The Group has a primary listing on the Main Market of the London Stock Exchange (LSE) and a secondary listing on the Johannesburg Stock Exchange (JSE).

1.2 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Group's consolidated financial statements comprise the consolidated statement of profit or loss, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 28 February 2021, and a summary of significant accounting policies and the notes thereto.

This is the first set of consolidated financial statements for the Group following its demerger from the Allied Electronics Corporation Limited ("Altron", and together with its subsidiaries "Altron group") and listing on the LSE and JSE. The Group's accounting and presentation considerations on both the current and comparative periods are detailed below.

In adopting the going concern basis for preparing the financial statements, the Directors have considered the business activities and the Group's principal risks and uncertainties in the context of the current operating environment. This includes possible ongoing impacts of the global Covid-19 pandemic on the Group and reviews of future liquidity headroom on existing facilities and against the facility financial covenants during the period under assessment. The approach and conclusion are set out fully in note 1.5.

The consolidated financial statements have been prepared on a historical cost basis, as modified to include derivative financial assets and liabilities at fair value through the consolidated statement of profit or loss.

Notes to the consolidated financial statements

1.3 Demerger and re-organisation transactions

Background

On 2 April 2020, Altron a South African, JSE listed technology company announced its intention to de-merge the Bytes business and pursue a potential LSE listing with a secondary JSE listing. The parties entered into a share purchase agreement ("Demerger SPA") on 2 November 2020 with the separation and initial public offering (IPO) taking place on 17 December 2020 (the "Date of the Demerger" and the "Admission date"). The separation was implemented by way of a demerger of the Bytes business to two newly incorporated companies, Bytes Technology Group plc and Bytes Technology Holdco Limited. Bytes Technology Group plc is the ultimate parent company of the newly demerged group with Bytes Technology Holdco Limited, a wholly owned subsidiary held directly by Bytes Technology Group plc. Both companies are incorporated in England and Wales under the UK Companies Act 2006.

Bytes Technology Limited was previously the parent company of the Bytes business with the two main operating subsidiaries being Bytes Software Services Limited (BSS) and Phoenix Software Limited (Phoenix). BSS is a direct subsidiary of Bytes Technology Limited and Phoenix Software held indirectly through an intermediate holding company, Blenheim Group Limited. As a result of the demerger of the Bytes business, both Bytes Technology Group plc and Bytes Technology Holdco Limited became holding companies of the Bytes business, through a combination of issuing new Bytes Technology Group plc shares and cash consideration paid to Altron, the Altron shareholders and to management in exchange for shares held by them in Bytes Technology Limited and Blenheim Group Limited.

The Demerger Transactions – new shares issued

Bytes Technology Group plc issued a total of 232,480,611 new ordinary shares at an issue price of £2.70 per share with an aggregate value of £627.7 million:

– 123,514,420 ordinary shares with an aggregate value of £333.5 million were issued for cash to new institutional and individual investors (including the non-executive directors) introduced by the Group's brokers, Numis Securities. This cash was paid to Altron and Altron shareholders. For the purposes of the Demerger Transactions, the Group has accounted for the cash proceeds received from issuing these shares and the cash paid to Altron and Altron shareholders on a net basis, since both transactions took place simultaneously, were of an equal amount and conducted between the Group's brokers, the new institutional and individual investors, Altron and Altron shareholders;

– 96,992,074 ordinary shares with an aggregate value of £261.9 million were issued directly to Altron shareholders; and

– 11,974,117 ordinary shares with an aggregate value of £32.3 million were issued to the Bytes Technology Limited management for the Bytes Technology Limited B ordinary shares.

The Demerger Transactions – cash consideration

The Group paid a total cash consideration of £16.7 million

– A further £14.3 million of cash consideration was paid by the Group to the Bytes Technology Limited management for the Bytes Technology Limited B ordinary shares; and

– £2.4 million of cash consideration was paid by Bytes Technology Limited Blenheim Group Limited management for the Blenheim Group Limited B ordinary shares.

The investments in the Bytes Technology Limited A ordinary shares and B ordinary shares are held in Bytes Technology Holdco Limited and Bytes Technology Group plc, respectively. Upon completion of the transaction, Bytes Technology Group plc, together with its direct and indirect subsidiary undertakings, operated as a single corporate group.

IPO costs – shares issued

In addition to the share issues discussed above, Bytes Technology Group plc issued a total of 7,001,720 new ordinary shares at an issue price of £2.70 per share with an aggregate value of £18.9 million. The cash proceeds of £18.9 million were used to pay commission costs of £10.6 million associated with the issue of the shares. The remaining net share issue proceeds of £8.3 million were used by the Group to pay the other IPO costs of £8.1 million

Accounting considerations for the demerger

Reorganisation of the Bytes business

The insertion of both Bytes Technology Group plc and Bytes Technology Holdco Limited into the Group via a combination of a share-for-share exchange and cash consideration with the original stakeholders of the Bytes business (the "Demerger Transactions") were determined not to be a business combination; see key accounting judgements, note 1.6 below. Instead, this constitutes a reorganisation of the Bytes business for which the pooling of interests method has been applied.

A separate reserve in equity, the "merger reserve", was created, representing the difference between the total consideration of £644.4 million and the total nominal value of issued share capital acquired in Bytes Technology Limited of £1.10.

Presentation and disclosure including comparative periods

Under the pooling of interest method, the consolidated financial statements have been prepared as if the Group had already existed before the start of the earliest period presented. The comparative information is, therefore, presented as if the Demerger Transactions had occurred at 1 March 2019. The comparative information has been derived from the audited consolidated financial statements of entities forming the Bytes business adjusted for the Demerger Transactions. A liability, classified as deferred consideration, has been presented as at 1 March 2019 for the cash consideration of £16.7 million paid on the Date of the Demerger. The cash consideration has been presented within cash flows from investing activities in the consolidated statement of cash flows in the current year.

Share-based payments

Prior to the IPO, the Bytes business operated two equity-settled share-based payment incentive schemes, the Bytes Technology Limited scheme and the Blenheim Group Limited scheme. The Bytes Technology Limited scheme was due to vest on 1 March 2021 and the Blenheim Group Limited scheme on 1 March 2023. Both schemes vested on the date of the IPO.

(1) Bytes Technology Limited scheme

On 15 November 2016, Bytes Technology Limited issued B ordinary share awards to certain members of its management at an option price of £0.001 per share. The IPO and divestiture of the Bytes business by Altron Group was deemed to be a conversion event in terms of the rules of the scheme and the B ordinary shareholders received cash consideration of £14.3 million and 5% of the issued share capital of the company (equivalent to £32.3 million) for the purchase of the B ordinary shares.

Notes to the consolidated financial statements

1.3 Demerger and re-organisation transactions continued

The cash consideration was deemed to be less than the fair value of the equity instruments measured at the settlement date, so no additional expense was recognised. This was determined with the use of a market valuation approach.

(2) Blenheim Group Limited scheme

On 10 February 2020, Blenheim Group Limited issued and allotted B ordinary share awards to certain members of its management at £0.001 per share. Upon vesting, these B ordinary shares would be converted into A ordinary shares in Blenheim Group Limited or Altron shares, at Altron's election. The IPO and divestiture of the Bytes business by Altron Group was deemed to be a conversion event in terms of the rules of the scheme and the B ordinary shareholders received cash consideration of £2.4 million for the purchase of the B ordinary shares.

The cash consideration was deemed to be less than the fair value of the equity instruments measured at the settlement date, so no additional expense was recognised. This was determined with the use of a market valuation approach.

1.4 Impact of Covid-19

The global pandemic triggered by the spread of the Covid-19 infection has created uncertainty and poses a higher risk to the business, due to the potential impact it is having on the Group's operations and its customers. The impact of Covid-19 was a non-adjusting post balance sheet event for the year ended 29 February 2020 but has become an adjusting event for the year ended 28 February 2021. The Group has categorised the impact of the risks as follows:

Market risk

There is a risk that an adverse impact to the world economy will potentially impact the Group's customers and its ability to earn revenue. The Group has a diversified customer base across both the corporate and public sectors, which helps mitigate this risk to some extent.

Operational risk

The Group makes significant use of technology to deliver services to its customers throughout periods of uncertainty, including where limitations are imposed on the ability to travel and meet customers face to face. The Group has agility built into its operational model to be able to operate its sales and customer support functions remotely through the use of emails, video conferencing and telephone advice. The Group's staff and its customers have reacted very positively to the remote style of working during the pandemic, with only a small degree of business disruption being incurred in the implementation phase.

Liquidity risk

The Group monitors cash flow forecasts on a regular basis to ensure it can continue to manage its working capital requirements. The directors have considered liquidity risk as one of several key dependencies when forming their going concern assessment in note 1.5. For further information on the Group's approach to mitigating its liquidity risks, see note 24(c).

Credit risk

During the year, the Group has continued to outperform expectations and there have been no major customer defaults. Whilst this has been a very positive period for the Group, the directors place a high degree of importance on the macroeconomic uncertainty that continues to cause wider disruption to economic activity and it is at present unknown what the longer-term impact on the business will be. The directors have placed a greater emphasis on the Group's exposure to credit risk, increasing the Group's expected credit loss provision on its gross trade receivables by £0.3 million and will continue to monitor this going forward; see note 15.

Impairment risk associated with goodwill carrying values

In the Group's most recent annual impairment test performed for the year ended 28 February 2021, the Group has used various downside scenarios in its sensitivity analysis to factor in the potential future impacts of Covid-19 on the future cash flows of the business. The Group adjusted the discount rate applied to these cash flows upwards by a further 1% to simulate a down case scenario and adequate headroom was maintained; see note 12.

1.5 Going concern

The going concern of the Group is dependent on maintaining adequate levels of resources to continue to operate for the foreseeable future. The directors have considered a number of key dependencies which are set out in the Group's risk management section, specifically the Group's exposure to credit risk as described in note 15 and liquidity risk, currency risk and foreign exchange risk as described in note 24.

The directors continue to monitor the effects of the Covid-19 pandemic on the business and will react accordingly to the associated risks presented in note 1.4.

When assessing the going concern of the Group, the directors have reviewed the year to date financial actuals, as well as detailed financial forecasts for the period up to 31 August 2022.

The assumptions used in the financial forecasts are based on the Group's historical performance, management's extensive experience of the industry and reflect expectations of future market conditions. Taking into consideration the impact of Covid-19 on the wider economic environment, the forecasts have been assessed and stress tested to ensure that a robust assessment of the Group's working capital and cash requirements has been performed.

Further details, including the analysis performed and conclusion reached, are set out below.

Operational and business impact of Covid-19

Covid-19's impact on the business is described in note 1.4. In preparing its going concern assessment, management have considered the potential future impact of Covid-19 on the business, considering the limited impact it has had to date. Over this period many customers were transitioning to home working and responding to the impact of Covid-19 on their own businesses and this contributed to the Group achieving strong double-digit growth in gross profit in the current financial year.

Whilst both operating profit and profit before taxation were down in the current financial year compared to 29 February 2020, this was mainly due to the one-off costs associated with the IPO, see note 5, as opposed to any potential impacts of Covid-19. The underlying performance of the Group, ignoring these one-off costs, saw similar double-digit growth in both operating profit and profit before tax. Whilst the Group reported a net current liability at 28 February 2021, this was due to the payment of significant one-off amounts pre-IPO totalling £46.7 million, as noted below under "Liquidity and financing position". Post year end the Group has remained cash positive with closing trade receivables substantially settled within 35 days of year end whilst most trade payable amounts are paid over the three months to the end of May 2021. This continues to be the case as the Group generates profits and collects customer receipts ahead of making the associated supplier payments.

The directors believe that the Group operates in a resilient industry and that the Group has demonstrated profitable growth, despite the pandemic, since 1 March 2020. The Group's customer base incorporates a large volume of non-discretionary spend from UK corporates as IT has become vital to establish competitive advantage in an increasingly digital age. Public sector organisations, a large and fast-growing area of the business, have shown minimal negative sensitivity to Covid-19 to date as they've sought efficiencies, resilience, and security within their

Notes to the consolidated financial statements

1.5 *Going concern continued*

IT infrastructures. This mix of private and public customers means that a downturn in one area can be compensated for by upturns in others. Risk is further mitigated by the fact that the Group's business is derived from over 5,000 customers, none of which contribute more than 5% of total gross income or more than 1% of total gross profit.

Due to the nature of licensing schemes and service contracts, a high proportion of business is repeatable in nature with subscriptions needing to be renewed for the customer to continue to enjoy the benefit of the product or service. The most significant software contracts, the Microsoft Enterprise Agreements (EAs), run for three years and it is rare to lose a contract mid-term which removes the risk of income disappearing over a cliff edge. The Group has a very high success rate in securing renewals of existing agreements and winning new ones. The renewal rate for the year was 107%, a measure of the rate of growth in gross profit from existing customers who contributed 95% of total gross profit in the year. The Group will continue to focus on increasing its customer base and spend per customer during the going concern period.

Just over 50% of the income is generated from sales of Microsoft (MS) products and associated service solutions. Whilst there is a notable move towards more agile "pay as you go" contracts around cloud-based applications, this makes agreements even more "sticky" by increasing the dependency of the customer on the cloud infrastructure and products which MS provides.

Further, it has created the opportunity for the Group to develop a host of skill sets so it is best placed to advise and support the customers in whatever direction they choose to fulfil their licencing requirements from a programmatic, purchasing and consumption perspective. To this end, the Group has attained the highest levels of MS Expert status, specialist Competencies and Advanced Specialisations in numerous MS technology areas. In turn, MS rewards partners who have these awards with additional levels of funding.

The Group Board is engaged directly with MS Executives in developing the partnership further and MS business is currently growing at high double-digit rates.

Liquidity and financing position

At 28 February 2021, the Group held instantly accessible cash and cash equivalents of £20.7 million. This amount is after the Group paid during the year to that date an interim dividend of £18.6 million and a pre-IPO dividend of £30 million to its shareholder, Bytes Technology Group Proprietary Limited, a subsidiary of Altron and a further £16.7 million paid as part of the consideration to acquire the B ordinary shares held by management in Bytes Technology Limited and Blenheim Group Limited.

On admission the Group gained access to a committed revolving credit facility of £50 million with HSBC, which reduces to £40 million after 12 months and to £30 million thereafter. Hence it extends well beyond the going concern period. To date, the Group has not been required to use the revolving credit facility.

Approach to stress testing

The going concern analysis reflects the actual trading experience through the financial year to date, as well as detailed financial forecasts for the period up to 31 August 2022. The Group has taken a measured approach to its forecasting and has balanced the expected trading conditions with available opportunities.

Given the uncertainty around the impact of Covid-19, the Board has also in its assessment of going concern considered the potential impact of a generalised economic downturn leading to a greater impact on the spending patterns of the Group's customers than has been experienced to date, and the extent to which this could adversely affect the Group's future revenue, gross invoiced income, operating profit, adjusted operating profit and debtor days, as well as the extent to which this might be offset by savings in commissions and bonuses and discretionary areas of spend. As part of the stressed scenario, where only partial mitigation of downsides is possible, the Board confirmed that the revolving credit facility would not be used during the going concern period up to 31 August 2022 and therefore the Group would remain in compliance with the covenant limits required as part of the facility.

Details of stress testing

The Group assessed the going concern by comparing a base case scenario to two downside scenarios and in each of the downside cases taking into consideration two levels of mitigation, "full" and "partial". These scenarios are set out below:

- Base case was forecast using the Board-approved budget for the year ending 28 February 2022 and extended across the first six months of the following year to 31 August 2022.
- Downside case 1, Severe but plausible, modelled gross invoiced income reducing by 10% year on year, gross profit reducing by 15% year on year and debtor collection periods extending by five days, in each case from June 2021.
- Downside case 2, Stressed, modelled both gross invoiced income and gross profit reducing by 30% year on year and debtor collection periods extending by ten days, again in each case from June 2021.
- Partial mitigation measures modelled for the downsides were to freeze future pay and new recruitment from March 2022 and "self-mitigating" reduction of commissions in line with falling Gross Profit.
- Full Mitigation additionally modelled headcount reductions from March 2022 in line with falling Gross Profit.

The mitigations applied in the downside scenarios relate to pay costs and headcount which are within the control of the Group to implement quickly in response to any downward trends should they be necessary. However, they have not been applied until 1 March 2022 as pay-related cost are already substantially committed for the year ending 28 February 2022.

Under all scenarios assessed, the Group would remain cash positive throughout the whole of the going concern period.

Going concern conclusion

Based on the analysis described above, the Group has sufficient liquidity headroom through the forecast period. The directors therefore have reasonable expectation that the Group has the financial resources to enable it to continue in operational existence for the period up to 31 August 2022. Accordingly, the directors conclude it to be appropriate that the consolidated financial statements be prepared on a going concern basis.

1.6 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved significant judgement or complexity. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Detailed information about each of these estimates and judgements is included in other notes, together with information about the basis of calculation for each affected line item in the consolidated financial statements.

Notes to the consolidated financial statements

1.6 Critical accounting estimates and judgements continued

(i) Significant accounting estimates and uncertainties

The areas involving significant accounting estimates are:

- Estimation of recoverable amount of goodwill – The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1.18. The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates disclosed in note 12. These growth rates are based on historical growth rates achieved by the Group, adjusted for estimated future growth expectation.

(ii) Key accounting judgements

The areas involving key accounting judgements are:

- The Demerger Transactions – The insertion of both Bytes Technology Group plc and Bytes Technology Holdco Limited into the Group via a combination of a share-for-share exchange and cash consideration with the original stakeholders of the Bytes business has been treated as a reorganisation of the Bytes business. There is currently no IFRS guidance on the accounting treatment for such Group reorganisations. The Group was therefore required to consider the specific facts and circumstances surrounding the transactions, to determine an appropriate accounting policy. The key accounting judgement was to determine if the Demerger Transactions were a business combination i.e., 'a transaction or other event in which an acquirer obtains control of one or more businesses' and apply the acquisition accounting method in accordance with IFRS 3 'Business combinations' or not a business combination and treat them as a Group reorganisation which is outside the scope of IFRS 3. The Group determined that the Demerger Transactions were not a business combination on the basis that neither the company, Bytes Technology Holdco Limited or Bytes Technology Limited could be identified as the acquirer. On that basis, the Group accounted for the Demerger Transactions as a Group reorganisation and specifically chose to apply the pooling of interests method of accounting. In order to present the Demerger Transactions as a Group reorganisation of the existing Bytes business, the transactions were presented as if they had occurred on 1 March 2019 and the prior period comparatives adjusted for the Demerger Transactions. The principles of the pooling of interests method of accounting are provided in note 1.8.2.
- Revenue recognition – *Principal versus agent*, see note 1.12.

  When recognising revenue, the Group is required to assess whether its role in satisfying its various performance obligations is to provide the goods or services itself (in which case it is considered to be acting as principal) or arrange for a third party to provide the goods or services (in which case it is considered to be acting as agent). Where it is considered to be acting as principal, the Group recognises revenue at the gross amount of consideration to which it expects to be entitled. Where it is considered to be acting as agent, the Group recognises revenue at the amount of any fee or commission to which it expects to be entitled or the net amount of consideration that it retains after paying the other party.

  For those revenue streams that involve the resale of software licences and software assurance, there is often considerable judgement in determining whether the Group is principal or agent. The Group's assessment is based primarily upon whether it controls the goods or services prior to their transfer to the customer. However, the nature of these products and services means that a purely control-based assessment does not always lead to a clear conclusion. Consequently, the Group additionally considers the other characteristics of principal set out in IFRS 15.

These include whether the Group has primary responsibility for fulfilling the contractual promises made to the customer, whether the Group assumes inventory risk and whether the Group has discretion in establishing the selling price.

For direct licence sales the Group is considered to be acting as agent. This is because the Group does not control the goods or services prior to their delivery to the customer. The Group's role is to facilitate the sale on behalf of the software vendor that controls the goods or services. It is the software vendor that contracts with and subsequently invoices the customer. The Group does not set the prices paid by the customer and it is remunerated in the form of a usage or sales-based commission.

For licence sales related to cloud services and licences with critical updates the Group is considered to be acting as agent. This is because cloud services and licences with critical updates require the significant ongoing involvement of the software vendor. The Group does not control the service prior to passing it to the customer as it is provided as a future service delivered by the vendor. Any technical and administrative services provided by the Group are critically dependent on, and so inseparable from, the service to be provided by the vendor. The Group's role is to arrange for the cloud service/updates to be provided by another party.

For licence sales without critical upgrades or cloud services for the related perpetual licences, with or without software assurance, the Group is considered to be acting as principal. This is because the Group's performance obligation results in it obtaining control of the licence key and/or right to software assurance benefits from the software vendor and then transferring them to the customer. With regard to software assurance, the non-critical nature of the software updates means that the customer's ability to derive benefit from the software is not dependent on the continued involvement of the software vendor. This results in the balance of control resting more with the Group than is the case with critical updates. The Group is primarily responsible for fulfilling the promise to provide the specified good or service to the customer, as the Group obtains control of the licence before it is delivered to the customer and also typically has responsibility for acceptability of the specified good or service. The Group has primary responsibility for fulfilling the contractual promises to the customer, assumes inventory risk in the event of cancellation of the sale for any reason and has discretion in establishing the prices of the goods and services.

1.7 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standard for the first time for the annual reporting period commencing 1 March 2020:

- Definition of Material – Amendments to IAS 1 and IAS 8;
- Definition of a Business – Amendments to IFRS 3;
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7; and
- Revised Conceptual Framework for Financial Reporting.

The Group also elected to adopt the following amendments early:

- Annual Improvements to IFRS Standards 2018-2020 Cycle; and
- Where applicable: Covid-19-Related Rent Concessions – Amendments to IFRS.

1.7 Changes in accounting policy and disclosures continued

The amendments listed above did not have any impact on the amounts recognised in current or prior periods and are not expected to affect future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 28 February 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

1.8 Principles of consolidation

1.8.1 Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group; see note 1.17. For Group reorganisations, the Group applies the pooling of interest method; see note 1.8.2.

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

1.8.2 Pooling of interests method for Group reorganisations

The pooling of interests method is used by the Group for Group reorganisations, which are transactions between entities that are ultimately controlled by the same party or parties. This method treats the combined entities as if they had been combined throughout the current and comparative accounting periods. Accordingly, the consolidated financial statements have been prepared as if the Group had already existed before the start of the earliest period presented. The assets and liabilities of the combining entities are stated at predecessor carrying values and no fair value measurement is performed. No new goodwill arises in applying the pooling of interests method. The difference between the total consideration given and the total nominal value of the Bytes Technology Limited issued share capital acquired, is included in equity as a separate reserve, the “merger reserve”.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses and costs incurred in relation to the Group reorganisation transactions that are to be accounted for by using the pooling of interests method of accounting are recognised as an expense in the year in which they are incurred.

1.9 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group has therefore determined that it has only one reportable segment under IFRS 8, which is that of ‘IT solutions provider’.

1.10 Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprises interest expense on borrowings and the unwinding of the discount on lease liabilities, that are recognised in profit or loss as it accrues using the effective interest method.

1.11 Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated 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).

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

All foreign exchange gains and losses are presented in the statement of profit or loss on a net basis, within 'other gains/(losses)'.

1.12 Revenue recognition

The Group has applied the relevant principles of IFRS 15 *Revenue from Contracts with Customers* to each of its key revenue streams as follows:

Resale of software licences and subscriptions

As a software reseller the Group acts as an advisor, analysing customer requirements and designing an appropriate mix of licences and technology. The Group's resale of software licences takes place in three principal forms:

- *Direct licence sales* – Under direct licence sale arrangements the Group is not a party to the contract between the software vendor and the customer. Activation of the licences, invoicing and payment all take place directly between the software vendor and the customer.
- *Licence sales* – resell of software licences and subscriptions – The Group operates as reseller of a variety of cloud-based licence products and security software, the functionality of which is critically dependent on future updates provided by the software vendor.
- *Licence sales* – perpetual licences and software assurance – The Group operates as reseller of a variety of perpetual non-cloud-based products that are not critically dependent on future updates provided by the software vendor. Alongside or separately to such licences, the Group also acts as a reseller of software assurance – a package of benefits provided by the software vendor that includes access to future (non-critical) updates at no extra cost.

Notes to the consolidated financial statements

1.12 Revenue recognition continued

Identifying the performance obligations

As a reseller, the Group's performance obligation is to deliver solutions to customers through the procurement of software licences, software assurance and provision of value added consulting services in connection with those licences. The services the Group provides include the design of customer-specific solutions, licence and software assurance procurement and assistance with the negotiation and interpretation of software vendor agreements. In the context of the Group's contract with the customer, the consulting services are highly interrelated with the software licences and software assurance. The customer's ability to derive benefit from the licences and software assurance is therefore dependent on those services. The customer will only enter into these contracts if the consulting services, software licences and software assurance are provided as a bundled solution. The consulting services, licence products and software assurance sold cannot be distinguished from each other in the context of the contract and so are considered to represent a single performance obligation.

For direct licence sales, licence sales related to cloud services and licences with critical updates the Group acts as agent. As such, the Group recognises revenue as the amount of commission earned, the amount retained after paying the software vendor for the licences and services provided or, for cloud-based services, the usage fee received from the software vendor. The judgements made in arriving at this conclusion are set out at note 1.6.

For licence sales related to perpetual licences, subscription licences and software assurance the Group acts as principal. As such, the Group recognises revenue at the gross amount receivable from the customer for the goods and services provided. The judgements made in arriving at this conclusion are set out at note 1.6.

Determining the transaction price

The transaction price for the reselling of software licences and subscriptions is based upon fixed commission rates set by the software vendor applied to customer usage.

The transaction price for non-cloud-based licence sales and software assurance is fixed at the amount specified in the contract and has no variable element.

Allocating the transaction price

When reselling software licences and/or software assurance, which together represent one performance obligation, together with other goods and services that represent additional separate performance obligations, such as hardware, the Group allocates the total transaction by reference to the prices it charges for those goods and services when sold separately, i.e. their stand-alone selling prices.

Recognising revenue

With the exception of revenue arising from cloud-based licence sales and services, the Group recognises all licence sale revenue on a point in time basis. This is because the Group's activities in satisfying its performance obligations do not satisfy any of the criteria for over time revenue recognition set out in IFRS 15. As a reseller, the Group's performance obligations are fully satisfied at the point the licences are delivered and control of the software passes to the customer. Thereafter, the Group has no ongoing performance obligations.

Revenue arising from cloud-based licence sales is recognised on an over time basis. This is because the responsibilities of the Group to monitor, review and undertake certain other ongoing activities in relation to customer usage mean that its performance obligation is not satisfied at the point the licence is delivered. Rather, the customer receives and consumes the benefits of the Group's post-sale activities as those post-sale activities are performed. The Group is rewarded for its performance as the usage occurs and revenue is recognised accordingly. Revenue is recognised in the month the usage takes place based on an estimate of the amount due. Any adjustment that may be required is made in the following month when the amount receivable is confirmed by the software vendor.

For licence sales other than those made on a direct basis, the Group's customer offering includes multi-year deals of typically three years in duration. The contractual arrangements for such deals take two alternative forms – the customer may elect to make a single up-front payment or may elect to pay through annual instalments. For up-front payment contracts, the Group recognises the total contract price when the contract is executed and invoiced because its performance obligation is fully satisfied at that point. For annual instalment contracts, the Group recognises revenue for each instalment when it is billed. This is because, in contrast to up-front payment contracts, the Group's performance obligation is not fully satisfied when the contract is executed. Under annual instalment plans the Group is required to undertake various contract review activities at each anniversary date and at that point the customer also has the option of moving to a different reseller should they wish to do so. The contract term is therefore considered to be one year as this is the period during which the parties to the contract have present enforceable rights and obligations.

The rendering of services typically involves the performance by the Group of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period.

Externally provided training and consulting services

The Group's activities under this revenue stream comprise the sale of training and consulting services through third-party contractors.

Identifying the performance obligations

The Group's sale of externally provided training and consulting services is generally distinct from other goods and services that the Group might provide to the same customer under the same or separate contracts. This is because the customer can benefit from the services on their own or from other resources (as is evidenced by the fact that the services are provided by another party). Additionally, the services are not generally integrated with or dependent on other services that might be provided to the customer.

When selling externally provided training and consulting services the Group acts as agent and so recognises revenue at the amount retained after paying the service provider for the services delivered to the customer, i.e. the gross margin earned.

Determining the transaction price

The transaction price for training and consulting services is fixed at the amount specified in the contract and has no variable element.

Allocating the transaction price

When selling training and consulting services provided through third-party contractors together with other goods and services under the same or linked contracts and those goods and services represent more than one performance obligation, the Group allocates the total transaction by reference to the prices it charges for those goods and services when sold separately, i.e. their stand-alone selling prices.

Recognising revenue

The Group recognises all revenue from externally provided training and consulting services on a point in time basis. This is because the Group's activities in satisfying its performance obligation do not satisfy any of the criteria for over time revenue recognition set out in IFRS 15. The Group's performance obligations are fully satisfied at the point the contract is signed. Thereafter, the Group has no ongoing performance obligations as these rest with the services provider.

Notes to the consolidated financial statements

1.12 Revenue recognition continued

Internally provided consulting services

The Group's activities under this revenue stream comprise the provision of consulting services using its own internal resources. The services provided include helpdesk support, cloud migration, implementation of security solutions, infrastructure and software asset management services.

Identifying the performance obligations

The Group's sale of internally provided consulting services is generally distinct from other goods and services that the Group might provide to the same customer under the same or separate contracts. This is because the customer can benefit from the services on their own or from other resources. Additionally, the services are not generally integrated with or dependent on other services that might be provided to the customer. When selling internally provided consulting services the Group acts as principal and so recognises revenue at the gross amount receivable from the customer for the services provided.

Determining the transaction price

The transaction price for consulting services is fixed by the day rates specified in the contract and has no variable element.

Allocating the transaction price

When selling internally provided consulting services together with other goods and services under the same or linked contracts and those goods and services represent more than one performance obligation, the Group allocates the total transaction by reference to the prices it charges for those goods and services when sold separately, i.e. their stand-alone selling prices.

Recognising revenue

The Group recognises all revenue from internally provided consulting services on an over time basis. This is because the customer simultaneously consumes and benefits from Group's activities as the Group performs. In measuring its performance and the amount of revenue to be recognised, the Group applies an inputs basis by reference to the hours expended to the measurement date and the day rates specified in the contract.

Hardware sales

The Group's activities under this revenue stream comprise the sale of hardware items such as servers, laptops and devices.

Identifying the performance obligations

The Group's sale of hardware, which is made in the capacity of principal, is generally distinct from other goods and services that the Group might provide to the same customer under the same or separate contracts. This is because the customer can usually benefit from the hardware either on its own or with other resources. Occasionally, the hardware may be integrated with software licences resold by the Group in such a way that the customer's ability to benefit from the software and hardware products is interdependent. In such instances, the sale of the hardware and related licence together represent a single performance obligation. When selling hardware, the Group acts as principal and so recognises revenue at the gross amount receivable from the customer for the hardware provided.

Determining the transaction price

The transaction price for sales of hardware is fixed at the amount specified in the contract and has no variable element.

Allocating the transaction price

When selling hardware together with other goods and services under the same or linked contracts and those goods and services represent more than one performance obligation, the Group allocates the total transaction by reference to the prices it charges for those goods and services when sold separately, i.e. their stand-alone selling prices.

Recognising revenue

The Group recognises all revenue from sales of hardware on a point in time basis. This is because the Group's activities in satisfying its performance obligation do not satisfy any of the criteria for over time revenue recognition set out in IFRS 15. Revenue is recognised on delivery when control of the hardware passes to the customer.

Contract costs

Incremental costs of obtaining a contract

The Group recognises the incremental costs of obtaining a contract when those costs are incurred. For revenue recognised on a point in time basis, this is consistent with the transfer of the goods or services to which those costs relate. For revenue recognised on an over time basis, the Group applies the practical expedient available in IFRS 15 and recognises the costs as an expense when incurred because the amortisation period of the asset that would otherwise be recognised is less than one year.

Costs to fulfil a contract

The Group recognises the costs of fulfilling a contract when those costs are incurred. This is because the nature of those costs does not generate or enhance the Group's resources in a way that enables it to satisfy its performance obligations in the future and those costs do not otherwise qualify for recognition as an asset.

Contract assets

The Group recognises a contract asset for accrued revenue. Accrued revenue is revenue recognised from performance obligations satisfied in the period that has not yet been invoiced to the customer.

Contract liabilities

The Group recognises a contract liability for deferred revenue when the customer is invoiced, or when payment is due, before the related performance obligations of the contract are satisfied. A contract liability is also recognised for payments received in advance from customers.

1.13 Rebates

Rebates from suppliers are accounted for in the period in which they are earned and are based on commercial agreements with suppliers. Rebates earned are mainly purchase volume related and are generally short term in nature, with rebates earned but not yet received typically relating to the preceding quarter's trading. Rebate income is recognised in cost of sales in the consolidated statement of profit or loss and rebates earned but not yet received are included within accrued income in the consolidated statement of financial position.

1.14 Non-underlying items

Non-underlying items are those items that, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the consolidated financial statements, to fully understand the underlying performance of Group. Such items have been included within administrative expenses but have also been disclosed separately in note 5 in the notes to the consolidated financial statements. Non-underlying items relate primarily to the costs incurred as part of the demerger and separate listing of the Group in December 2020.

Notes to the consolidated financial statements

1.15 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, 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 income tax is also 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 income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1.16 Leases

Lessee

The Group leases a property and various motor vehicles. Lease agreements are typically made for fixed periods but may have extension options included. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The Group is depreciating the right-of-use assets over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured at the net present value of the minimum lease payments. The net present value of the minimum lease payments is calculated as follows:

- fixed payments, less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease; where this rate cannot be determined, the Group's incremental borrowing rate is used.

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

- the net present value of the minimum lease payments;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Payments associated with short-term leases and 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. Low-value assets comprise IT-equipment and small items of office furniture.

Depreciation

Depreciation is recognised in profit or loss for each category of assets on a straight-line basis over the lease term.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 8 years;
- Motor vehicles 2 to 3 years.

The depreciation methods, useful lives and residual values are reassessed annually and adjusted if appropriate. Gains and losses arising on the disposal of leased assets are included as capital items in profit or loss.

Notes to the consolidated financial statements

1.17 Business combinations

The acquisition method of accounting is used to account for all business combinations, except for those between entities under common control. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity, on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or as a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

1.18 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.19 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.20 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional i.e. fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Prepayments and other receivables are stated at their nominal values.

1.21 Inventories

Inventories are measured at the lower of cost and net realisable value considering market conditions and technological changes. Cost is determined on the first-in first-out and weighted average cost methods. Work and contracts in progress and finished goods include direct costs and an appropriate portion of attributable overhead expenditure based on normal production capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

1.22 Financial instruments

Financial instruments comprise investments in equity, loans receivable, trade and other receivables (excluding prepayments), investments, cash and cash equivalents, restricted cash, non-current loans, current loans, bank overdrafts, derivatives and trade and other payables.

Recognition

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instruments. Financial assets are recognised on the date the Group commits to purchase the instruments (trade date accounting).

Financial assets are classified as current if expected to be realised or settled within 12 months from the reporting date; if not; they are classified as non-current. Financial liabilities are classified as non-current if the Group has an unconditional right to defer payment for more than 12 months from the reporting date.

Notes to the consolidated financial statements

1.22 Financial instruments continued

Classification

The Group classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) based on the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

- Financial assets to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and
- Financial assets to be measured at amortised cost.

Financial assets are not reclassified unless the Group changes its business model. In rare circumstances where the Group does change its business model, reclassifications are done prospectively from the date that the Group changes its business model.

Financial liabilities are classified and measured at amortised cost except for those derivative liabilities and contingent consideration that are measured at FVTPL.

Measurement on initial recognition

All financial assets and financial liabilities are initially measured at fair value, including transaction costs, except for those classified as FVTPL which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Subsequent measurement: Financial assets

Subsequent to initial recognition, financial assets are measured as described below:

- FVTPL – these financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss.
- Amortised cost – these financial assets are subsequently measured at amortised cost using the effective interest method, less impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- Equity instruments at FVOCI – these financial assets are subsequently measured at fair value. Dividends are recognised in profit or loss when the right to receive payment is established. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are not reclassified to profit or loss.

Subsequent measurement: Financial liabilities

All financial liabilities, excluding derivative liabilities and contingent consideration, are subsequently measured at amortised cost using the effective interest method. Derivative liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset or liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Offsetting financial instruments
Offsetting of financial assets and liabilities is applied when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The net amount is reported in the statement of financial position.

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

To measure the expected credit losses, trade receivables have been grouped based on credit risk characteristics and the days past due.

The expected credit loss (ECL) rates are based on the payment profiles of sales over a 12-month period before 28 February 2021, 29 February 2020 and 1 March 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are reviewed and adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written off where 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 120 days past due.

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

Derivatives
Derivatives are initially recognised at fair value on the date that a derivative contract is entered into as either a financial asset or financial liability if they are considered material. Derivatives are subsequently remeasured to their fair value at the end of each reporting period, with the change in fair value being recognised in profit or loss.

Notes to the consolidated financial statements

1.23 Property, plant and equipment

Owned assets
Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. When components of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs
The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, if it is probable that future economic benefits embodied within the item will flow to the Group and the cost of such item can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

Depreciation
Depreciation is recognised in profit or loss for each category of assets on a straight-line basis over their expected useful lives up to their respective estimated residual values. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 20 to 50 years;
- Leasehold improvements (included in land and buildings) shorter of lease period or useful life of asset;
- Plant and machinery 3 to 20 years;
- Motor vehicles 4 to 8 years;
- Furniture and equipment 5 to 20 years; and
- IT equipment and software 2 to 8 years.

The depreciation methods, useful lives and residual values are reassessed annually and adjusted if appropriate. Gains and losses arising on the disposal of property, plant and equipment are included as capital items in profit or loss.

1.24 Intangible assets

Goodwill
Goodwill is measured as described in note 1.18. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised, but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

Brands and customer relationships
Brands and customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

The useful lives for the brands and customer relationships are as follows:

- Customer relationships 10 years; and
- Brands 5 years.

Software
Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets where the following criteria are met:

– it is technically feasible to complete the software so that it will be available for use;

– management intends to complete the software and use or sell it;

– there is an ability to use or sell the software;

– it can be demonstrated how the software will generate probable future economic benefits;

– adequate technical, financial and other resources to complete the development and to use or sell the software are available; and

– the expenditure attributable to the software during its development can be reliably measured.

Research and development
Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1.25 Trade and other payables

Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for in accordance with the accounting policy for financial liabilities as included above. Other payables are stated at their nominal values.

1.26 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Notes to the consolidated financial statements

1.27 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation because of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.28 Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

Post-employment obligations

The Group operates various defined contribution plans for its employees. Once the contributions have been paid, the Group has no further payment obligations. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Share-based payments

Equity-settled share-based payment incentive scheme

Share-based compensation benefits are provided to particular employees of the Group via the Bytes Technology Group plc performance incentive share plan. Prior to the demerger the Bytes business had two share schemes, the Bytes Technology Limited equity-settled share-based payment incentive scheme and the Blenheim Group Limited equity-settled share-based payment incentive scheme. Information relating to all schemes is provided in note 28.

Employee options

The fair values of options granted under the Bytes Technology Group plc performance incentive share plan is recognised as an employee benefit expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options issued that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Employee shares

The fair values of shares issued under the Bytes Technology Limited and the Blenheim Group Limited equity-settled share-based payment incentive schemes are recognised as employee benefit expenses, with corresponding increases in equity. The total amount to be expensed is determined by reference to the fair values of the shares issued. The fair values of the shares issued are measured using generally accepted valuation techniques.

The total expenses are recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of shares issued that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

1.29 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

1.30 Dividends

Dividends paid on ordinary shares are classified as equity and are recognised as distributions in equity.

1.31 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

– the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares;

– by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to consider:

– the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and

– the weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

1.32 Rounding of amounts

All amounts disclosed in the consolidated financial statements and notes have been rounded off to the nearest thousand, unless otherwise stated.

Notes to the consolidated financial statements

2 Segmental information

2(a) Description of segment

The information reported to the Group's Chief Executive Officer, who is considered to be the chief operating decision maker for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the Group. The Group has therefore determined that it has only one reportable segment under IFRS 8, which is that of 'IT solutions provider'. The Group's revenue, results, assets and liabilities for this one reportable segment can be determined by reference to the consolidated statement of profit or loss and the consolidated statement of financial position. An analysis of revenues by product lines and geographical regions, which form one reportable segment, is set out in note 3.

2(b) Adjusted operating profit

Adjusted operating profit excludes the effects of non-underlying items and other significant items of income and expenditure which have an impact on the quality of earnings, such as IPO costs, which are because of an isolated, non-recurring event. Intangible assets amortisation and the effects of share-based payment charges have also been excluded.

Adjusted operating profit reconciles to operating profit as follows:

	Note	**Year ended 28 February 2021 £'000**	Year ended 29 February 2020 £'000
Adjusted operating profit		**37,481**	31,725
Share-based payment charges	28	**(962)**	(271)
Amortisation of acquired intangible assets	4	**(1,610)**	(1,610)
IPO costs	5	**(8,065)**	–
Operating profit		**26,844**	29,844

3 Revenue from contracts with customers

3(a) Disaggregation of revenue from contracts with customers:

The Group derives revenue from the transfer of goods and services in the following major product lines and geographical regions:

Revenue by product	**Year ended 28 February 2021 £'000**	Year ended 29 February 2020 £'000
Software	**343,063**	326,439
Hardware	**24,073**	29,576
Services	**26,433**	17,088
Total revenue from contracts with customers	**393,569**	373,103

Hardware

The Group's hardware revenue comprises the sale of items such as servers, laptops and other devices.

Software

The Group's software revenue comprises the sale of various types of software licences (including both cloud-based and non-cloud-based licences), subscriptions and software assurance products.

Services

The Group's services revenue comprises the sale of externally provided training and consulting services through third-party contractors and internally provided consulting services through its own internal resources.

Revenue by geographical regions	**Year ended 28 February 2021 £'000**	Year ended 29 February 2020 £'000
United Kingdom	**380,616**	352,458
Europe	**9,594**	17,720
Rest of world	**3,359**	2,925
	393,569	373,103

Notes to the consolidated financial statements

3 Revenue from contracts with customers continued

3(b) Gross invoiced income by type

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Software	**899,155**	665,147
Hardware	**24,073**	29,576
Services	**34,824**	27,431
	958,052	722,154
Gross invoiced income	**958,052**	722,154
Adjustment to gross invoiced income for revenue recognised as agent	**(564,483)**	(349,051)
Revenue	**393,569**	373,103

Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue items. The Group reports gross invoiced income as an alternative financial KPI as management believes this measure allows a better understanding of business performance and position particularly in respect of working capital and cash flow.

3(c) Largest revenue derived from a single external customer

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Software	**45,791**	42,605
	45,791	42,605

3(d) Revenue recognised in relation to contract liabilities

During the year, the Group recognised £10 million (2020: £10 million) of revenue that was included in the contract liability balance at the beginning of the period.

4 Material profit or loss items

The Group has identified several items included within administrative expenses which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group:

	Note	**Year ended 28 February 2021 £'000**	Year ended 29 February 2020 £'000
Depreciation of property, plant and equipment	10	**835**	684
Depreciation of right-of-use assets	11	**235**	290
Loss on disposal of property, plant and equipment	10	**18**	10
Amortisation of acquired intangible assets	12	**1,610**	1,610
Consulting fees		**2,290**	946
Operating lease charges:	11	**54**	78
– Property		**54**	75
– Plant, equipment and vehicles		**–**	3
Foreign exchange losses/(gains)		**11**	(24)

5 Non-underlying items

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
IPO costs	**8,065**	–
	8,065	–

Items included in administrative expenses that are material, either because of size or their nature and that are non-recurring are considered as non-underlying items. The Group incurred costs of £8.1 million in respect of its IPO. These costs specifically related to stamp duty taxes and other legal and professional costs. In addition, commission costs of £10.6 million were incurred for raising gross proceeds of £352.4 million on IPO. £333.5 million of the proceeds were used to settle the Group's obligations under the Demerger SPA with Altron and Altron's Shareholder, with the remaining £18.9 million being used to pay the commission costs of £10.6 million and the IPO costs of £8.1 million. The £10.6 million of commission costs was offset against the share premium created on the issue of the shares; see note 19.

Notes to the consolidated financial statements

6 Employees

Employee benefit expense	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Employee remuneration (including directors' remuneration[1])	**29,980**	26,960
Commissions and bonuses	**15,982**	15,023
Social security costs	**5,326**	4,694
Pension costs	**1,038**	918
Share-based payments expense	**962**	271
	53,288	47,866
Classified as follows:		
Cost of sales	**7,875**	6,981
Administrative expenses	**45,413**	40,885
	53,288	47,866

The average monthly number of employees during the year was:

	Year ended 28 February 2021 Number	Year ended 29 February 2020 Number
Sales	**255**	252
Technical	**272**	235
Administration	**120**	106
	647	593

1 Directors' remuneration is included in the directors' remuneration report on pages 90 to 113.

7 Auditor's remuneration

During the year, the Group obtained the following services from the company's auditor and its associates:

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Fees payable to the company's auditors and its associates for the audit of the parent company and consolidated financial statements	**161**	–
Fees payable to company's auditors and its associates for other services:		
Audit of the financial statements of the company's subsidiaries	**264**	334
Non-audit services[1]	**1,243**	–
	1,668	334

1 Non-audit services relate to pre-IPO services provided which are of a one-off nature.

8 Finance income and costs

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Finance income		
Bank interest received	**12**	158
Finance income	**12**	158
Finance costs		
Interest expense on financial liabilities measured at amortised cost	**(122)**	(2)
Interest expense on lease liability	**(71)**	(80)
Finance costs expensed	**(193)**	(82)
Net finance (costs)/income	**(181)**	76

Notes to the consolidated financial statements

9 Income tax expense

The major components of the Group's income tax expense for all periods are:

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Current income tax charge in the year	7,049	5,912
Adjustment in respect of current income tax of previous years	165	(7)
Double taxation relief	(5)	–
Foreign taxation	20	–
Total current income tax charge	7,229	5,905
Deferred tax credit		
Increase in deferred tax assets	(342)	–
Decrease in deferred tax liabilities	(157)	(143)
Deferred tax credit	(499)	(143)
Total tax charge	6,730	5,762

Reconciliation of total tax charge

The tax assessed for the year differs from the standard rate of corporation tax in the UK applied to profit before tax:

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Profit before income tax	26,662	29,920
Profit before income tax at the standard rate of corporation tax in the UK of 19% for all periods	5,066	5,685
Effects of:		
Non-deductible expenses	1,637	166
Tax credit in respect of qualifying R&D expenditure	–	(67)
Foreign tax credits	14	–
Adjustment to previous periods	(36)	(18)
Other differences	49	(4)
Income tax charge reported in profit or loss	6,730	5,762

Amounts recognised directly in equity

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly credited to equity:		
Deferred tax assets: share-based payments	**15**	–
	15	–

Changes affecting the future tax charge:

In the Spring Budget 2021, the UK Government announced that, from 1 April 2023, the main rate of corporation tax of 25% will be effective and will be substantively enacted once the Finance Bill 2021 has received Royal Assent. The Group has considered the impact of the proposed change in the main rate of corporation of 25% on both its future tax liabilities and future deferred tax position and considers the change to be immaterial at this stage. The Group will continue to monitor the potential impact over the period up to 1 April 2023. In the previous Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reduce to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Deferred taxes at the consolidated statement of financial position date have been measured using currently enacted tax rates and reflected in these consolidated financial statements; see note 18.

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10 Property, plant and equipment

	Freehold land and buildings £'000	Computer equipment £'000	Furniture, fittings and equipment £'000	Computer software £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 March 2019	7,105	1,317	959	611	64	10,056
Additions	1,190	454	59	13	29	1,745
Disposals	(5)	(347)	(45)	–	(10)	(407)
At 29 February 2020	8,290	1,424	973	624	83	11,394
Transfers	509	1,806	332	–	–	2,647
Additions	81	471	27	–	28	607
Disposals	–	(35)	(29)	–	(22)	(86)
At 28 February 2021	**8,880**	**3,666**	**1,303**	**624**	**89**	**14,562**
Depreciation						
At 1 March 2019	744	800	494	519	29	2,586
On disposals	(2)	(347)	(38)	–	(10)	(397)
Charge for the year	261	305	58	44	16	684
At 29 February 2020	1,003	758	514	563	35	2,873
Transfers	440	1,893	314	–	–	2,647
On disposals	–	(35)	(19)	–	(14)	(68)
Charge for the year	348	327	104	38	18	835
At 28 February 2021	**1,791**	**2,943**	**913**	**601**	**39**	**6,287**
Net book value						
At 29 February 2020	7,287	666	459	61	48	8,521
At 28 February 2021	**7,089**	**723**	**390**	**23**	**50**	**8,275**

11 Leases

(i) Amounts recognised in the balance sheet

Right-of-use assets	Buildings £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 March 2019	1,377	245	1,622
At 29 February 2020 and 28 February 2021	**1,377**	**245**	**1,622**
Depreciation			
At 1 March 2019	–	–	–
Charge for the year	162	128	290
At 29 February 2020	162	128	290
Charge for the period	142	93	235
At 28 February 2021	**304**	**221**	**525**
Net book value			
At 1 March 2019	1,377	245	1,622
At 29 February 2020	1,215	117	1,332
At 28 February 2021	**1,073**	**24**	**1,097**

Lease liabilities	28 February 2021 £'000	29 February 2020 £'000	1 March 2019 £'000
Current	**202**	307	307
Non-current	**1,176**	1,295	1,422
	1,378	1,602	1,729

There were no additions to the right-of-use assets in the financial year ended 28 February 2021 (financial year ended 29 February 2020: £Nil).

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11 Leases continued

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

Depreciation charge of right-of-use assets	**Year ended 28 February 2021 £'000**	Year ended 29 February 2020 £'000
Buildings	**142**	162
Motor vehicles	**93**	128
	235	290
Interest expense (included in finance cost)	**71**	80
Expense relating to short-term leases (included in administrative expenses)	**54**	54
Expense relating to leases of low-value assets (included in administrative expenses)	**–**	24

(iii) Changes in liabilities arising from financing activities

	1 March 2020 £'000	Cash flows £'000	Interest £'000	**28 February 2021 £'000**
Lease liabilities	1,602	(295)	71	**1,378**
Total liabilities from financing activities	1,602	(295)	71	**1,378**

	1 March 2019 £'000	Cash flows £'000	Interest	29 February 2020 £'000
Lease liabilities	1,729	(207)	80	1,602
Total liabilities from financing activities	1,729	(207)	80	1,602

12 Intangible assets

	Goodwill £'000	Customer relationships £'000	Brand £'000	Total £'000
Cost				
At 1 March 2019, 29 February 2020 and 28 February 2021	**37,493**	**8,798**	**3,653**	**49,944**
Amortisation				
At 1 March 2019	–	1,247	1,034	2,281
Charge for the year	–	880	730	1,610
At 29 February 2020	–	2,127	1,764	3,891
Charge for the year	–	880	730	1,610
At 28 February 2021	**–**	**3,007**	**2,494**	**5,501**
Net book value				
At 29 February 2020	37,493	6,671	1,889	46,053
At 28 February 2021	**37,493**	**5,791**	**1,159**	**44,443**

Determination of recoverable amount:

The carrying value of indefinite useful life intangible assets and goodwill are tested annually for impairment. The recoverable amount of each cash-generating unit (CGU) is the higher of the CGU's fair value less costs of disposal and its value in use. For each CGU and for all periods presented, the Group has assessed that the value in use represents the recoverable amount. The future expected cash flows used in the value in use models are based on management forecasts, typically over a three-year period, and thereafter a reasonable rate of growth is applied based on current market conditions. For the purpose of impairment assessments of goodwill, the goodwill balance is allocated to the operating units which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

12 Intangible assets continued

A summary of the goodwill per CGU as well as assumptions applied for impairment assessment purposes is presented below:

28 February 2021

During the financial year to 28 February 2021, the Group successfully integrated the Bytes Security Partnership into the Bytes Software Services business. The £6.9 million carrying value of goodwill previously allocated to Bytes Security Partnership has been re-allocated to the Bytes Software Services CGU. The goodwill per CGU as at 28 February 2021 is as follows:

	Long-term growth rate %	Discount rate %	Goodwill carrying amount £'000
Bytes Software Services	**2**	**8.44**	**14,775**
Phoenix Software	**2**	**8.44**	**22,718**
			37,493

29 February 2020	Long-term growth rate %	Discount rate %	Goodwill carrying amount £'000
Bytes Software Services	2	8.13	7,841
Bytes Security Partnership	2	8.13	6,934
Phoenix Software	2	8.13	22,718
			37,493

Growth rates

The Group used a conservative growth rate of 2% which was applied beyond the approved budget periods. The growth rate was consistent with publicly available information relating to long-term average growth rates for the market in which the respective CGU operated. The average growth rates ranged from 2% to 5% (2020: 2% – 5%).

Discount rates

Discount rates used reflect both time value of money and other specific risks relating to the relevant CGU. Pre-tax discount rates have been applied.

Sensitivities

The impacts of variations in the calculation of value-in-use of assumed growth rate and pre-tax discount rates applied to the estimated future cash flows of the CGUs have been estimated as follows:

28 February 2021	Bytes Software Services £'000	Phoenix Software £'000
Headroom	**377,502**	**127,899**
1% increase in the pre-tax discount rate applied to the estimated future cash flows	**(55,339)**	**(21,190)**
1% decrease in the pre-tax discount rate applied to the estimated future cash flows	**75,769**	**29,016**
0.5% increase in the terminal growth rate from 2022 to 2026	**30,790**	**11,715**
0.5% decrease in the terminal growth rate from 2022 to 2026	**(26,351)**	**(10,026)**

29 February 2020	Bytes Software Services £'000	Bytes Security Partnership £'000	Phoenix Software £'000
Headroom	333,967	44,215	52,253
1% increase in the pre-tax discount rate applied to the estimated future cash flows	(43,296)	(7,463)	(10,891)
1% decrease in the pre-tax discount rate applied to the estimated future cash flows	60,156	10,369	15,132
0.5% increase in the terminal growth rate from 2021 to 2025	7,475	1,363	1,969
0.5% decrease in the terminal growth rate from 2021 to 2025	(7,344)	(1,339)	(1,933)

None of the above sensitivities taken either in isolation or aggregated, indicate a potential impairment. The directors consider that there is no reasonable possible change in the assumptions used in the sensitivities that would result in an impairment of goodwill.

13 Inventories

	As at 28 February 2021 £'000	As at 29 February 2020 £'000
Inventories	**591**	688
	591	688

Inventories include asset management subscription licences purchased in advance for a specific customer that as yet haven't been consumed.

Inventories recognised as an expense in cost of sales during the year amounted to £97,000 (29 February 2020: £94,000).

Notes to the consolidated financial statements

14 Financial assets and financial liabilities

This note provides information about the Group's financial instruments, including:

- an overview of all financial instruments held by the Group;
- specific information about each type of financial instrument;
- accounting policies; and
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The Group holds the following financial instruments:

Financial assets	Note	As at 28 February 2021 £'000	As at 29 February 2020 £'000
Financial assets at amortised cost:			
Trade receivables	15	**103,455**	73,365
Other financial assets	15	**1,193**	1,808
		104,648	75,173

Financial liabilities	Note	As at 28 February 2021 £'000	As at 29 February 2020 £'000
Trade and other payables – current, excluding Payroll tax and other statutory tax liabilities	17	**150,354**	125,429
Lease liabilities	11	**1,377**	1,602
		151,731	127,031

The Group's exposure to various risks associated with the financial instruments is discussed in note 24. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

15 Trade and other receivables

	As at 28 February 2021 £'000	As at 29 February 2020 £'000
Financial assets		
Gross trade receivables	**104,179**	73,767
Less: impairment allowance	**(724)**	(402)
Net trade receivables	**103,455**	73,365
Other receivables	**1,193**	1,808
	104,648	75,173
Non-financial assets		
Prepayments	**2,016**	1,921
	2,016	1,921
Trade and other receivables	**106,664**	77,094

(i) Classification of trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies are provided in note 1.22.

(ii) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Notes to the consolidated financial statements

15 Trade and other receivables continued

(iii) Credit risk

Ageing and impairment analysis (excluding finance lease assets)

29 February 2020	Current £'000	Past due 0 to 30 days £'000	Past due 31 to 120 days £'000	Past due 121 to 365 days £'000	Total £'000
Expected loss rate	0.02%	0.28%	13.41%	95.61%	
Gross carrying amount – trade receivables	59,410	12,445	1,792	120	73,767
Loss allowance	12	35	240	115	402

28 February 2021	Current £'000	Past due 0 to 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 120 days £'000	Past due 121 to 365 days £'000	Total £'000
Expected loss rate	**0.05%**	**0.58%**	**6.08%**	**25.87%**	**100%**	
Gross carrying amount – trade receivables	**87,557**	**12,077**	**3,764**	**545**	**236**	**104,179**
Loss allowance	**48**	**70**	**229**	**141**	**236**	**724**

Impact of Covid-19

During the financial year, the Group has revised the expected credit loss rates for the impact of Covid-19 and altered the payment profiles of balances associated with certain customers. To represent the effects of this, the Group has split the past due 31 to 120 days ageing profile into two separate ageing profiles, being past due 31 to 60 days and past due 61 to 120 days. The loss allowances applied to both ageing profiles are based on the historical loss rates adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The closing loss allowances for trade receivables reconcile to the opening loss allowances as follows:

Trade receivables	As at 28 February 2021 £'000	As at 29 February 2020 £'000
Opening loss allowance at 1 March	**402**	476
Increase in loss allowance recognised in profit or loss during the period	**333**	–
Receivables written off during the year as uncollectible	**(11)**	(74)
Closing loss allowance	**724**	402

Trade receivables are written off where 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 120 days past due.

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

16 Cash and cash equivalents

	As at 28 February 2021 £'000	As at 29 February 2020 £'000
Cash at bank and in hand	**20,734**	47,357
	20,734	47,357

17 Trade and other payables

	As at 28 February 2021 £'000	As at 29 February 2020 £'000
Trade and other payables[1]	**124,977**	106,818
Accrued expenses	**25,377**	20,988
Payroll tax and other statutory liabilities	**6,767**	5,381
	157,121	133,187

1 Demerger Transactions
Included within trade and other payables as at 29 February 2020 are deferred consideration amounts totalling £16.7 million relating to the Demerger Transactions. These amounts represent the cash consideration payments made to both management teams of Bytes Technology Limited and Blenheim Group Limited on the Date of the Demerger. Payments of £14.3 million; and £2.4 million were made to the Bytes Technology Limited management and Blenheim Group Limited management respectively for the Bytes Technology Limited and Blenheim Group Limited B ordinary shares. The Group has chosen to present the Demerger Transactions from 1 March 2019 and has therefore recognised a liability in the prior periods for the cash consideration paid on the Date of the Demerger.

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Notes to the consolidated financial statements

18 Deferred tax balances

Deferred tax assets	As at 28 February 2021 £'000	As at 29 February 2020 £'000
The balance comprises temporary differences attributable to:		
Employee benefits	**241**	–
Provisions	**101**	–
Share-based payments	**15**	–
	357	–

Deferred tax assets	As at 28 February 2021 £'000	As at 29 February 2020 £'000
At 1 March	**–**	–
Credited to profit or loss	**342**	–
Credited to equity	**15**	–
Carrying amount at end of year	**357**	–

Deferred tax liabilities	As at 28 February 2021 £'000	As at 29 February 2020 £'000
The balance comprises temporary differences attributable to:		
Intangible assets	**1,207**	1,488
Property, plant and equipment	**531**	407
	1,738	1,895

Deferred tax liabilities	As at 28 February 2021 £'000	As at 29 February 2020 £'000
At 1 March	**1,895**	2,038
Credited to profit or loss	**(157)**	(143)
Carrying amount at end of year	**1,738**	1,895

19 Share capital and share premium

Authorised, allotted, called up and fully paid	Number of shares	Nominal value £'000	Share premium £'000	Total £'000
At 1 March 2019 and 29 February 2020[1]	232,480,613	2,325	625,373	627,698
Shares issued during the year[2]	7,001,720	70	8,263	8,333
At 28 February 2021[3,4]	**239,482,333**	**2,395**	**633,636**	**636,031**

1 Demerger Transactions
The comparative figures are presented as if the Demerger Transactions had occurred on 1 March 2019. On the Date of the Demerger, the company had 2 ordinary shares in issue and issued a further 232,480,611 ordinary shares in the company at an issue price of £2.70 per share with an aggregate value of £627.7 million. This amount, together with the cash payments of £16.7 million to management for the acquisition of the Bytes Technology Limited and Blenheim Group Limited B ordinary shares, is the total consideration of £644.4 million paid to Altron and the management under the Demerger SPA to acquire the entire issued share capital of Bytes Technology Limited. The issue of 232,480,611 ordinary shares by the company at an issue price of £2.70 per share, gave rise to share capital of £2.3 million, being the nominal value of the shares issued and share premium of £625.4 million with a contribution to the merger reserve of £627.7 million; see note 21. Included in the 232,480,611 ordinary shares issued on the Date of the Demerger were 123,514,420 ordinary shares with an aggregate value of £333.5 million issued for cash to new institutional and individual investors (including the non-executive directors) introduced by the company's brokers, Numis Securities. This cash was paid to Altron and Altron shareholders. 96,992,074 ordinary shares with an aggregate value of £261.9 million were issued directly to Altron shareholders and 11,974,117 ordinary shares with an aggregate value of £32.3 million were issued to the Bytes Technology Limited management for the Bytes Technology Limited B ordinary shares, giving the combined value of £627.7 million shown above.

2 Shares issued during the year
During the year the company issued 7,001,720 new ordinary shares at an issue price of £2.70 per share to institutional investors introduced by Numis Securities. This resulted in gross share proceeds of £18.9 million consisting of share capital of £70,000 and a share premium of £18.9 million which was offset by £10.6 million of commission costs paid on the issue of the shares. The remaining net share issue proceeds of £8.3 million were used by the company to pay the other IPO costs of £8.1 million included in note 5. The £10.6 million of commission costs were paid to Numis Securities for raising total gross proceeds of £352.4 million for the introduction of the new institutional and individual investors on the Date of the Demerger and during the year.

3 Ordinary shares
Ordinary shares have a nominal value of £0.01. All ordinary shares in issue rank pari passu and carry the same voting rights and entitlement to receive dividends and other distributions declared or paid by the Group. The company does not have a limited amount of authorised share capital.

4 Share options
Information related to the Bytes Technology Group plc performance incentive share plan, including options issued during the financial year and options outstanding at the end of the reporting period is set out in note 28.

Notes to the consolidated financial statements

20 Other reserves

The following table shows a breakdown of the consolidated statement of financial position line item 'other reserves' and the movements in these reserves during the year. All movements relate to the Group's share-based payment schemes; further details are provided in note 28.

	Note	The Bytes Technology Group plc performance incentive plan £'000	Bytes Technology Limited scheme £'000	Blenheim Group Limited scheme £'000	Total other reserves £'000
Balance at 1 March 2019			721	178	899
Share-based payment expenses	28	–	97	174	271
At 29 February 2020		–	818	352	1,170
Share-based payment expenses	28	302	129	531	962
Deferred tax	18	15	–	–	15
Transfer to retained earnings[1]	22	–	(947)	(883)	(1,830)
At 28 February 2021		**317**	–	–	**317**

1 Transfer to retained earnings
On the Date of the Demerger, both the Bytes Technology Limited scheme and the Blenheim Group Limited scheme were exercised. The equity amounts relating to both schemes were transferred to retained earnings on settlement.

21 Merger reserve

	Year ended 28 February 2021	Year ended 29 February 2020
Balance at 1 March 2019, 29 February 2020 and 28 February 2021	**(644,375)**	(644,375)
	(644,375)	(644,375)

The merger reserve of £644.4 million effective on the Date of the Demerger is an accounting reserve in equity representing the difference between total nominal value of the issued share capital acquired in Bytes Technology Limited of £1.10 and the total consideration given of £644.4 million. The total consideration was satisfied by the issue of new shares in the company for a consideration of £627.7 million, see note 19; and further cash consideration of £16.7 million for the acquisition of the Bytes Technology Limited and Blenheim Group Limited B ordinary shares, see note 17. £14.3 million of the cash consideration was satisfied by the company to acquire the Bytes Technology Limited B ordinary shares and £2.4 million was satisfied by Bytes Technology Limited to acquire the Blenheim Group Limited B ordinary shares.

22 Retained earnings

Movements in retained earnings were as follows:	Note	Year ended 28 February 2021	Year ended 29 February 2020
Balance at 1 March		**51,612**	41,254
Net profit for the period[1]		**19,933**	24,158
Transfer from other reserves	20	**1,830**	–
Dividends	25(b)	**(48,600)**	(13,800)
		24,775	51,612

1 Net profit for the period is stated after £8.1 million of IPO costs; see note 5.

23 Cash generated from operations

	Note	Year ended 28 February 2021	Year ended 29 February 2020
Profit before taxation		**26,663**	29,920
Adjustments for:			
Depreciation and amortisation	4	**2,680**	2,584
Loss on disposal of property, plant and equipment	4	**18**	10
Non-cash employee benefits expense – share-based payments	6	**962**	271
Finance (income)/costs – net	8	**181**	(76)
(Increase)/decrease in contract assets		**(1,252)**	2,971
(Increase) in trade and other receivables		**(29,570)**	(22,496)
Decrease/(increase) in inventories		**97**	(594)
Increase in trade and other payables		**40,611**	27,586
Increase in contract liabilities		**1,156**	1,523
Cash generated from operations		**41,546**	41,699

24 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

A significant portion of the Group's revenues are from the sale of Microsoft software and associated services and it, therefore, remains strongly dependent thereon. The Group intends to continue to develop this relationship, as well as seek additional opportunities with other suppliers, in order to mitigate the risk and exposure going forward.

Management monitors the liquidity and cash flow risk of the Group carefully. Cash flow is monitored by management on a regular basis and any working capital requirement is funded by cash resources or access to the revolving credit facility.

The main financial risks arising from the Group's activities are credit, liquidity and currency risks. The Group's policy in respect of credit risk is to require appropriate credit checks on potential customers before sales are made.

The Group's policy in respect of liquidity risk is to maintain readily accessible bank deposit accounts to ensure that the company has sufficient funds for its operations. The cash deposits are held in a mixture of short-term deposits and current accounts which earn interest at a floating rate.

The Group's policy in respect of currency risk, which primarily exists as a result of foreign currency purchases, is to either sell in the currency of purchase, maintain sufficient cash reserves in the appropriate foreign currencies which can be used to meet foreign currency liabilities or take out forward currency contracts to cover the exposure.

24(a) Derivatives

Derivatives are only used for economic hedging purposes and not speculative investments.

The Group has taken out forward currency contracts during the periods presented but has not recognised either a forward currency asset or liability at each period end as the fair value of the foreign currency forwards is considered to be immaterial to the consolidated financial statements. Similarly, the amounts recognised in profit or loss in relation to derivatives were considered immaterial to disclose separately.

24(b) Foreign exchange risk

The Group's exposure to foreign currency risk at the end of the reporting period, was as follows:

	As at 28 February 2021			As at 29 February 2020	
	USD £'000	EUR £'000	NOK £'000	USD £'000	EUR £'000
Trade receivables	11,468	605	–	8,057	397
Cash and cash equivalents	424	717	–	4,627	283
Trade payables	(11,163)	(6,557)	(1,294)	(14,873)	(6,323)
	729	(5,235)	(1,294)	(2,189)	(5,643)

The aggregate net foreign exchange gains/(losses) recognised in profit or loss were:

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Total net foreign exchange (losses)/gains in profit or loss	(11)	24
	(11)	24

24(c) Liquidity risk

(1) Cash management

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due. The Group generates positive cash flows from operating activities and these fund short-term working capital requirements. The Group aims to maintain significant cash reserves and none of its cash reserves are subject to restrictions. Access to cash is not restricted and all cash balances could be drawn upon immediately if required. Management carefully monitors the levels of cash deposits and is comfortable that for normal operating requirements, no further external borrowings are currently required.

At 28 February 2021, the Group had cash and cash equivalents of £20.7 million; see note 16. Management monitors rolling forecasts of the Group's liquidity position (which comprises its cash and cash equivalents) on the basis of expected cash flows generated from the Group's operations. These forecasts are generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group and take into account certain down case scenarios.

Notes to the consolidated financial statements

24(c) Liquidity risk continued

(2) Revolving Credit Facility

The Group has entered into a three-year committed Revolving Credit Facility (RCF) from the admission date of £50 million for the first 12 months, reducing to £40 million for the following 12 months and to £30 million thereafter. The Group incurred arrangement fees of £0.4 million representing 0.75% of the initial £50 million facility available. The Group has so far not drawn down any amount on this facility and to the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee has been capitalised as a prepayment and amortised over the three-year period of the facility. The facility also incurs a commitment fee and utilisation fee and both are payable quarterly in arrears. Under the terms of the facility, the Group is required to comply with the following financial covenants:

- Interest cover: EBITDA (earnings before interest, tax, depreciation and amortisation) to net finance charges for the last 12 months shall be greater than 4.0 times;
- Leverage: Net debt to EBITDA for the last 12 months must not exceed 2.5 times.

The Group has complied with these covenants throughout the reporting period. As at 28 February 2021, EBITDA to net finance charges was approximately 208 times. Net debt to EBITDA was approximately 0.5 times.

(3) Contractual maturity of financial liabilities

The following table details the Group's remaining contractual maturity for its financial liabilities based on undiscounted contractual payments:

28 February 2021	Note	**Within 1 year £'000**	**1 to 2 years £'000**	**2 to 5 years £'000**	**Over 5 years £'000**	**Total contractual cash flows £'000**	**Carrying amount £'000**
Trade and other payables	17	**124,977**	**–**	**–**	**–**	**124,977**	**124,977**
Lease liabilities	11	**257**	**231**	**578**	**545**	**1,611**	**1,378**
		125,234	**231**	**578**	**545**	**126,588**	**126,355**

29 February 2020	Note	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total contractual cash flows £'000	Carrying amount £'000
Trade and other payables	17	106,818	–	–	–	106,818	106,818
Lease liabilities	11	324	230	690	748	1,992	1,602
		107,142	230	690	748	108,810	108,420

25 Capital management

25(a) Risk management

For the purpose of the Group's capital management, capital includes issued capital, ordinary shares, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the shareholders. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In order to ensure an appropriate return for shareholders' capital invested in the Group, management thoroughly evaluates all material revenue streams, relationship with key vendors and potential acquisitions and approves them by the Board, where applicable. The Group's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows. The Board initially intends to target an annual dividend of between 40% and 50 % of the Group's profit after taxation before any exceptional items in each financial year. Subject to any cash requirements for ongoing investment, the Board will consider returning excess cash to shareholders over time.

25(b) Dividends

	2021		2020	
Ordinary shares	**Pence per share**	**£'000**	Pence per share	£'000
Prior year's final dividend paid	–	–	5.94	13,800
Interim dividend paid	**8.00**	**18,600**	–	–
Dividend paid prior to Demerger	**12.90**	**30,000**	–	–
Total dividends attributable to ordinary shareholders	**20.90**	**48,600**	5.94	13,800

Final and interim dividends paid for the years ended 28 February 2021 and 29 February 2020 relate to the distributions of profits prior to the Date of Demerger. Dividends per share is calculated by dividing the dividend paid by the number of ordinary shares in issue at the Date of Demerger. The Board of directors recommend no further ordinary or special dividends for the year ended 28 February 2021.

26 Capital commitments

At 28 February 2021, the Group had £Nil capital commitments (29 February 2020: £Nil).

Notes to the consolidated financial statements

27 Related party transactions

In the ordinary course of business, the Group carries out transactions with related parties, as defined by IAS 24 'Related Party Disclosures'. Apart from those disclosed elsewhere in the consolidated financial statements, material transactions for the year are set out below:

27(a) Transactions with key management personnel

Prior to the Date of the Demerger, the key management personnel are defined as the directors of the Bytes business. Certain directors were not paid directly by the Bytes business but received remuneration from Altron, in respect of their services to the larger Group which included the Bytes business. The Group was not recharged for these services, since it was not possible to make an accurate apportionment of their remuneration. The total remuneration relating to these directors was included in the aggregate of directors' remuneration disclosed in the consolidated financial statements of the Altron group. Following the Date of Demerger, the key management personnel are defined as the directors (both executive and non-executive) of Bytes Technology Group plc, Bytes Software Services Limited and Phoenix Software Limited. Details of the compensation paid to the directors as well as their shareholdings in the Group are disclosed in the annual report on remuneration.

27(b) Subsidiaries

Interests in subsidiaries are set out in note 30.

27(c) Transactions with former parent group, Altron

The following transactions occurred with related parties:

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Purchase of services		
Management services provided by fellow Group company	**42**	50
Other transactions		
Dividends paid to former parent group	**(48,600)**	(13,800)

27(d) Outstanding balances arising from sales/purchases of services

There were no outstanding balances at the end of each reporting period.

28 Share-based payments

28(a) Arrangements started from the Date of Demerger and onwards

The Group established a new equity-settled share-based payment incentive scheme, the Bytes Technology Group plc performance incentive share plan, with effect from the Admission Date. Awards under the Bytes Technology Group plc performance incentive share plan have been accounted for as equity-settled share-based payments. The fair value of the awards granted is recognised as an expense over the appropriate service and vesting period.

The Bytes Technology Group plc performance incentive share plan

Employees of Bytes Technology Group plc and its subsidiaries are eligible to participate in the Bytes Technology Group plc performance incentive share plan. Awards are made at the discretion of the Group's Remuneration Committee and may be granted in the form of an option or conditional share award. No individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Awards granted in the scheme are for shares in Bytes Technology Group plc. Under the plan, participants are granted options which only vest if certain service conditions are met.

The number of options that will vest depends on the participants of the scheme being employed or a 'good leaver' at the vesting date. Once vested, the options remain exercisable for a period up to 10 years from the date of the grant.

Options are granted under the plan for no consideration and carry no voting rights. The Remuneration Committee may decide on or before the date of grant that an award holder shall be entitled to receive additional shares and/or cash payments representing the value of any dividends that would have been paid on the vested shares during the vesting period.

When exercisable, each option is convertible into one ordinary share. As soon as reasonably practicable after a vested option has been exercised, and by no later than 30 days following receipt of a valid exercise notice, the company shall issue and allot or transfer or procure to transfer to the award holder the number of shares in respect of which the vested option has been exercised.

Set out below are summaries of options granted under the plan:

	2021 Number of options
As at commencement of the scheme	**1,480,110**
As at 28 February 2021	**1,480,110**

No options were exercised, forfeited or expired during the period covered by the above table.

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28(a) Arrangements started from the Date of Demerger and onwards continued

Share options outstanding at the end of the year have the following vesting dates, expiry dates and exercise prices:

Grant date	Vesting date	Expiry date	Exercise price	Share options 28 February 2021
17 December 2020	17 December 2023	16 December 2030	£0.01	**1,480,110**
				1,480,110
Weighted average remaining contractual life of options outstanding at end of period				2.80 years

(i) Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 28 February 2021 was £3.40 per option, based on the share price at grant date which was the Date of Admission of the company's shares. The share price at the date of grant is deemed to be the fair value of the option given that there are no performance conditions, the exercise price is a nominal amount, being £0.01 and option holders are entitled to dividend equivalents.

(ii) Net settlement feature for withholding tax obligations

The Group has the right but not the obligation to withhold an amount sufficient to settle the tax liability of an employee associated with a share-based payment and transfer that amount in cash to the tax authority on the employee's behalf.

28(b) Arrangements existing before the Date of Demerger

Prior to the Demerger, the Group operated two equity-settled share-based payment incentive schemes, the Bytes Technology Limited scheme and the Blenheim Group Limited scheme. The Bytes Technology Limited scheme was due to vest on 1 March 2021 and the Blenheim Group Limited scheme on 1 March 2023. Both schemes vested on the Date of the Demerger and settled as discussed in more detail below.

(1) Bytes Technology Limited scheme

On 15 November 2016, Bytes Technology Limited issued and allotted B ordinary shares to certain members of its management at £0.001 per share. The value of the shares was to be determined by taking the average profitability of Bytes Technology Limited in the two years immediately preceding 28 February 2021 multiplied by a market multiple to be determined at the vesting date. The B ordinary shares participated in 20% of the growth above the pre-determined hurdle. These shares carried no dividend rights. Upon vesting of the B ordinary shares, the B ordinary shares would be converted into Fixed Rate Preference Shares (FRPS), the FRPS would then have been immediately converted into A ordinary shares or Altron shares, at Altron's election. The A ordinary shares would have ranked pari passu in all respects with the existing A ordinary shares, including the right to receive all dividends declared, made or paid after the vesting date. The Demerger Transactions were deemed an event which accelerated the vesting period of the B ordinary shares. It was not considered necessary to convert the B ordinary shares to A ordinary shares for the scheme to be considered equity-settled, since the vesting conditions were considered to be met on the Date of the Demerger. The B ordinary shares were acquired by the company on the Date of the Demerger, with the B ordinary shareholders receiving cash consideration of £14.3 million and 5% of the issued share capital of the company. The Group has chosen the approach to present the Demerger Transactions from 1 March 2019 and recognised a liability of £14.3 million in respect of its obligation to acquire the B ordinary shares. The cash consideration was deemed to be less than the fair value of the equity instruments measured at the settlement date, so no additional expense was recognised. This was determined with the use of a market valuation approach. An expense of £0.1 million was immediately recognised in profit or loss, resulting from accelerating the vesting period of the shares.

(2) Blenheim Group Limited scheme

On 10 February 2020, Blenheim Group Limited issued and allotted B ordinary shares to certain members of its management at £0.001 per share. The value of the shares was to be determined by taking the average profitability of the Blenheim Group of companies, including Blenheim Group Limited, Phoenix Software Limited and License Dashboard Limited (all wholly owned subsidiaries of the company) in the two years immediately preceding 28 February 2023 multiplied by a market multiple to be determined at the vesting date. The B ordinary shares participated in 15% of the growth above a pre-determined hurdle. These shares carried no dividend rights. Upon vesting of the B ordinary shares, the B ordinary shares would be converted into A ordinary shares in Blenheim Group Limited or Altron shares, at Altron's election. The Demerger Transactions were deemed an event which accelerated the vesting period of the B ordinary shares. It was not considered necessary to convert the B ordinary shares to A ordinary shares for the scheme to be considered equity settled, since the vesting conditions were considered to be met on the Date of the Demerger. The B ordinary shares were acquired by Bytes Technology Limited on the Date of the Demerger, with the B ordinary shareholders receiving cash consideration of £2.4 million. The Group recognised a liability of £2.4 million on 1 March 2019 in recognition of presenting the Demerger Transactions from this date. The cash consideration was deemed to be less than the fair value of the equity instruments measured at the settlement date, so no additional expense was recognised. This was determined with the use of a market valuation approach. An expense of £0.4 million was immediately recognised in profit or loss, resulting from accelerating the vesting period of the shares.

None of the B ordinary shares in either Bytes Technology Limited or Blenheim Group Limited were exercisable at the comparative reporting date. The details of the Bytes Technology Limited and Blenheim Group Limited B ordinary shares previously in issue were as follows:

Bytes Technology Limited

	Number of shares
B ordinary shares issued in Bytes Technology Limited as at 29 February 2020	1,000

Blenheim Group Limited

	Number of shares
B ordinary shares issued in Blenheim Group Limited on 10 February 2020	1,000
B ordinary shares issued in Blenheim Group Limited as at 29 February 2020	1,000

Notes to the consolidated financial statements

28(b) Arrangements existing before the Date of Demerger continued

Fair value and assumptions of B ordinary shares awarded

(1) Bytes Technology Limited Scheme

		15 November 2016
Fair value at grant date	(GBP)	3.00
Share price	(GBP)	65.76
Exercise price	(GBP)	72.33
Expected volatility	(%)	25.00
Vesting period	(years)	5
Dividend yield	(%)	9.3
Risk-free interest rate	(%)	1.40

The fair value of the services received is measured using the Binomial Approach Model.

The expected volatility is based on the average historic volatility of peer group companies (based on the vesting period remaining).

The weighted average remaining period to vesting on the B ordinary shares at 29 February 2020 was one year.

(2) Blenheim Group Limited Scheme

		10 February 2020
Fair value at grant date	(GBP)	3.00
Share price	(GBP)	41.40
Exercise price	(GBP)	51.75
Expected volatility	(%)	30.30
Vesting period	(years)	3
Dividend yield	(%)	9.5
Risk-free interest rate	(%)	0.31

The fair value of the services received is measured using the Binomial Approach Model.

The expected volatility is based on the average historic volatility of peer group companies (based on the vesting period remaining).

The weighted average remaining period to vesting on the B ordinary shares at 29 February 2020 was three years.

Share-based payment employee expenses	**Year ended 28 February 2021 £'000**	Year ended 29 February 2020 £'000
Equity-settled share-based payment expenses	**962**	271
	962	271

29 Earnings per share

The Group calculates earnings per share (EPS) on several different bases in accordance with IFRS and prevailing South Africa requirements.

Share transactions such as share issues in respect of the Demerger Transactions are reflected in the EPS denominator as if these transactions had occurred on 1 March 2019.

29(a) Basic earnings per share

Basic earnings per share	Year ended 28 February 2021 pence	Year ended 29 February 2020 pence
From profit for the period attributable to owners of the company	**8.52**	10.39

29(b) Diluted earnings per share

Diluted earnings per share	Year ended 28 February 2021 pence	Year ended 29 February 2020 pence
From profit for the period attributable to owners of the company	**8.47**	10.39

29(c) Headline earnings per share

The Group is required to calculate headline earnings per share (HEPS) in accordance with the JSE Listing Requirements. The table below reconciles the profits attributable to ordinary shareholders to headline earnings and summarises the calculation of basic and diluted HEPS:

Headline earnings per share	Note	Year ended 28 February 2021 pence	Year ended 29 February 2020 pence
From profit for the period attributable to owners of the company		**8.52**	10.39
Adjusted for:			
Loss on disposal of property, plant and equipment	4	–	–
Total headline earnings per share attributable to owners of the company		**8.52**	10.39

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29 Earnings per share continued

29(d) Diluted headline earnings per share

Diluted headline earnings per share	Note	**Year ended 28 February 2021 pence**	Year ended 29 February 2020 pence
From profit for the period attributable to owners of the company		**8.47**	10.39
Adjusted for:			
Loss on disposal of property, plant and equipment	4	**–**	–
Total diluted headline earnings per share attributable to owners of the company		**8.47**	10.39

29(e) Weighted average number of shares used as the denominator

	Year ended 28 February 2021 Number	Year ended 29 February 2020 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and headline earnings per share	**233,900,138**	232,480,611
Adjustments for calculation of diluted earnings per share and diluted headline earnings per share:		
– share options	**1,480,110**	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and diluted headline earnings per share	**235,380,248**	232,480,611

29(f) Adjusted earnings per share

Adjusted earnings per share is a Group key alternative performance measure which is consistent with the way that financial performance is measured by senior management of the Group. It is calculated by dividing the adjusted operating profit attributable to ordinary shareholders by the total number of ordinary shares in issue at the end of the year. Adjusted operating profit is calculated to reflect the underlying long-term performance of the Group by excluding the impact of the following items:

- Non-underlying items
- Share-based payment charges
- Acquired intangible assets amortisation.

The table below reconciles the profit for the financial year to adjusted earnings and summarises the calculation of adjusted EPS:

	Note	**Year ended 28 February 2021 £'000**	Year ended 29 February 2020 £'000
Profits attributable to ordinary shareholders		**19,933**	24,158
Adjusted for:			
– Amortisation of acquired intangible assets	4	**1,610**	1,610
– Non-underlying items	5	**8,065**	–
– Share-based payment charges	28	**962**	271
Total adjusted earnings attributable to owners of the company		**30,570**	26,039

	pence	pence
Adjusted earnings per share	**13.07**	11.20
Diluted adjusted earnings per share	**12.99**	11.20

29(g) Information concerning the classification of securities

(i) Share options

Share options granted to employees under the Bytes Technology Group plc performance incentive share plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share on the basis that all employees are employed at the reporting date, and to the extent that they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the share options are disclosed in note 28.

Notes to the consolidated financial statements

30 Subsidiaries

The Group's subsidiaries included in the consolidated financial statements are set out below. The country of incorporation is also their principal place of business.

Name of entity	Country of incorporation	Ownership interest	Principal activities
Bytes Technology Holdco Limited[1]	UK	100%	Holding company
Bytes Technology Limited	UK	100%	Holding company
Bytes Software Services Limited	UK	100%	Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sector sectors
Bytes Security Partnerships Limited	UK	100%	Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sector sectors
Blenheim Group Limited	UK	100%	Holding company
Phoenix Software Limited	UK	100%	Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sector sectors
License Dashboard Limited	UK	100%	Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sector sectors
Bytes Technology Group Holdings Limited	UK	100%	Dormant for all periods
Bytes Technology Training Limited	UK	100%	Dormant for all periods
Elastabytes Limited	UK	50%	Dormant for all periods

1 Bytes Technology Holdco Limited is held directly by the company. All other subsidiary undertakings are held indirectly by the company.

The registered address of all of the Group subsidiaries included above is Bytes House, Randalls Way, Leatherhead, Surrey, KT22 7TW.

Parent company financial statements of Bytes Technology Group plc

Company balance sheet

As at 28 February 2021

	Note	As at 28 February 2021 £'000
Assets		
Non-current assets		
Investments	5	**46,630**
Total non-current assets		**46,630**
Current assets		
Trade and other receivables	6	**603,384**
Total current assets		**603,384**
Total assets		**650,014**
Current liabilities		
Trade and other payables	7	**(18,600)**
Total current liabilities		**(18,600)**
Total liabilities		**(18,600)**
Net assets		**631,414**
Equity		
Share capital	9	**2,395**
Share premium	9	**633,636**
Retained earnings[1]	10	**(4,617)**
Total equity		**631,414**

1 The loss for the company for the period was £4,617,000.

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The Financial Statements on pages 201 to 214 were approved and signed by the Chief Executive Officer on 25 May 2021 having been duly authorised to do so by the Board of directors:

Neil Murphy
Chief Executive Officer

Keith Richardson
Chief Financial Officer

Company statement of changes in equity

For the year ended 28 February 2021

		Attributable to owners of the Company				
	Note	Share capital £'000	Redeemable preference shares £'000	Share premium £'000	Retained earnings £'000	Total £'000
At the date of incorporation	9	–	50	–	–	50
Shares issued during the period	9	2,395	–	633,636	–	636,031
Redemption of preference shares	9	–	(50)	–	–	(50)
Total comprehensive loss for the period	10	–	–	–	(4,617)	(4,617)
Balance at 28 February 2021		**2,395**	**–**	**633,636**	**(4,617)**	**631,414**

Notes to the parent company financial statements

1 Accounting policies

The principal accounting policies applied are summarised below.

1.1 Authorisation of financial statements and statement of compliance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101)

The financial statements of Bytes Technology Group plc for the period ended 28 February 2021 were approved and signed by the Chief Executive Officer on 25 May 2021 having been duly authorised to do so by the Board of directors. The company meets the definition of a qualifying entity under Financial Reporting Standard 100 'Application of Financial Reporting Requirements' (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101 and in accordance with the provisions of the UK Companies Act 2006.

1.2 Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Bytes Technology Group plc is a company incorporated in the UK under the Companies Act. The address of the registered office is provided on page 217. The company is the ultimate parent company and a holding company within the newly demerged Bytes business. The company provides management services to subsidiary undertakings in respect of certain head office functions and requirements, which are recharged as the costs are incurred by the company.

The company's financial statements comprise the balance sheet, statement of changes in equity and supporting notes to the financial statements for the period from 7 October 2020 ("the date of incorporation") to 28 February 2021. The accounting reference period of the company ending on 31 October 2021 was shortened to end on 28 February 2021 in order to align with the accounting reference period of the Bytes Group of companies.

The company's financial statements are included in the Bytes Technology Group plc consolidated financial statements for the period ended 28 February 2021.

These financial statements are separate financial statements.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101:

- the requirements of IFRS 7 'Financial Instruments Disclosures';
- the requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement';
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- the requirement of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';

Notes to the parent company financial statements

1.2 Basis of preparation continued

- the requirements of paragraphs 17 and 18A of IAS 24 ‘Related Party Disclosures’;
- the requirements in IAS 24 ‘Related Party Disclosures’ to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 ‘Impairment of Assets’, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated; and
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 ‘Revenue from Contracts with Customers’.

Where required, equivalent disclosures are given in the consolidated financial statements of Bytes Technology Group plc. As permitted by Section 408 of the Companies Act 2006, the income statement of the company is not presented as part of these financial statements.

1.3 Going concern

The ability of the company to continue as a going concern is contingent on the ongoing viability of the Group and its ability to continue as a going concern. The Group has prepared its going concern assessment and this is provided in note 1.5 in the notes to the financial statements included in the Bytes Technology Group plc consolidated financial statements. Having assessed the Group’s overall assessment of going concern in relation to the company, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the company’s financial statements.

1.4 Critical accounting estimates and judgements

The preparation of the financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the company’s accounting policies.

This note provides an overview of the areas that involved significant judgement or complexity. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Detailed information about each of these estimates and judgements is included in other notes, together with information about the basis of calculation for each affected line item in the financial statements.

Significant estimates and judgements

The areas involving significant estimates and judgements are:

Impairment of investments

The investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. The recoverable amounts are determined based on a value-in-use calculation and compared to the carrying value of the investment. The value-in-use calculation is based on discounted cash flow forecasts using estimated long-term growth rates.

1.5 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the company

The company has applied the following standard for the first time for the annual reporting period commencing 7 October 2020:

- Definition of Material – Amendments to IAS 1 and IAS 8; and
- Revised Conceptual Framework for Financial Reporting.

The company also elected to adopt the following amendments early:

- Annual Improvements to IFRS Standards 2018-2020 Cycle.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 28 February 2021 reporting periods and have not been early adopted by the company. These standards are not expected to have a material impact on the company in the current or future reporting periods and on foreseeable future transactions.

1.6 Investments

Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for impairment in value. The company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication of impairment exists, the company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. Where these circumstances have reversed, the impairment previously made is reversed to the extent of the original cost of the investment.

1.7 Functional and presentation currency

The financial statements are presented in Pound Sterling (£), which is the company's functional and presentation currency. All transactions undertaken by the company are denominated in Pound Sterling.

1.8 Revenue recognition

The company provides management services to subsidiary undertakings which are invoiced quarterly in arrears. Revenue from providing such services is recognised in the accounting period in which the services are rendered on an over time basis. In measuring its performance and the amount of revenue to be recognised, the company applies an inputs basis by reference to the costs incurred by the company and the hours expended by management for providing services to the measurement date.

Notes to the parent company financial statements

1.9 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the UK. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is also 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 income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1.10 Trade and other receivables

Trade receivables are recognised initially at the amount of consideration that is unconditional i.e. fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Prepayments and other receivables are stated at their nominal values.

1.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.12 Financial instruments

Financial instruments comprise investments in equity, loans receivable, trade and other receivables (excluding prepayments), investments, cash and cash equivalents, restricted cash, non-current loans, current loans, bank overdrafts, derivatives and trade and other payables.

Recognition

Financial assets and liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instruments. Financial assets are recognised on the date the company commits to purchase the instruments (trade date accounting).

Financial assets are classified as current if expected to be realised or settled within 12 months from the reporting date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the company has an unconditional right to defer payment for more than 12 months from the reporting date.

Classification

The company classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) based on the company's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

- Financial assets to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and
- Financial assets to be measured at amortised cost.

Financial assets are not reclassified unless the company changes its business model. In rare circumstances where the company does change its business model, reclassifications are done prospectively from the date that the company changes its business model.

Financial liabilities are classified and measured at amortised cost except for those derivative liabilities and contingent consideration that are measured at FVTPL.

Measurement on initial recognition

All financial assets and financial liabilities are initially measured at fair value, including transaction costs, except for those classified as FVTPL which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Notes to the parent company financial statements

1.12 Financial instruments continued

Subsequent measurement: Financial assets

Subsequent to initial recognition, financial assets are measured as described below:

- FVTPL – these financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss.
- Amortised cost – these financial assets are subsequently measured at amortised cost using the effective interest method, less impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- Equity instruments at FVOCI – these financial assets are subsequently measured at fair value. Dividends are recognised in profit or loss when the right to receive payment is established. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are not reclassified to profit or loss.

Subsequent measurement: Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset or liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Impairment

The company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

1.13 Trade and other payables

Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for in accordance with the accounting policy for financial liabilities as included above. Other payables are stated at their nominal values.

1.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

1.15 Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Post-employment obligations

The company operates various defined contribution plans for its employees. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments

Equity-settled share-based payment incentive scheme

Share-based compensation benefits are provided to particular employees of the company via the Bytes Technology Group plc performance incentive share plan.

Employee options

The fair values of options granted under the Bytes Technology Group plc performance incentive share plan are recognised as employee benefit expenses in the entities of the Group in which the employees are contracted and providing their services. The total amount to be expensed is determined by reference to the fair value of the options granted. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options issued that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

1.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

1.17 Dividends

Dividends paid on ordinary shares are classified as equity and are recognised as distributions in equity.

1.18 Rounding of amounts

All amounts disclosed in the consolidated financial statements and notes have been rounded off to the nearest thousand, unless otherwise stated.

Notes to the parent company financial statements

2 Directors' remuneration

Remuneration of directors	Period ended 28 February 2021 £'000
Directors' remuneration[1]	153
Social security costs	20
Pension costs	1
	174

1 Directors' remuneration

These amounts comprise fees paid to the non-executive directors and, for executive directors, salary and benefits earned for the period from 1 January 2021 to the end of the financial period. Prior to 1 January 2021, salary and benefits earned by the executive directors were paid by Bytes Software Services Limited, an indirect wholly owned subsidiary of the company. Further information is provided in the directors' remuneration report on pages 90 to 113.

3 Employee costs and numbers

Employee benefit expense	Period ended 28 February 2021 £'000
Employee remuneration	36
Social security costs	5
Pension costs	1
	42

The average monthly number of employees during the period was:

	Period ended 28 February 2021 Number
Administration	2
	2

4 Income tax expense

The major components of the company's income tax expense for the period was:

Current tax expense	**Period ended 28 February 2021 £'000**
Current income tax charge in the period	–
Total current income tax charge	–
Deferred tax credit/(expense)	
Origination and reversal of timing differences	–
Deferred tax credit/(expense)	–
Total tax charge	–

Reconciliation of total tax charge

The tax assessed for the period differs from the standard rate of corporation tax in the UK applied to profit before tax:

	Period ended 28 February 2021 £'000
Loss before income tax	**(4,617)**
Loss before income tax at the standard rate of corporation tax in the UK of 19% for all periods	**(877)**
Effects of:	
Non-deductible expenses	**777**
Group relief surrendered	**100**
Income tax charge reported in profit or loss	–

Changes affecting the future tax charge:

In the Spring Budget 2021, the UK Government announced that, from 1 April 2023, the main rate of corporation tax of 25% will be effective and will be substantively enacted once the Finance Bill 2021 has received Royal Assent. The company has considered the impact of the proposed change in the main rate of corporation of 25% on its future tax liabilities and considers the change to be immaterial at this stage. The company will continue to monitor the potential impact over the period up to 1 April 2023. In the previous Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reduce to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

Notes to the parent company financial statements

5 Investments in subsidiaries

	As at 28 February 2021 £'000
Opening balance	–
Acquisition of subsidiaries[1]	**641,998**
Transfer to Bytes Technology Holdco Limited[1]	**(595,368)**
	46,630

1 Demerger Transactions – Acquisition of Bytes Technology Limited
On the Date of the Demerger, the company acquired the entire issued share capital, which included the A ordinary and B ordinary shares of Bytes Technology Limited from Altron for a total consideration of £642.0 million.

Acquisition of Bytes Technology Limited A ordinary shares
The company acquired the A ordinary shares for a total consideration of £595.4 million. 220,506,494 new ordinary shares were issued by the company at an issue price of £2.70 per share to acquire the A ordinary shares of Bytes Technology Limited. Bytes Technology Holdco Limited, a direct subsidiary of the company immediately acquired the Bytes Technology Limited A ordinary shares from the company at cost in exchange for an intercompany payable due to the company of £595.4 million.

Acquisition of Bytes Technology Limited B ordinary shares
The company acquired the B ordinary shares for a total consideration of £46.6 million. £32.3 million of the total consideration was satisfied by the issue of 11,974,117 new ordinary shares by the company at an issue price of £2.70 per share. The company paid a further £14.3 million cash consideration to acquire the B ordinary shares, which was satisfied on its behalf by Bytes Software Services Limited in exchange for an intercompany receivable due by the company of £14.3 million.

For further information on the Demerger Transactions, see note 1.2 in the notes to the financial information in the consolidated financial statements of the Group.

6 Trade and other receivables

	As at 28 February 2021 £'000
Amounts due from other Group companies[1]	**602,969**
Prepayments	**415**
	603,384

1 Demerger Transactions – Acquisition of Bytes Technology Limited A ordinary shares
Included in amounts due from other Group companies is £595.4 million due from Bytes Technology Holdco Limited which represents the consideration satisfied by Bytes Technology Holdco Limited in exchange for the investment in the A ordinary shares of Bytes Technology Limited; see note 5. Amounts due from other Group companies are unsecured, interest free and repayable on demand.

7 Trade and other payables

	As at 28 February 2021 £'000
Trade and other payables	**410**
Amounts due to other Group companies[1]	**18,190**
	18,600

1 Demerger Transactions – Acquisition of Bytes Technology Limited B ordinary shares
Included in amounts due to other Group companies is £14.3 million due to Bytes Software Services Limited, which represents the cash consideration paid to acquire the B ordinary shares of Bytes Technology Limited. Amounts due to other Group companies are unsecured, interest free and repayable on demand.

8 Borrowings

The company has entered into a three-year committed Revolving Credit Facility (RCF) from the admission date of £50 million for the first 12 months, reducing to £40 million for the following 12 months and to £30 million thereafter. The company incurred arrangement fees of £0.4 million representing 0.75% of the initial £50 million facility available. The company has so far not drawn down any amount on this facility and to the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee has been capitalised as a prepayment and amortised over the three-year period of the facility. For further details on the RCF, see note 24(c) in notes to the financial information included in the consolidated financial statements of the Group.

Notes to the parent company financial statements

9 Share capital and share premium

Ordinary shares

Authorised, allotted, called up and fully paid	Number of shares	Nominal value £'000	Share premium £'000	Total £'000
At the date of incorporation	2	–	–	–
Shares issued during the period[1]	239,482,331	2,395	633,636	636,031
At 28 February 2021[3,4]	**239,482,333**	**2,395**	**633,636**	**636,031**

	Number of shares	Total £'000
Redeemable preference shares of £1 each		
At the date of incorporation	50,000	50
Redemption of preference shares[2]	(50,000)	(50)
At 28 February 2021		–

1 Shares issued during the period
On the Date of the Demerger, the company acquired the entire issued share capital of Bytes Technology Limited from Altron, for a total consideration of £642.0 million. £627.7 million of the total consideration was satisfied by the issue of new ordinary shares by the company. The company issued 11,974,117 new ordinary shares at an issue price of £2.70 per share, giving rise to a share premium of £32.2 million, in exchange for the Bytes Technology Limited B ordinary shares; see note 5. The company also issued 220,506,494 new ordinary shares at an issue price of £2.70 per share, giving rise to a share premium of £593.2 million, in exchange for the Bytes Technology Limited A ordinary shares; see note 6. The company issued a further 7,001,720 new ordinary shares at an issue price of £2.70 per share, giving rise to a share premium of £18.9 million which was offset by £10.6 million of commission costs paid on the issue of the shares.

2 Redemption of preference shares
The company has fully redeemed 50,000 redeemable preference shares from the subscriber at nominal value during the period.

3 Ordinary shares
Ordinary shares have a nominal value of £0.01. All ordinary shares in issue rank pari passu and carry the same voting rights and entitlement to receive dividends and other distributions declared or paid by the company. The company does not have a limited amount of authorised share capital.

4 Share options
Information related to the Bytes Technology Group plc performance incentive share plan, including options issued during the financial period and options outstanding at the end of the reporting period is set out in note 28 in the notes to the financial information included in the Group consolidated financial statements.

10 Retained earnings

Movements in retained earnings were as follows:	As at 28 February 2021 £'000
Net loss for the period	**(4,617)**
	(4,617)

11 Information included in the notes to the consolidated financial statements

Some of the information included in the notes to the consolidated financial statements is directly relevant to the financial statements of the company. Please refer to the following:

Note 7 – Auditor's remuneration
Note 27 – Key management personnel
Note 28 – Share-based payments
Note 30 – Subsidiaries

Other information

> “**Not only is Bytes a successful business that continues to grow year-on-year but I have always felt that I have grown alongside it.**”
>
> **Antony**
> Sales

Glossary

Admission: the admission of Bytes' shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market and on the Main Board of the Johannesburg Stock Exchange via secondary inward listing

Altron: Allied Electronics Corporation Limited, a public company incorporated and registered in accordance with South African law, with registration number 1947/024583/06

Articles: the articles of association of the company

BSS: Bytes Software Services Limited a private limited company incorporated under English and Welsh law, with registered number 01616977

Cloud or cloud computing: shared, remotely-accessible IT solutions

Company or Bytes: Bytes Technology Group plc, a public limited company incorporated under English and Welsh law, with registered number 12935776

CSP: the Microsoft Cloud Solutions Provider programme

Executive directors: the executive directors of the company, being Neil Murphy and Keith Richardson

Existing customers: customers with which the Bytes Group has previously transacted

FCA: the Financial Conduct Authority

GDPR: the General Data Protection Regulation 2016/679

HMRC: HM Revenue and Customs

IT channel: the method by which Bytes Group products are made available to its resellers

JSE: as the context requires, either: JSE Limited (registration number 2005/022939/06), a limited liability public company incorporated in accordance with South African law and licensed as an exchange under the South African Financial Markets Act, No. 19 of 2012 (and amendments thereto), or the securities exchange operated by the aforementioned company

License Dashboard: License Dashboard Limited, a private limited company incorporated under English and Welsh law, with registered number 06599902

Listing Rules: the listing rules of the FCA made under section 74(4) of the Financial Services and Markets Act 2000, as amended

London Stock Exchange: London Stock Exchange plc

Main Market: the London Stock Exchange's main market for listed securities

Microsoft certified professional: a sales team member who has passed Microsoft's certified professional exam

Non-executive directors: the non-executive directors of the company, being Patrick De Smedt, Mike Phillips, Alison Vincent and David Maw

Numis: Numis Securities Limited

Official List: the Official List of the FCA

Phoenix: Phoenix Software Limited, a private limited company incorporated under English and Welsh law, with registered number 02548628

Shareholders: the holders of shares in the capital of the company

SMB: a small- to medium-sized business with fewer than 1,000 employees

UK Corporate Governance Code: the UK Corporate Governance Code published by the Financial Reporting Council in July 2018, as amended from time to time

United Kingdom or UK: the United Kingdom of Great Britain and Northern Ireland

VAR: value-added reseller

VAT: value-added tax

Company information

Bytes Technology Group plc

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Financial calendar

26 May 2021
Release of results for the financial year ended 28 February 2021

22 July 2021 10am (BST)
Annual General Meeting

November 2021
Interim results

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"It's a great company to work for, with an energetic, caring workforce from the top down, where we all have an emphasis on customers coming first."

David
Solution Sales