

# ANNUAL REPORT 2017

DRAWN UP UNDER ARTICLE 1121 OF THE ASF (FINANCIAL SUPERVISORY AUTHORITY) REGULATION NO. 1/2006

<b>Annual report in accordance with</b>	Article 112 from the ASF Regulation No. 1/2006
<b>For the financial exercise</b>	01.01.2017 - 31.12.2017
<b>Report date</b>	23 March 2018
<b>Company name</b>	BITTNET SYSTEMS S.A.
<b>Registered office</b>	Soimus Street no. 23, Building 2, Apartment 24, District 4, Bucharest, Romania
<b>Telephone/Fax number</b>	021.527.16.00 / 021.527.16.98
<b>Single Register Code at the Trade Registry Office</b>	21181848
<b>Order Number to Trade Registry Office</b>	J40/3752/2007
<b>Market on which the issued securities are traded</b>	AeRO ATS Premium
<b>Subscribed and paid up share capital</b>	3,044,425.8 RON
<b>Main characteristics of the securities issued by the company</b>	30,444,258 common shares with face value of 0.1 RON each
<b>Symbol</b>	shares: BNET bonds: BNET19; BNET22
<b>ISIN Code</b>	ROBNETACNOR1
<b>Contact</b>	investors@bittnet.ro

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## MESSAGE FROM THE CEO

Just like it was in previous years, I feel the need to start this letter by sharing my enthusiasm when looking back at the latest fiscal year and affirming, yet again, that 'last year, was the best year in the history of the company'. Surely, there will come a day when we will no longer be able to make this statement, but the management, together with the whole team, is dedicated to delaying such moment as much as possible. Jeff Bezos, the founder of Amazon.com, synthesized through an excellent metaphor the mentality that we share: 'It will always be »Day 1« here at Bittnet'. In line with that, we keep the company's values young and growing, maintaining a start-up mentality, seeing the potential for continued accelerated development. All this despite the fact that we could dare to say that today, we are a mature company that has surpassed the average life of a Romanian business and that is the market leader in the field in which it operates. We believe that all of the previous results come as a consequence of our efforts and are important, but it is more important to focus on the future, because the Bittnet story has much more 'ahead' than 'behind'.

If we look only at 2017, last year has brought an organic growth of 60% to Bittnet's business as compared to 2016, which in turn generated, as expected, an increase in company's profitability as Bittnet's net profit reached nearly 1.5 million lei. The evolution is even more spectacular when compared to the results from two or five years ago, the latter being the moment Bittnet received its first 'outside' investment. As far as 2015 goes, the company has doubled, and compared to 2012 we are talking today of an increase of 5.7 times.

It goes without any doubt, that the most outstanding project of 2017 was the acquisition of GECAD NET from Romanian entrepreneur, Radu Georgescu. We believe that the IT market needs to be strengthened, and I have shared this idea many times in recent years. In the course of 2017, we identified the first opportunity to act in this direction: a company with a long tradition, with a great name and reputation, with a team whose human and professional values are similar to those of Bittnet, and, perhaps most importantly, owned by a shareholder willing to sell. We have to thank the members of the GecadNet and Bittnet teams without whose help this smooth transition would not be possible. The positive experiences gathered during this operation prove us, yet again, that human capital remains the core value for our company and without the skilled and capable team, we would not be able to accomplish the impressive results we are presenting to you today.

In order to finance the acquisition of GECAD NET, following the approval of the Extraordinary Shareholders Meeting from April 2017, Bittnet has made a new issuance of corporate bonds, listed on the AeRO market of the BVB under the BNET22 symbol, under conditions similar to those of the BNET19 bonds. The funds raised during this second issuance were primarily used for the acquisition of GECAD NET.

This project is definitely one that is the most challenging in the history of the company, simply because it is the first project of this type and size. We have a reason to believe that we will be able to make a success story out of this acquisition, despite the fact that it is a turnaround process. We have carefully analysed this opportunity while taking into consideration the general failure statistics of M&A processes and we are nevertheless confident that we have correctly identified the reasons why we can make this specific acquisition a success, as well as the mechanisms and the opportunity to change the destiny of the company.

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The first signs are good - even though GECAD NET has been under Bittnet's management for only three months, the cost savings and increased supply of high value-added products and services resulted in 2017 being the first fiscal year in the past 3 years that the company ended with a profit. GECAD NET closed 2017 with a turnover of 21.5 million lei and a net profit of 145,000 lei. The company also saw significant increases for major business lines (17% increase for Microsoft products and 20% increase on assisted product line). In the specific case of GECAD NET, the history of past losses also created a tax advantage, given the fact that until the sum of 950,000 lei, the gross profits will be equal to the net profits.

It is a good signal that gives us confidence, but as the process is a long one, we cannot yet say that it is already successful. We continue to allocate resources, attention and energy to the integration of operations of the two companies. If in 2017 the focus was on the immediate reduction of all the costs that could be reduced in terms of keeping the turnover, in 2018 our primary goal is integration of IT systems (we have integrated the CRM and ERP, migrating to a solution that will allow us to enjoy economies of scale), procedures and how to address customers and suppliers, under the motto 'One Single Organization'.

The integration of teams, procedures and vision is a long process, but it is compatible with the Kaizen philosophy that we already apply at Bittnet. We think that the change is good, that it is an element that defines us and that the agility as well as the ability to continually evolve in a fast manner is what our clients have always appreciated in us in all these years of our activity.

We recognize that our key opportunity is to continue the organizational approach based on constant evolution, since we operate in a general economic environment characterized by the speed and thrill of change. Also, our industry, IT, is perhaps the most powerful representative of these ever-changing paradigms. This means that the expectations of our clients and partners are constantly changing and our organization has been successful so far mostly because we have been able to meet these ever-newer expectations at all times. The key expectation that never changes though is to continuously offer relevant solutions, to be a reliable partner whose performance and technical expertise can be depended upon and to always deliver better than promised. Fitting within the budgets and deadlines was, is and will always be appreciated by the clients, being our 'signature' as a valuable partner.

In this regard, throughout 2017, we have launched a series of internal automation processes using roboti software (RPA), and in December we have already had in use 11 of such robots that now assist the team in their current work, performing automated tasks. We intend to extend this initiative significantly over the course of 2018, based on a motto from another Romanian company, Ui Path, that envisages: 'one robot for each member of the team'.

If we analyse Group's consolidated business, the acquisition of GECAD NET combined very well with Bittnet's organic results, helping us to move to a new league as this year, we exceeded the business threshold of EUR 9 million (more than 43 million lei consolidated turnover). We are evolving towards a medium-sized organization that has managed to continue to grow steadily and continuously on solid business principles and cultural values like honesty, transparency and flexibility in terms of performance and competence.

Already in the third year of our activity as a public company, we are proud to be one of the most active

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companies on the Bucharest Stock Exchange when it comes to financing our growth with the help of the local capital market. In 2017, we have continued to finance our development through the second issuance of corporate bonds, which was primarily used for financing the takeover of Gecad, as well as through the capital increase that we have realized in December. 2017 was also the eleventh year of our activity, a very important milestone for both us and for the IT entrepreneurship in Romania.

Ourselves, we actively pursue the goal of promoting the highest standards of communication and transparency in the capital market. We are very pleased of the constant recognition in the area of shareholder relations as we follow Warren Buffet's principle of 'we want to give our owners the financial information and commentary we would wish to receive if our roles were reversed'. This simple principle guides our communication with the shareholders and we are glad that it is appreciated both by them, and by independent organizations. In line with that, we are proud that we were the only company from AeRO market that has collaborated with the Bucharest Stock Exchange during the 3rd evaluation of Whitebook on Communication of Listed Companies, ensuring that our website and the information there published is always up to date and in accordance with the highest, corporate governance standards. We continue our close collaboration with the market operator, also through our involvement in initiatives such as Made in Romania, a project in which we were recognized by BVB as the ambassador of the AeRO market, a distinction for actively promoting local capital market as the alternative source of financing for Romania's entrepreneurial companies.

Apart from delivering financial results to our shareholders, we are also committed to building a societal impact around Bittnet. As Cisco's networking programme, Netacad, is celebrating this year 20 years of activity, we are proud to have been involved in carrying out of Academia Credis courses, for the benefit of middle school and high school students from the whole country. We are excited about continuing our involvement and contributing to the development of IT skills amongst Romania's youth by providing the highest quality training courses to them, as part of our CSR initiative.

When compared to previous years, in 2017 we outperformed in terms of both financial and operational results, thus recording the best year in company's history. This confirms the long-term plans communicated and the growth strategies pursued in recent years, of strengthening our position on the market as a leader and top integrator with a 'cloud first' approach. Year 2017 was therefore a year of continued accelerated transition efforts:

- From a local company to a one with a national footprint, focused on the latest technology trends, such as: cloud, cybersecurity, virtualization and mobility. In this sense, in 2017, we opened two new regional offices - in Iasi and in Timisoara. We chose those cities because they are the pillars of economic development of Romania and because we have found there, after long searches, partners with whom we trust to build a regional success, together.
- From the classic model of selling integration projects to the 'managed services' typology: we launched more than 20 managed services in 2017 in both cloud service and cybersecurity areas. These projects are relevant for two reasons – on one hand, they are what we believe is the future of the IT consumption paradigm in the world, and on the other, are the reconfirmation of the company's technical and organizational capacities. In essence, 'managed services' projects mean that we receive from our client the complete trust to deliver and maintain operational turnkey solutions. Thus, responsibility for the functioning of a technical solution rests entirely on us, as the customer receives everything as a service in exchange for a monthly fee.





- From a company that mainly operates in Romania to a company that aims for 'regional development and cooperation' beyond the borders of Romania. In this regard, we have a dedicated position of Inside Sales Representative for Western Europe as well as we adhere to LLPA – the alliance of the largest and the most representative IT training partners in Europe. In line with the above, in 2017, exports continued the upward trend reaching EUR 520,000, up by 75% as compared to 2016. At the same time, in October, Bucharest hosted one of the most successful summits of Microsoft Education Partners, LLPA Summit, which Bittnet organized. Following the event, the company has identified new partners within the European Union. In fact, the first work was already delivered to those partners, earlier in 2018.

The interest accorded to us by all the investors who in 2017 have entrusted us with their capital, continue to prove that Bittnet is a trustworthy investment destination. Since we listed in April 2015 on Bucharest Stock Exchange's AeRO market, our valuation has increased 5 times, from EUR 1.5 million at the time of the listing to EUR 7.3 million on December 31st, 2017. In 2017, Bittnet shares were traded in total of 244 trading sessions; over 16% of the shares changed their owners during this period, with the average daily traded volume being 14,815 shares. We have also continued increasing our shareholders base, which has been continuously growing since 2015, having overpassed 400 shareholders on December 31st, 2017. We also found it extremely rewarding that two-thirds of our team members and active collaborators have decided to personally purchase Bittnet shares and are currently our shareholders. We are proud that throughout the 11 years history of our company, we have always found ourselves surrounded by people who believed in the viability of our business model as well as attractiveness of our company. We thank all those who have expressed their vote of confidence, a vote that reassures our trust in the plans we have communicated as well as in the team that builds, every day, the Romanian brand of reference that is Bittnet.

We intend to continue the organic development strategy in the next period of 2018-2020, as the growth engines identified in 2016-2017 have confirmed their viability. We will continue to focus on reference projects, tracking and rewarding the gross profitability of each of them. Our overall decision-making framework aims at favouring long-term growth over short-term successes. We will continue to withdraw from projects that we identify as having a high degree of risk, even, if they seem to provide us with a significant revenue.

We believe that in 2018 trends that we have identified in the past two years, such as: cloud, cybersecurity, managed-services projects and export, will continue to be the source of business growth. We plan to focus our efforts and resources in order to be identified as a key IT partner in those areas. We have two goals: firstly, to continue consolidation of the one-stop-shop position that has given us market leadership in IT training field and secondly, to implement the same strategy in the integration of business services, paying special attention to providing high value-added services – cloud consulting and migration, ensuring IT security, and providing IT solutions in managed services. Acquisition of GECAD NET is essential in this respect, since the company is the only integrator with a multi-cloud offering as well as the only Romanian integrator certified at the highest technological levels ('gold', 'platinum', etc.), both on hardware infrastructure solutions as well as for software and cloud licensing.

Both business lines, training as well as the integration and cloud migration, have yielded revenues and rising profits, a detailed analysis being presented in the attached report.

We do not exclude any further acquisitions or consolidation opportunities if they prove to be consistent with the company's model and values. In 2017, we took the first step in this direction, and the results accomplished so far, are satisfying. We have identified several possible projects that would allow us to continue the growth process through acquisitions alongside the organic growth that we are expecting in 2018. At the same time, we continue to pay special attention to our organic growth, day-to-day operational excellence and continuous improvement as sources of ongoing, accelerated development!

All in all, our focus is clear – we are devoted to offering quality services to our clients, delivering transparency and financial results to our shareholders as well as promoting and inciting the best practices – for the benefit of the whole market. As a listed company we are the proudest of having delivered to our shareholders what we have promised them, since our 2015-2017 strategy that we have adopted when listing on AeRO, was fulfilled entirely. Now, we look with excitement towards 2018, which should be another year of growth and new developments for us.

As we remain committed to values such as transparency and openness towards investors, I would like to use this opportunity to extend to you - our shareholders as well as future investors – an invitation to Bittnet's Investor Day 2018, which we have scheduled for April. We hope you will accept this invitation and together with the colleagues from Bittnet and GECAD NET, we look forward to welcoming you all at our new head office and bringing you yet one step closer to our universe.

### **The Bittnet attitude**

On the local market Bittnet managed to differentiate itself, primarily, with the unique attitude with which the company addresses every new situation. This attitude is based on the values and principles of the people who work in the company, or, better said, the organizational culture is what defines our general business conduit.

Objectively speaking, this attitude means that we have a general desire to “deliver what we promised on time”, rigorously respecting the promises made to our clients.

Simply said: we make a promise and we keep it!

During the sales process we offer our clients the following benefits:

- We are an **unique point of contact** for anything that represents an infrastructure or IT training project (starting with understanding the client's need and transposing that need into a custom solution or a training program, designing the solution to the smallest details as well as delivering, implementing and maintaining the solution for its entire life duration). The basis of this statement is the continuous investment in the development of our team from a depth/specialization point of view, and also from a diversification point of view (on as many complementary technologies, from a number of vendors and at the highest level of



specialization). Citing a phrase which we hear a lot from our clients: “You have the most competent technical team we had the pleasure of working with”.

- We are a “**trusted technical advisor**” because we are authorized and recommended by the most important and known IT vendors at an international level through “preferred” statuses which allow us to implement complex solutions.
- It is very **easy to communicate with us** because we are prompt, proactive, and available from both a commercial and operational point of view. We have learned from experience that these things, apparently insignificant, make the major difference when it comes to the general success of a project.
- We hold **relevant project management competencies**, which allows us to tackle seemingly complex projects by breaking them down into smaller components, which we can easily and efficiently execute in such a way that the final result is a completely functional solution that answers the initial expectations.
- We are a group of **extremely flexible people** (which, in time, also became a hiring criteria) and we are determined to do all that we can in order to ensure the success of our projects.
- We have **various financial solutions tailored to all type of needs** of well intended clients (direct acquisition, operation and financial leasing, term of payment, commercial assurance etc.).
- We are an **entrepreneurial company** in which the Bittnet operational management is guaranteed by the major shareholders, which is why the long-term interests of the company are the same with those of our clients. We have a long-term vision in everything that we do. We wish to build an entity that will be present on the market even after 20 years and as such, every action and decision that we make, takes into account the direct and indirect gains that we expect in the long run in prejudice of fast, short-term gains.

These components of the Bittnet `offer` are appreciated by the clients and are in reconfirmed by a study on the Bittnet and GECAD NET brands that was carried out by The Rusu and Bortun agency in the first trimester of 2018, a study commissioned for the purpose of building the new brand, replacing GECAD. Therefore, our clients and partners chose our services for the following reasons, reproduced below in the order of the mentions:

- flexibility towards clients' needs;
- doing things well, that is: professionalism, attentiveness towards client service, involvement and proximity to the customer;
- Competent sales team and process.



The most frequently words associated with the Bittnet brand are:

- Trust;
- Competence;
- Flexibility.

The Bittnet attitude is a result of the values that stand at the basis of the organizational culture of the company and it represents an awareness of the reasons for which our clients choose Bittnet. At the end of the fiscal year in which we expanded and refreshed our team, (in the sales as well as technical area), we recorded a high rate of recurring customers, our record number to date. This makes us confident that the values on which the company has built its success so far are solid, real and recognizable to all the team members.

2018 sounds good!

## I. Analysis of the activity of Bittnet Systems SA (The Company)

### Specification of the date of establishment of the company

Bittnet was founded in 2007 by Mihai and Cristian Logofatu keeping on the success story of a young and enthusiastic team of IT professionals that started working together between 2000 and 2004, giving students and pupils Cisco Networking and Microsoft courses at an academy level.

The Company is registered at the Trade Register, no. J40/3752/2007. In February 2009 the Company was changed its legal status to a joint stock company after an increase in share capital using profits generated in 2008.

In 2012, Bittnet had achieved a new capital infusion through a "Business -Angel" action from Mr. Razvan Căpățină.

In 2015, the company attracted a new infusion of capital from a Polish investment fund, Carpathia Capital SA, and was listed on Bucharest Stock Exchange, AeRO segment, stock symbol BNET, this way becoming the first IT Romanian company listed on The Stock Exchange, with a number of 4,504,383 common shares.

Throughout 2016, the company fully capitalized the profits from previous years, distributing 2 free shares for each share held by the shareholders at the date of registration. This way, the total number of shares increased to 13,513,149. At the same time, the company carried out a share capital increase

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through the Stock Exchange's mechanisms, which increased the number of shares to 14,514,123. Last but not least, in 2016, the company launched the first issue of corporate bonds of a Romanian IT company listed on the Bucharest Stock Exchange.

Throughout 2017, the company followed the patented success model of Banca Transilvania, distributing to the shareholders the accrued profits in the form of free shares, with the total number of shares doubling on July 3rd and reaching 29,028,246. At the end of 2017, the company managed to attract new capital through the Stock Exchange mechanisms, starting in 2018 with a share capital of 30,444,258 shares.

With the acquisition of GECAD NET from Romanian entrepreneur Radu Georgescu, in 2017, Bittnet became the only "multi-cloud" integrator, consolidating its position as a highly certified company by the world's leading IT vendors, focusing on cloud and cyber security.

From the very beginning, the company has focused on delivering IT training and integrated network solutions, based on the technologies of the market leaders like Cisco, Microsoft, Dell, Oracle, HP, VMware, Google, Amazon Web Services, etc.

Starting from 2015, the company has identified a global technology trend regarding the migration of IT infrastructures from their own data centres to public cloud providers such as AWS, Azure and Google. Generally, the Romanian market is following the global trends with a 2 to 3 years delay, but only last year we have identified enough opportunities to share the conviction that between 2018-2020, the demand for such services will explode in Romania as well. Throughout 2017, the number of projects involving cloud migration services increased significantly - up to 60, a trend which we expect to continue in the 2018-2020 period.

This way, we have created a new area of competence and a category of consultancy services and cloud migration and have launched client-engaging actions strictly for this range of services, targeting clients with a slightly different profile than those whom we usually service. In 2016 we successfully implemented 3 full-cloud migration projects of companies' infrastructures (2Parale, Equatorial and Getfit Shop), becoming in this way "the first movers" in the market. In 2017, we successfully delivered nearly 60 new cloud projects and we continued our collaboration with the previous year's customers.

GECAD NET is a company specialized in commercializing and implementing software applications, which provides appropriate licensing options, integrated IT services and professional security solutions. Founded by Romanian entrepreneur, Radu Georgescu, the company has a tradition of over 25 years in the IT field, having gained over the years numerous awards and certifications from the world's leading software vendors.

GECAD NET currently has a base of over 12,000 clients active in fields such as telecommunications, finance, banking, construction, energy, oil and gas, and more. GECAD NET is one of the few companies certified in Romania at the Microsoft Licensing Solution Provider level - the highest level of

certification for partners, which sell Microsoft platforms, and has Gold certifications for implementing Microsoft's Software as a Service solutions, as well as for implementation of cloud infrastructure solutions - Microsoft Azure.

### **Description of the main activity of the company**

#### **IT Training**

Bittnet is the IT training market leader in Romania, with a growing team, more than 15 years of experience and over 20,000 trained students. Throughout these years, Bittnet has delivered more than 50,000 hours of IT training. The company has the largest team of trainers in Romania, which is an important part of its competitive advantage. Furthermore, Bittnet is continuously recruiting new talents and developing human capital resources.

Bittnet offers a wide range of IT courses. Each course can be held in two, flexible ways: intensive (5 days/week, for 8 hours/day) or in a mixed format (courses of 2/4/6 hours depending on the clients' needs). Each student receives access to a set of dedicated equipment, the official curriculum as well as online and offline exams.

We offer the largest training portfolio on the market, which consists of more than 1,500 courses. From this portfolio the most important trainings are for the major vendors: Cisco, Microsoft, Microsoft Office, Amazon Web Services, ITIL, Linux, VMware, Oracle, Citrix, IBM, RedHat, Adobe, Avaya, Dell - SonicWall, EMC, HP, Juniper, etc.. The business training portfolio holds project management, ITIL & IT services management, business intelligence, CRM, ERP, Agile and others. Being able to deliver trainings in both English and Romanian, the company operates in a strategic partnership with Global Knowledge, the worldwide leader in IT training.

Starting with 2016, Bittnet has joined the largest association of Microsoft training partners – LLPA, which allows the company to strongly expand both export earnings and delivery of courses in any language, anywhere in Europe. Also, as a result of Oracle effectively closing its training division, some of the partners that previously could only resell Oracle courses, received authorization to fully deliver these courses (trainers and own location), benefiting from Oracle's sales team for training. If we follow the tested examples by Microsoft and ITIL (types of services that Bittnet was initially reselling and only afterwards started to internally provide), we estimate that the position 1 of 2 companies which can deliver Oracle authorized courses in Romania, is favourable. In 2017 the number of students significantly increased compared to the previous year, trend which we expect to continue in 2018.

#### **IT solutions:**

Our IT Integrator business line means that we provide customers with the IT services and solutions



that they need from initial assessment, to design phase, implementation and testing, resulting in turnkey projects for companies with various IT needs:

- Network infrastructure (routing, switching, Wi-Fi assessment, optimization, consultancy);
- Cybersecurity (network security, data center security, endpoint security, IPS, Advanced Malware Protection, Next Generation Firewall, Web and email Security);
- Network management (monitoring and alerts, centralized management, traffic analysis);
- Cloud services and migration (private, public or hybrid clouds, from one version to another, step-by step migration or relocation);
- Datacenter and virtualization (computing, storage, networking, backup, power, virtualization platforms, VDI);
- Employee's mobility including Bring Your Own Device – BYOD;
- Unified communications and collaboration (IP telephony, DECT phones, instant messaging, online presence, web-conference);
- Video conference including telepresence (for desktop, for board-room, for conference-room, for smartphones, tablets, notebooks or workstations, integration with smartboards);
- Software licenses (Microsoft, Adobe, Cisco, Bitdefender, Dell, VMware, Veeam);
- General consultancy;
- Maintenance and support services;
- Hands-on, customized trainings for specific solutions.

**Bittnet is able to provide its customers cloud-based services:**

- Amazon Web Services
- Microsoft Office 365
- Microsoft cloud provisioning (Azure)
- Cisco cloud infrastructure (Meraki)
- Cisco cloud video-conference (Webex)
- Cisco cloud web security (ScanSafe)
- Cisco cloud energy management (JouleX)
- Google Apps

Bittnet's competencies are certified and acknowledged by vendors. The company's certifications include:

- Cisco Learning Partner
- Cisco Certified Silver Partner

- Cisco Advanced Collaboration Architecture Specialization
- Cisco Advanced Data Center Architecture Specialization
- Cisco Advanced Enterprise Networks Architecture Specialization
- Cisco Advanced Security Architecture Specialization
- Microsoft Silver Learning Partner
- Microsoft Cloud Partner
- Microsoft Silver Data center Partner
- Dell SonicWall Preferred Partner
- Citrix Silver Solution Advisor
- Citrix Authorized Learning Center
- Google Apps Authorized Reseller
- Oracle Authorized Education Reseller
- Oracle Silver Partner
- HP Silver Partner
- Jabra Registered Partner
- Veeam System Integrator
- VMware Solution Provider Partner
- IBM training Provider - via Global Knowledge
- Amazon Web Services Authorized training Partner
- LLPA member - Leading Learning Partner Association since July, 19th 2016

GECAD NET certifications include:

- Microsoft Gold Cloud Productivity
- Microsoft Gold Cloud Platform
- Microsoft Gold Small and Midmarket Cloud Solutions
- Microsoft Silver Data Analytics
- Microsoft Silver Datacenter
- Autodesk Gold Partner
- Kaspersky Platinum Partner
- Adobe Gold Partner

**Description of any fusion or significant reorganization of the commercial society, own branches or those of the owned society, during the financial exercise.**

The Company did not go through any fusion or re-organization in 2016. Starting from September 2017,

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following the approval of the General Shareholder Meeting on April 26, 2017, the Company acquired the entire company GECAD NET - Fiscal Code RO11973883. In the current report, GECAD NET is presented separately. Starting with the fiscal year 2018 (and the semiannual financial report for the first semester of 2018), the consolidated financial results will be presented.

The acquisition of GECAD NET was accomplished in two stages, by participating at GECAD NET's share capital increase, followed by the transfer of all social parts, which was funded by a bond issue (BNET22).

### **Description of acquisition and/or alienation of assets.**

During 2017, Bittnet completed the acquisition of 2.26 million RON of financial assets by acquiring company GECAD NET.

During the financial year 2017 no assets were alienated. Also during 2017, according to the budget of revenues and expenditures approved by GMS, rent contracts were signed for:

- a new office space - Timisoara Boulevard, no. 26, "Plaza Romania Offices" Building, 1st floor, District 6, - duration 7 years, average price 10.5 euro / sq m plus utilities - 140.000 euro per year;
- office furniture assets (including partitioning space) and IT&C network (laptops, stations, servers, demo equipment) due to moving into a new space - Timisoara Boulevard, no. 26, "Plaza Romania Offices" Building, 1st floor, District 6, Bucharest- - rental value of 57,000 EUR annually.

During 2017, the constructions of the new headquarters were carried out, having a total value of 486,000 RON.

## **Description of the main results of the company's activity evaluation.**

### **1.1. General evaluation elements**

- |  |
|--|
| <ul style="list-style-type: none"><li>• + 59% of total revenues</li><li>• + 65 operational profit compared to 2016</li></ul> |
|--|

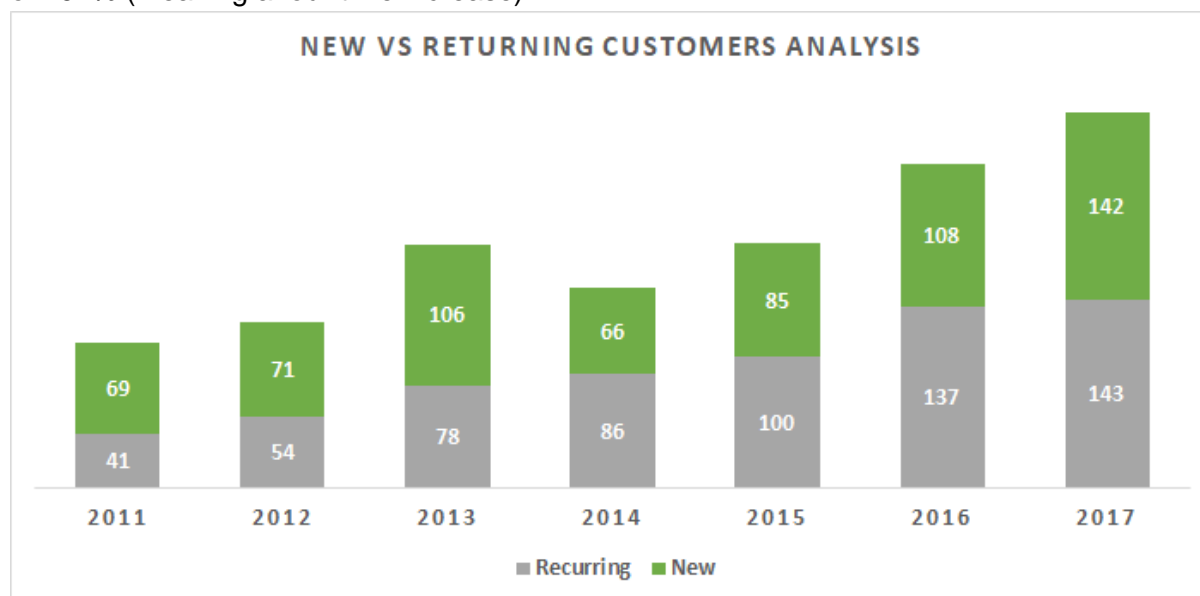
The financial results of the company confirm the management's approach regarding the "accelerated growth" pattern. The numbers below are expressed in RON, thousands:

	2015	2016	2017	Evolution FY17 / FY16
<b>Revenues (of which)</b>	9,992	13,695	21,745	59%
<b>IT Integration</b>	6,950	7,851	12,034	53%
<b>IT Training</b>	3,690	5,405	8,063	49%
<b>Cloud</b>	0	404	1,603	297%
<b>Total costs (of which)</b>	-10,100	-12,222	-20,155	65%
<b>Total COGS</b>	-6,309	-7,300	-11,600	59%
<b>Indirect Costs</b>	-2,570	-4,682	-7,323	56%
<b>Operational Profit</b>	919	1,713	2,822	65%
<b>Interest</b>	-173	-328	-832	154%
<b>Amortization</b>	-153	-114	-82	-28%
<b>Revenues from listing on BVB in 2015</b>	630			
<b>Gross Profit</b>	1,221	1,383	1,908	38%
<b>Net profit</b>	1,033	1,180	1,590	35%
<b>Consolidated net profit (including GecadNet)</b>	1,033	1,158	1,807	
<b>Consolidated revenues (Including GecadNet)</b>	9,992	13,695	43,423	
<b>Shares</b>	4,504,123	14,514,123	30,444,258	

Bittnet's individual turnover increased with almost 60%, reaching 21.7 million RON, while GECAD NET added another 21.3 million RON to the group's turnover, reaching a total of 43 million RON.

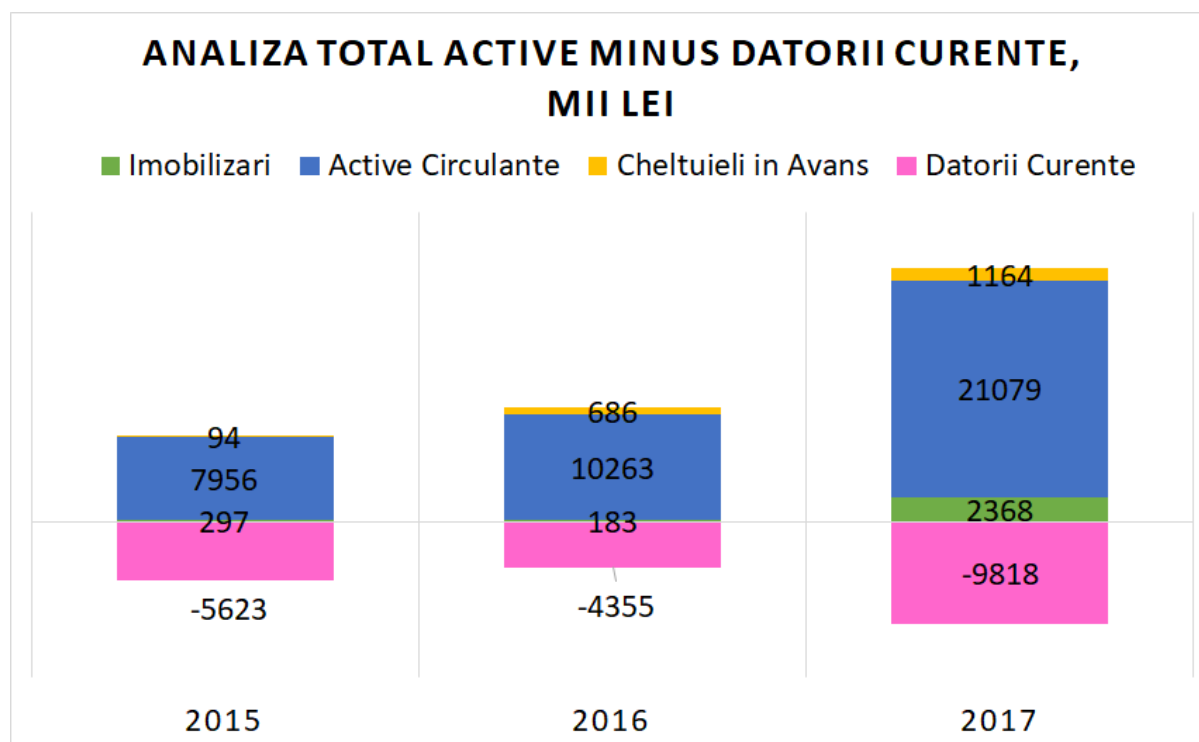
In Bittnet's case approximately 65% of revenues (13.6 million RON) are attributed to the IT Integration business line (turnover and business that includes Cloud activity) and the remaining 35% (8 million

RON) are attributed to the second line of business - IT Training. Especially the cloud Integrator activity represents a focus for the company and shows the highest percentage increase as compared to 2016, of 297% (meaning a four time increase).



The company has noticed a positive trend in increasing the number of recurring customers, reaching 143 in 2017, the highest number in the history of the Company. The share of recurring customers in total revenues was 50% in 2017.

The operating profit (EBIT) for the year 2017 reached 2.7 million RON, a 60% increase compared to the previous year. Depreciation and amortization expenses were up to 82,000 RON, generating an EBITDA value of 2.8 million RON, an increase of 65% compared to 2016. The net profit increased from 1.18 million RON to 1.59 million RON, representing the best net result in the Company's history.

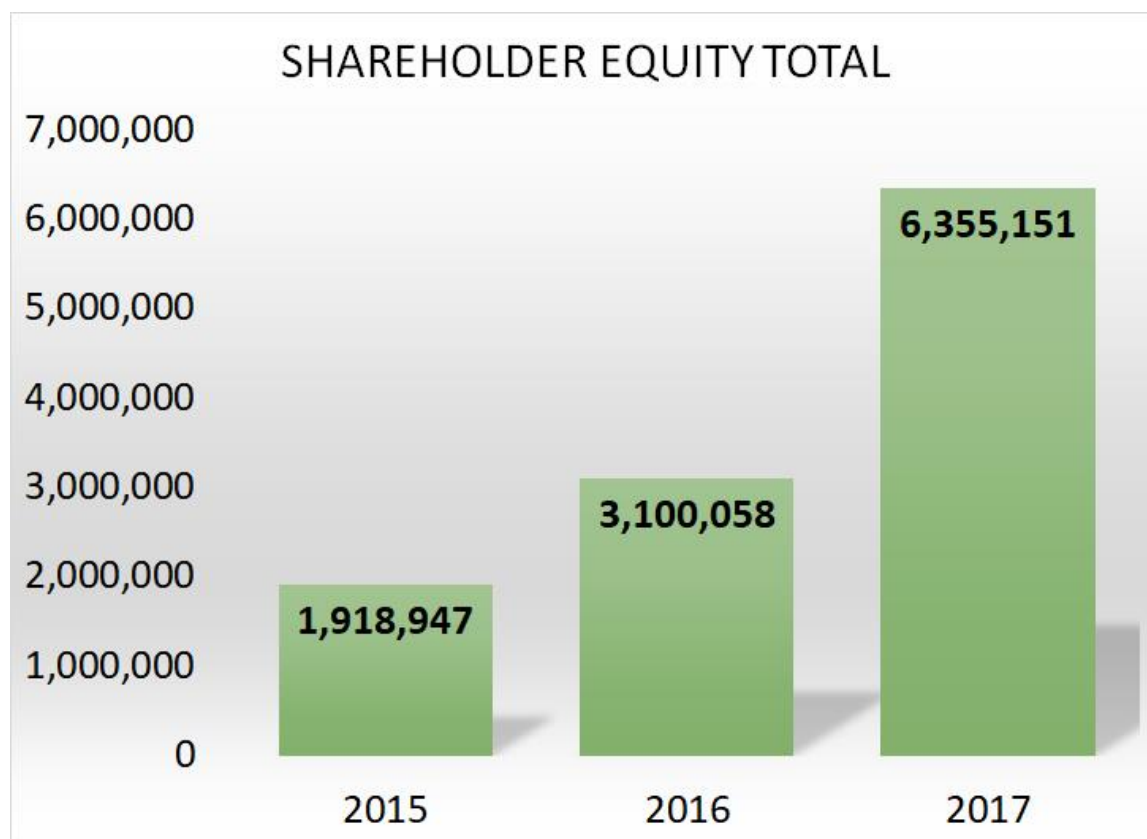


Total assets had a value of 24,6 million RON at the end of 2017, an increase of 121% compared to the end of 2016. Current assets represent the largest part of the total assets (85%, meaning 21 million RON), with 10,313 million RON debt (an increase in debt by 37,52% compared to 2016) and 10,349 million RON liquidity. The 339.5% increase in bank cash is due both to the growth of the company's turnover and to the issue of BNET22 corporate bonds in the value of 4.5 million RON in September 2017, combined with the restructuring of the bank's financing, described extensively in the current report no. 21 from August 25, 2017 (<http://bit.ly/2HNThmX>).

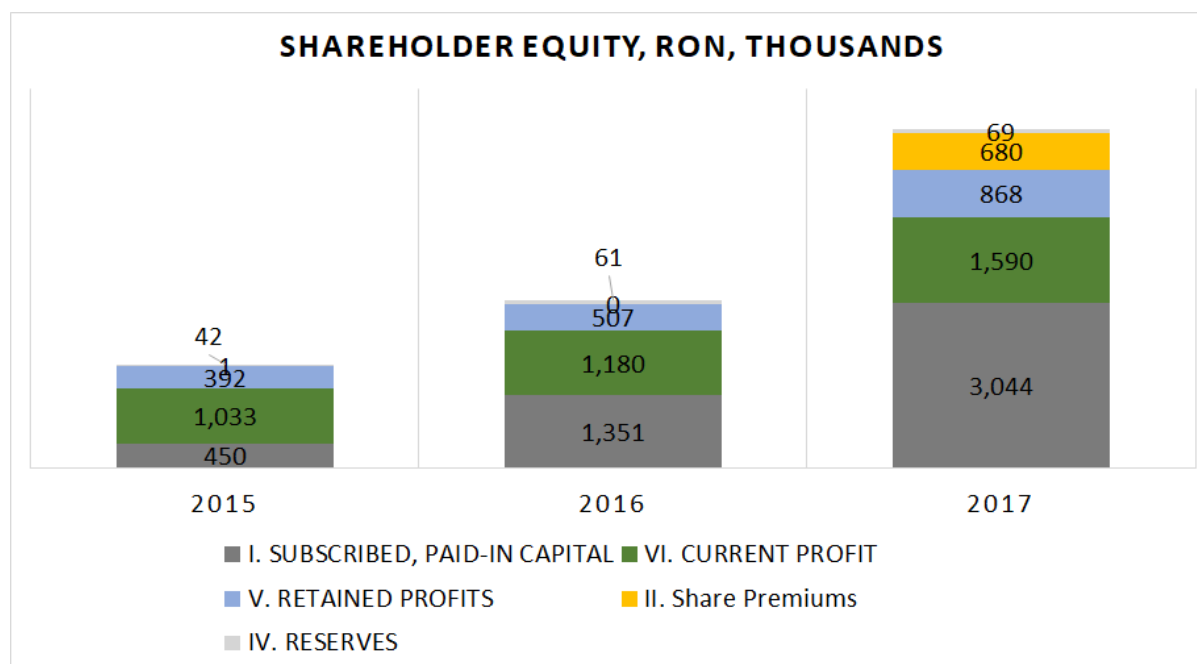
Fixed assets amounted to 2.36 million RON (financial assets - Gecad Net equity), and prepaid expenses of 1.16 million RON at the end of 2017.

Other liabilities include: current and long-term debt. Long-term debt reached 9.81 million RON at the end of 2017, a significant increase compared to 2016 (+125%) due to the success of the BNET22 corporate bond issue, due in September 2022. This issue of bonds increased the balance sheet position by 4.5 million RON.

The short-term debt have recorded an increase of 131%, from 3.6 million RON to 8.5 million RON. This is due to the increase of account 401 "suppliers" (which is in line with the business and turnover growth) from 1.6 million RON to 2.7 million RON (+63%). Another important element when we analyse the current debt is the second rate which Bittnet has to pay in August 2018 for the acquisition of GECAD NET SRL, of 200.000 EUR. Also, at the end of 2016, the debt represented by the "used" credit bank lines was slightly over 1 million RON, while until the end of 2017, the value of the bank financing increased to 4.5 million RON. We mention that the maturity of this bank product of the overdraft type is August 2019.



The Company's equity increased by more than 100% compared to 2016, up to 6.3 million RON, as a result of an increase in subscribed and paid-up capital (from the increase with free shares and two increases with contributions - one completed in February 2017, following the approval of EGSM - April 2016 and one in December 2017 following the EGSM approval in April 2017). Another significant contribution to the increase in equity was the result of the financial year 2017. Details of the capital accounts can be found in the chart below:



The company's subscribed and paid-up capital has rapidly grown throughout the year 2017, following the model adopted in previous year - increase with free shares and cash contributions. On March 10th, the Central Depository notified the Company of the completion of the cash-raising process (voted in EGSM in 2016 and carried out in January-February 2017). The new share capital reached 1,451,412.30 RON .

In EGSM from April 26, 2017, the management has proposed to the shareholders the distribution of profits and issuance of premiums through free shares at a 1:1 rate (one free share for each share held). The Central Depository loaded the trading accounts on July 5, 2017. The company doubled its share capital (2,902,824.60 RON) and the number of BNET securities: 29,028,246 shares.

On December 21st, 2017, Bittnet Systems informed the shareholders about the issuance by the Financial Supervisory Authority (ASF) of the Mobile Valuation Certificate as a result of registering the process of raising the share capital with a cash contribution from the shareholders. Therefore, 1,416,012 new shares were registered as securities, issued by the Company according to the decision no. 2 of the EGSM of 26.04.2017. According to the decision of the Unique Administrator, 03.01.2018 was set as the registration date, and a payment date (the date when the newly issued shares were available for trading on the accounts of the subscribers) of 04.01.2018.

During 2017, subscribed and paid-up share capital increased due to the operations mentioned above. The issuance premiums (account 104 - capital premiums) recorded a +680,247.54 RON (due to the increase with contributions), while the net profit increased by 35% from 1.35 million RON at the end of 2016, to 1.59 million RON at the end of 2017.

Profit and loss account [RON]	2013	2014	2015	2016	2017
Turnover	6 666 337	8 179 532	11 269 853	13 849 151	22 003 772
Operating expenses	6 476 894	7 960 691	9 814 813	12 034 505	19 262 926





Operating result	341 545	373 195	742 357	1 713 519	2 654 951
Financial result	(130 098)	(104 083)	479 111	(330 569)	(746 730)
Gross result	211 447	269 112	1 221 468	1 382 950	1 908 221
Net result	169 278	209 672	1 033 833	1 180 277	1.590.290

## Market Share

- market leader in IT training
- returning clients: 50%
- 10% export of IT services

The Company operates in two major segments of the IT market: IT training and integration of IT solutions.

Due to the lack of independent reports concerning the IT training market in Romania, the Company relies on its own estimates for its share in the market. The Company has the widest and deepest coverage in the training market by having unique expert resources. The Company sees itself as an **IT training market leader** and justifies it by:

- Competing in the most training market segments;
- Not competing with the same competitors in more than 2 market segments;
- Being either the market leader or the second largest provider in each market segment. For example, for Cisco official training, the company estimates a market share of  $\pm 85\%$ . On the other hand, in terms of Microsoft training, the company has a market share of  $\pm 20\%$  taking into consideration a total of 10 partners in Romania;
- There are market segments where Bittnet has no competitors (e.g. Amazon Web Services training partner).

When focusing the attention on the integration market (IT professional services), the very diversified range of services of the Company makes it impossible to determine percentages of market share. According to the "Software and IT Services in Romania" study, realized by Pierre Audoin Consultants, at the request of ANIS – Employers' Association of the Software and Services Industry, the Romanian IT market had a value of 3.08 billion euro in 2015 (increase of 21% compared to 2014). For 2016, the market value was estimated at 3.6 billion euro (an increase of 17% compared to 2015).

Considering the estimation of the total IT market (internal market and outsourcing services) of almost 1 billion euro in 2016, the company's market share in the IT solution integration (hardware, software and services) segment is insignificant, registering a value of less than 1%.

It should be kept in mind that this analysis is based on estimates of the IT market which include the buying of equipment such as PCs, tablets, mobile phones, printers etc. by both the population as well as companies.

## 1.2. Evaluation of the company's technical expertise

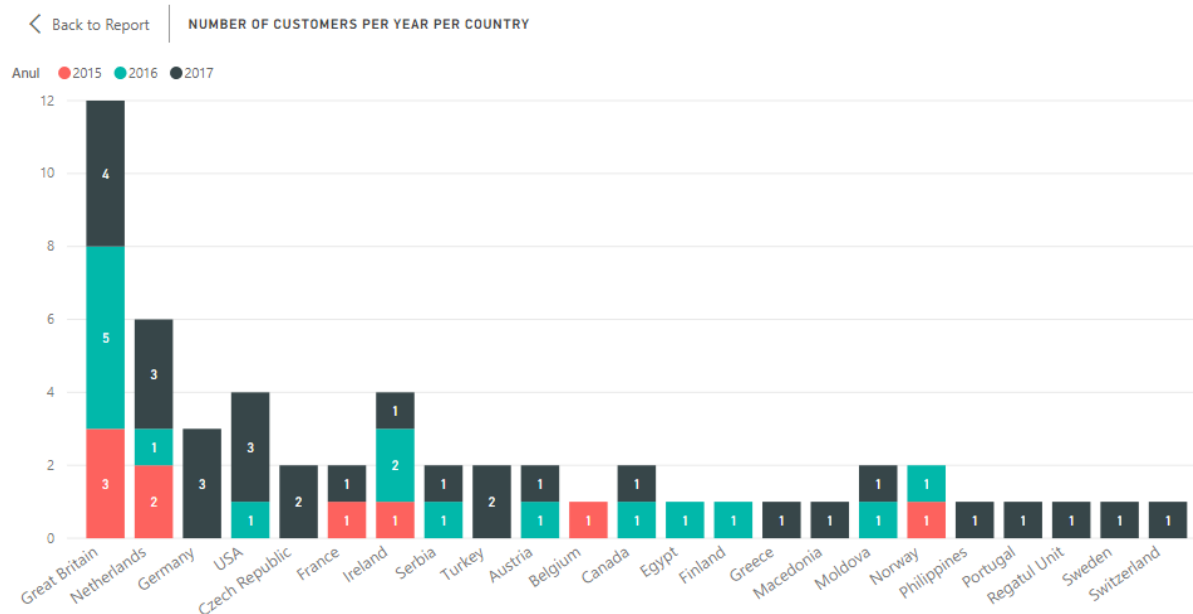
## The main outlets for each product or service and the distribution methods:

The main outlet in 2017 for Bittnet's products and services has been, similar to previous years, Romania, with a share of 89% of revenues coming from clients who are based within the country's borders. The share of 11% of revenues from foreign clients recorded an increase of 10% compared to 2016, but applied on a higher revenue. Therefore, the 520.000 EUR recorded as 'services exports' represent a 75% increase over the previous year. Similar to 2016, revenues from "exports" come from renting the services and delivering effective training for clients from the EU.

Bittnet's main distribution method is through direct sales, using the dedicated sales team. Each member of the sales team is given a portfolio of clients. A series of proactive actions of positioning Bittnet's solutions and services has been made in order to obtain this portfolio. Particularly in the case of exports of services, we rely on the partnerships we have with other training companies in Europe, by being part of the LLPA association.

Also, another relevant share in total revenues is due to our strategic partnerships with key players on the IT and telecom market who technically can be seen as competitors, but through whom we managed to deliver services to their customers. The general attitude of the company - total transparency, fairness and respect for promises made to these partners has led to a natural, organic growth of business volumes, attained with the help of these partners and as such, we are confident in stating that in the years to come, the number and models of strategic partnerships will represent a significant growth pillar.

The below graph presents distribution of customers across countries, showing the continued expansion of geographical coverage over previous years:



## Description of the main products manufactured and/or services rendered by mentioning:



- key projects for customers
- coverage of the entire IT services
- certifications at the highest level

## **Network infrastructure**

Network infrastructure refers to the hardware and software resources of an entire network that enables network connectivity, communication, operations and management of the client's activity. Network infrastructure provides connections and communication with external networks such as the Internet, but also connectivity between internal users, processes, applications or services.

Infrastructure is found in all enterprise IT environments. The entire network infrastructure is interconnected, and can be used for internal communications, external communications or both. A typical network infrastructure includes Hardware (routers, switches, wireless access points, cables) and Software (operations and management, operating systems, firewall, security applications, antivirus).

## **Network security**

Securing a network is an ongoing process due to the evolution and spread of the informatics attacks, from both inside and outside. Inside attacks are not always intentioned, they can be made unconsciously by exploiting the vulnerability of a network. It is important to have a network security policy and the security should be integrated with all devices in the network.

Security solutions focus on what happens before an attack and during an attack, and on what measures will be taken after the attack. As attackers and hackers become more and more sophisticated, security is no longer about preventing a known attack. The focus has shifted to detecting and responding to new, previously unknown types of attacks.

Bittnet offers the following network security solutions:

- Firewalls;
- Sensors for detection and prevention of attacks;
- Anti-spam and antivirus;
- Data Loss Prevention (DLP);
- Sandbox systems;
- Virtual Private Network solutions (VPN);
- Network Access Control;
- Security management.

## Network Management solutions

Functions that are performed as part of network management include controlling, planning, allocating, deploying, coordinating, and monitoring the resources of a network, predetermined traffic routing to support load balancing, cryptographic key distribution authorization, configuration management, fault management, security management, performance management, bandwidth management, route analytics and accounting management.

Data for network management is collected through several mechanisms, including agents installed on infrastructure, synthetic monitoring that simulates transactions, logs of activity, sniffers and real user monitoring. In the past, network management mainly consisted of monitoring whether devices were up or down; today performance management has become a crucial part of the IT team's role which brings about a host of challenges — especially for global organizations.

## Data center, virtualization and cloud computing

Virtualization provides IT organizations with a significant opportunity to improve management and automation across the data center. As IT organizations face growing business demands and budget pressures, automating labor-intensive, human tasks offers an ability to "do more with less" and increase the productivity of existing staff.

Data center solutions involve virtualization (the use of a *host* software, which creates a simulated computer environment, a *virtual machine*, for its *guest* software) in order to offer flexibility (the ability to relocate virtual machines from one hardware to another, as well as the ability to easily increase or decrease hardware resources available to a virtual server), as well as the ability to easily provision new virtual servers, without the need for hardware purchases.

Cloud computing (and the migration to the cloud) means using the infrastructure (physical and logical) needed for virtualizing servers from a specialized provider in the online environment. This differs from the original idea of own datacenter / data room (private cloud) as the platform is owned by a third party, and the customer only uses the functionalities.

Bittnet offers consulting, design, implementation and maintenance services related to building and operating virtualized server solutions, own datacenters and migrating to cloud solutions.

Throughout 2017, we have increased the number of Cloud projects to 60, providing our customers with a significant competitive advantage: an automatically scalable IT infrastructure with ongoing production



costs (revenues). We consider that in 2018 this trend will accelerate and will help us to take advantage of *first-mover* place, which we have.

### **Enterprise mobility including BYOD**

Mobility solutions allow employees to work using any compatible device, anytime from anywhere, with maximum security. Therefor the client's business is flexible and quickly adapts to changes.

Mobility solutions including:

- Wireless networks;
- IP SoftPhones;
- Virtual Private Network Access;
- Teleworker.

"Bring your own device" – BYOD – is a concept that allows employees of companies to access company data and resources using hardware owned by the employees (PCs, laptops, mobile phones, tablets, etc.). This concept allows staff to do work related activities from anywhere, at any time, which at the same time, can lead to security issues, such as data leaks. This is why companies deciding to implement such policies need the guidance and implementation services of experienced security consultants.

Bittnet offers a full range of consulting and implementation services for the above concepts.

### **Unified communication and collaboration**

Unified communication (UC) represents the integration of real-time, enterprise, communication services such as instant messaging (chat), presence information, voice (including IP telephony), mobility features (including extension mobility and single number reach), audio, web & video conferencing, fixed-mobile convergence (FMC), desktop sharing, data sharing, call control and speech recognition with non-real-time communication services such as unified messaging (integrated voicemail, email, SMS and fax). UC is not necessarily a single product, but a set of products that provides a consistent unified user-interface and user-experience across multiple devices and media-types.

In its broadest sense, UC can encompass all forms of communication that are exchanged via a network and to include other forms of communication such as Internet Protocol Television (IPTV) and digital signage communication as they become an integrated part of the network communication.

UC allows an individual to send a message on one medium, and receive the same communication on another one. For example, one can receive a voicemail message and choose to access it through



email or a cell phone. If the sender is online according to the presence information and currently accepts calls, the response can be sent immediately through text chat or video call. Otherwise, it may be sent as a non-real-time message that can be accessed through a variety of media.

Bittnet offers complete services and solutions in the Collaboration and Unified Communication fields. Examples include: setting up call-centers, with call recording, auto call forwarding, auto logging, etc. Other examples include setting up automated video-conferencing solutions that work as enterprise video-calls, using secure (encrypted) communication channels.

## **Software Licenses**

The Company offers a wide range of software licenses from market leaders in their fields, covering the whole spectrum of computer programs:

- Operating systems (such as Microsoft Windows 10 or Microsoft Windows Server);
- Database servers (Oracle software, Microsoft SQL server);
- Virtualization software (VMware, Microsoft Hyper-V);
- Productivity software (Microsoft Office);
- Sales automation software (Dynamics CRM software licenses);
- Cloud Software (Google Apps, Microsoft Office 365, Zoho productivity suite).

This is a classic business, with low gross margin, but which assures an “entrance” to the customers, a long relationship (currently, most licenses are sold on an “annual subscription” model) and a chance to position the rest of the related services. Therefore, throughout 2018 we will follow an expansion of the customer base in this area.

## **IT Services**

### **Consultancy services**

Bittnet offers architecture (design), implementation and integration services covering the major IT&C domains and delivery models to help customers plan and build IT solutions and optimize their IT environment.

The consulting services identify solution designs for integrating new technologies and optimizing customer’s current IT environment in line with their business development strategy. Bittnet has extensive architecture competencies, from network, communications, and datacenters to end-user computing, applications, service management, and security.

The consultancy services are staged processes that consist of the following steps:

#### **Preparation**

The first step in any IT infrastructure project is identifying business needs and the technologies





to meet these needs.

### **Design**

This step involves the assessment of the current situation and recommendations to accommodate new solutions. Bittnet is outlining the network architecture and, if required, will run a demonstration to test its functionality. Also, Bittnet provides advice in choosing the best solutions to meet requirements both technically and financially.

### **Planning**

The Company presents the detailed proposed solution, the equipment involved and configurations needed, together with an implementation plan and acceptance tests. At this stage, Bittnet System works together with client to create an action plan with the activities and responsibilities of each party, milestones and deadlines of the project.

## **Implementation services**

The implementation services consist of several stages listed below:

### **Installation, configuration, testing**

This step involves equipment transportation, installation, configuration and testing. Everything is tested without being integrated in the existing infrastructure to avoid damages that may occur. After testing the system functionality, the client is expected to validate that the infrastructure is working properly. The next step is very important and is based on information gathered in previous steps, namely it is the training for the IT staff.

### **Operating**

The migration process to the new solution is gradual in order to reduce network downtime and minimize disruptions in the employees' work. At this stage the Company is continuously communicating with client's employees to ensure that continuous functioning of all services and applications is used by them.

### **Optimization**

At this stage the new solution is implemented and verified if it works properly. Any solution implemented needs constant monitoring and maintenance to proactively identify faults that may occur. The Company is analyzing and optimizing various processes to increase the productivity of client's employees'. These enhancements are designed to adapt even more to the needs of client's network.

### **Maintenance and Support services**

Bittnet's intervention team offers on-site and off-site support that includes equipment replacement, updating systems and fixing all problems covered by the support contract agreed. For all implementation projects, Bittnet offers a support and maintenance option – which means that Bittnet guarantees the restoration of the initial functionality of the solution, using backup techniques.

Support services are typically recurring contracts, which offer customers the peace of mind that



their network or IT systems functionality will survive any kind of situation. This means that Bittnet uses expert knowledge to react to changes in the customer's IT environment and to re-establish the desired functionality, either by simple hardware replacement or by advanced policy and configuration restore operations.

### **IT training**

In an economy driven by knowledge workers, educating and training of employees represents an investment towards achieving improved short-term performance as well as long-term success of the organization.

Human capital and intellectual property are the attributes that provide competitive differentiation for companies in all industries. The value of knowledge-based companies is far greater than the cumulative total of their tangible assets because it is understood that there is significant value in their gifted and highly-trained workforce and business practices, processes, and other intangible assets.

Bittnet training services provide structured learning and development frameworks that start with the customers' business strategy to increase human capital value within the organization. Bittnet identifies training needs based on gaps between current skills and the desired standards for specific job roles that require realignment due to organizational changes, new IT applications or new service offerings.

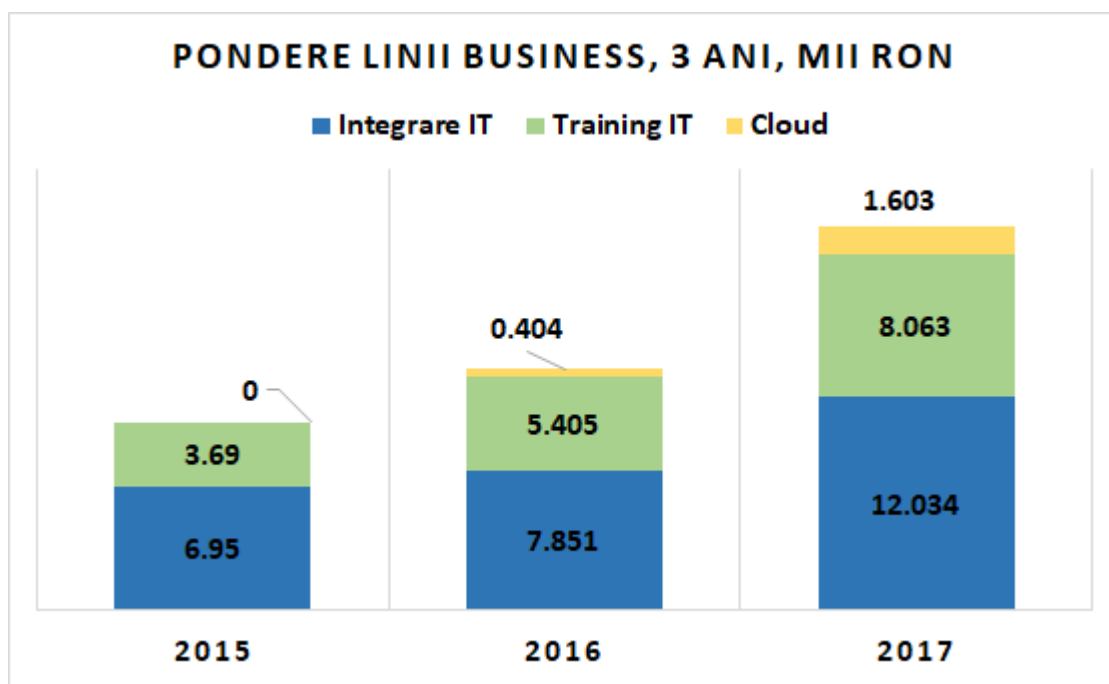
Training road maps and prioritization are developed in order to optimize training budgets, to manage staff development and post training assessment with a clear measurement of performance improvement, which helps to ensure a return on the investment.

The Company offers a wide range of IT training courses. Each course can be carried out in two flexible forms: intensive (5 days/week with 8h/day) or blended mode (meetings of 2/4/6 hours, as per client's request). Each course participant receives dedicated bundle equipment, access to the official curriculum, online and offline examinations.

**Largest portfolio on the market:** the training portfolio contains more than 1500 courses. The core training portfolio is focused on Cisco, Microsoft, Microsoft Office, VMware, Linux, Oracle, Amazon Web Services, Citrix, IBM, ITIL, RedHat, Adobe, Avaya, EMC, HP, Juniper, SAP. The entire training portfolio covers numerous IT topics of interest like Microsoft Office (Excel, Word, etc), Linux, networking, programming, operating systems, cyber security, telephony, video, virtualization, data-center, data storage, databases, web design, etc.

The business skills training portfolio feature project management, ITIL & IT service management, business intelligence, CRM, ERP, Agile, etc. Being able to deliver courses both in Romanian and English language, the Company is working under a strategic partnership with Global Knowledge, a worldwide leader in IT and business skills training, and with the LLPA organization - the alliance of the largest and most representative IT training partners in Europe.

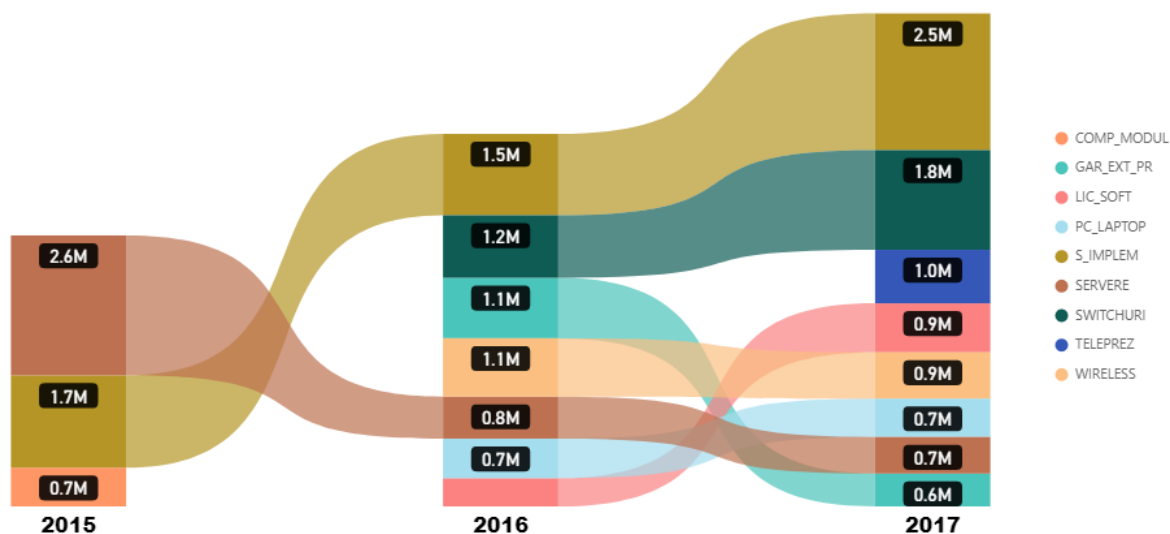
**The weight of each product or service type in the income and in the total company turnover for the last three years:**



The "IT solution integration" business line registers higher share in total turnover, due to its specific, which includes the delivery of goods (high turnover, small gross margin). Considering that this line of business includes revenues from cloud solutions, it is likely to increase further at an accelerated rate. On the other hand, the privileged place of IT training market leader and the company's continued focus on expanding the product portfolio of training, gives expectation to 'capture' more value from the IT training business. As a proof, in 2017, the "IT Training" business line has increased by 49% (compared to 46% in 2016).

Analyzing more closely each of the business lines, we can notice the following evolution for the most important components for 'integration'.

#### DETALIERE VANZARI TIP PRODUSE, EVOLUTIE 3 ANI



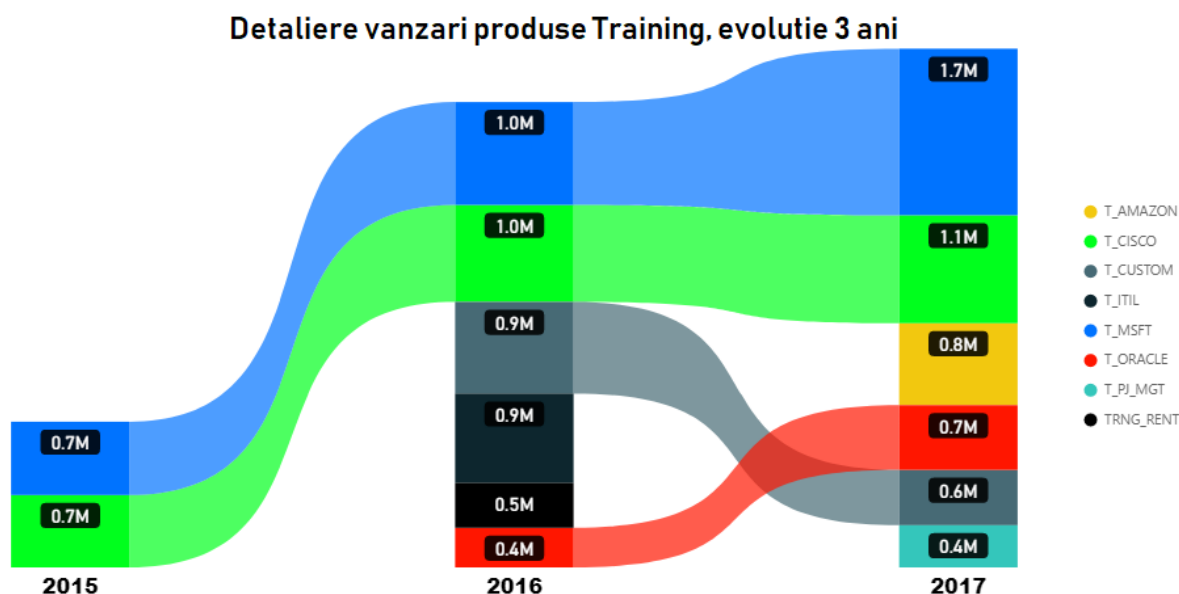
The main drivers of revenue growth and profitability were:

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T: +4021.527.1600, F: +4021.527.1698 - Companie listata la Bursa de Valori Bucuresti, simbol BNET

- Implementation services: +68% compared to 2016, combined with a large base effect (a nominal increase of 1.2 million RON).
- Network Infrastructure: + 59% compared to 2016 (~ 700,000 RON in nominal value).
- Telepresence solutions: 115% compared to 2016.
- Software Licenses: + 74% compared to 2016.

## IT training earnings



The main drivers of revenue growth were:

- Amazon training: + 177% compared to 2016 - as previously estimated, this product will continue to grow at an accelerated pace.
- Microsoft training: + 62% compared to 2016. Important is that these increases are recorded especially in categories of Datacenter and Cloud-related training (training on management servers and cloud services like Office 365).
- Oracle training: +63% compared to 2016 – this evolution of the Oracle training business line determined us to access the Oracle authorized training partner program, becoming 1 out of only 3 providers of this type of training. By “internally” taking the organization of Oracle trainings (compared with only reselling trainings, as it was done until end of 2016) we estimate another level of significant revenue growth, accelerated by an increase in profitability for this type of training.
- Project management training: + 103% compared to 2016.
- Also very important is the growth of the share of the subcategory "Custom" training versus the "Standard". This trend increased confidence of our partners in ability of Bittnet to be a "tailor-made" service, identifying the real needs of their businesses. IT infrastructures that our clients operate are heterogeneous, combining several technologies and vendors, leading to non-standard training needs that we addressed better in 2017.

**New products planned for a substantial amount of assets in the next financial year and the stage of development of these products:**

- Cloud
- Cyber Security
- Hybrid IT

The company's developing plan includes the following pillars, which have as a component adding of new products and services. Each new product that is added to the company's portfolio is a result of a specific demand coming from our clients. As such, there is no new product for which a substantial amount of resources will be allocated and each additional product is brought into our portfolio on a "breakeven condition".

- **Strengthening the IT training market leader** position with intention of maintaining the perception of a 'one stop shop' provider of IT training, in which the client finds the portfolio of IT training courses through:
  - deepening the team's knowledge and ability in the areas that are already covered (being able to deliver more courses of the current vendors);
  - widening the team's knowledge in additional areas;
  - adding new product lines;
  - adding new delivery options;
  - broadening the portfolio by adding end user trainings.
- **Continuous development and building strategic partnerships** with companies of similar or complementary profiles, which open a potential 'reseller channel' and enable each party to provide supplementary services to their customers.

Particularly for 2018, we believe that an important part of business growth will come from reselling and implementing solutions based on technologies like "Cloud", "IT Security" and "Managed Services". We intend to position Bittnet's solutions, based on our team's constantly developing skills, in these areas of great interest for 2018, providing training for both migration to cloud services, effective implementations and consulting solutions. Computer security is an area in which we excelled at Bittnet as our skills are certified by multiple vendors for IT security industry, such as: Cisco, Bitdefender, Check Point, etc.. The solutions of "cloud" or "mobility" or "IoT" which are the technological trends of 2018 cannot be conceived without a serious component of IT security and Bittnet is ready to support customers in this area.

### **1.3. Evaluation of the provision of technical and material resources (domestic and imports)**

**Specification of information about the safety of supply and commodity prices and sizes of raw material stocks.**

- the strongest global suppliers
- independence from a single vendor



- we do not operate with stocks

For the IT solution integration business line, the company “stocks up” on:

- IT equipment and licenses (hardware and software) – which are resold as merchandise to clients. The merchandise is bought from importers and distributors – companies with a physical presence in Romania. For none of the equipment or licenses is there a situation of “single importer” and as such there is no risk associated with having only one supplier. Bittnet keeps in touch with multiple distributors having significant business with each one.
- Course manuals and official virtual labs from several world wide external partners or directly from manufacturers.
- Subcontracted services from partners be it companies or independent subcontractors (freelancers). There is no unique supplier here either, Bittnet working with several partners in each area of activity.
- All the aforementioned relations are based on partnerships with IT producers (Cisco, Microsoft, Oracle, Amazon Web Services, ITIL, VMWare, Dell, HP, etc.). These partnerships give Bittnet access to the offer and discount systems of the producers and the distributors/importers “transfer” these price conditions from the producers. The relations with the IT solution producers are kept through periodical renewal of our company's competencies and certifications. Each of these relations are important for Bittnet and each year we take the necessary actions to keep our ‘status’ in relation with our partners.

The large majority of products and services which Bittnet offers and require a partnership with suppliers are not subject to price risks because the price lists of the majority of producers are posted for the duration of a year in advance and these companies are large enough and have the necessary processes to sustain the prices for an entire year. At the same time Bittnet places orders to its suppliers only based on the demand of the customer and as such the period in which the price can vary is very short (maximum of 1 week). Considering these two points we believe that the fluctuation in price of materials and resources is not a risk for the company.

The company does not operate with inventory, placing orders to suppliers only based on firm demands from the customer.

### 1.1.4. Evaluation of the sales activity

**Description of the sales evolution on the domestic and/or international market and the medium and long term sales estimates**

- turnover: + 59%
- number of clients: + 16%
- average invoice per customer: 16.650 EUR

Bittnet finished 2017 with 4 new colleagues in the sales team (out of whom 2 are in Bucharest and 2 in the regional offices), however, collaboration with one of the members recruited in 2015 in Brasov was ended. We have strengthened our national presence by opening offices in Timisoara and Iasi, as part

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T: +4021.527.1600, F: +4021.527.1698 - Companie listata la Bursa de Valori Bucuresti, simbol BNET

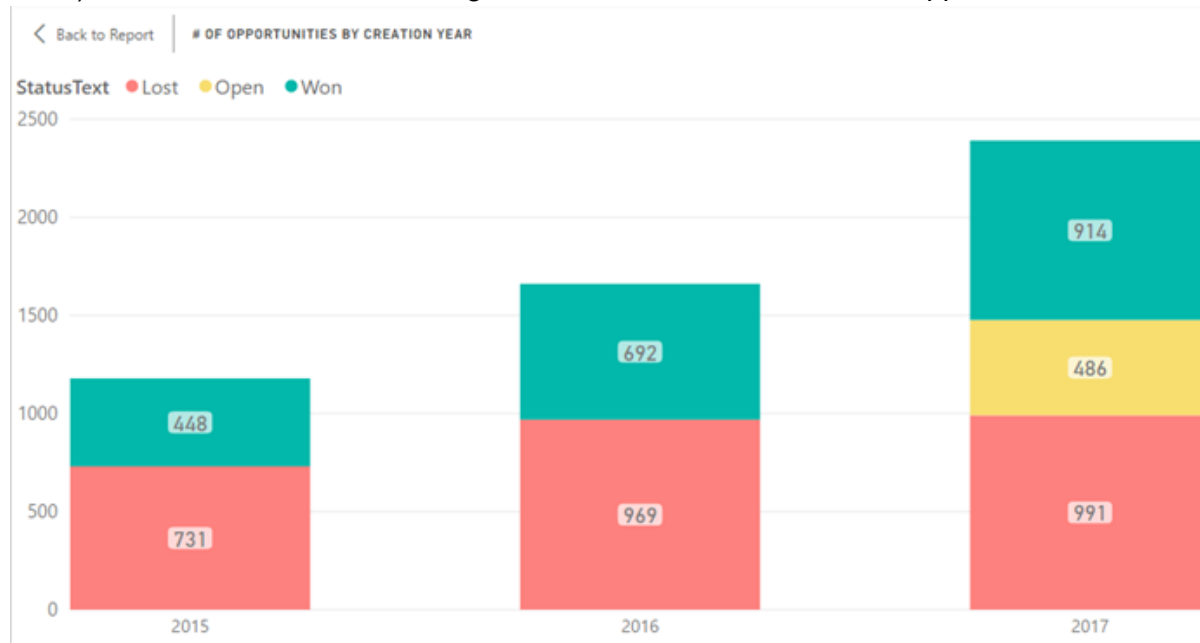


of Bittnet's expansion strategy for big cities with business potential.

Throughout 2017, we have continued to standardize the CRM processes and integrate with NAV to ease and automate workflows in order to reduce the risk of operational errors that could generate unwanted additional costs. This is a continuous process as monthly we optimize the processes that will support the growth approaches under conditions of operational efficiency in 2018. For the 2018-2020 period, we forecast a volume of projects at least twice as big as in the previous period, therefore we consider the operational efficiency efforts a priority.

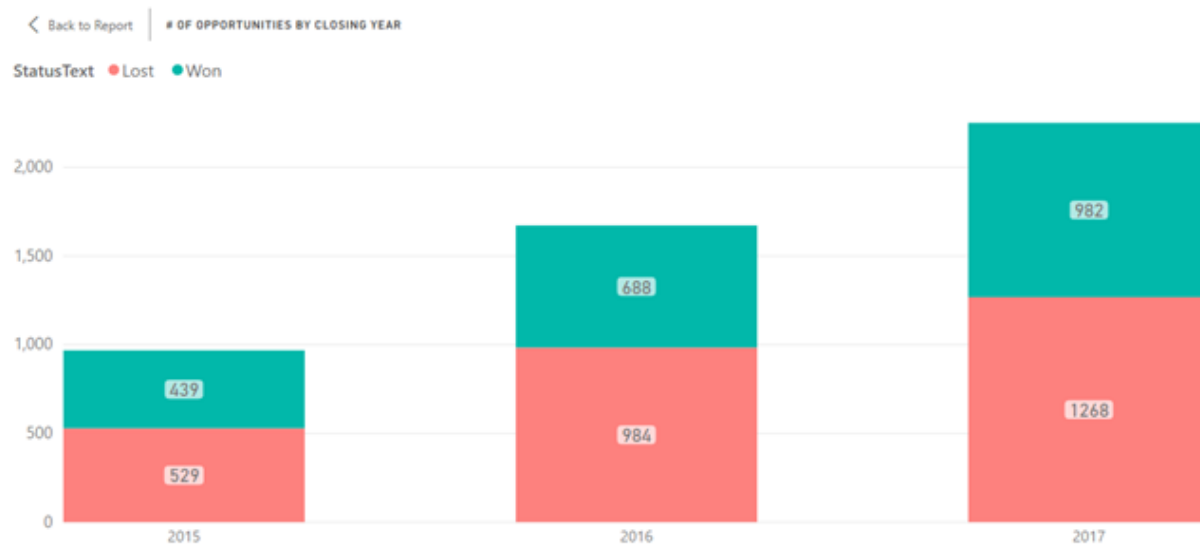
We have continued to implement technical competencies and growth actions for the sales team, in order to support their role of trusted advisor for infrastructure and cloud solutions. Therefore, in 2017, between 5-10% of the time of sales staff was allocated to various training sessions led either internally, or by representatives of technology partners and vendors. This process will continue in 2018.

As a result, the sales team has improved both the number of opportunities identified ("opened" in the CRM), an increase of 44%, reaching a total of almost 2,400 "worked" opportunities in 2017:



However, what is important is that we have maintained the percentage of opportunities won (43% in 2017 vs 41% in 2016), resulting in a significant increase in "won" opportunities: from almost 700 to nearly 1,000!

Looking at the annual evolution, it might be easy to forget 'where we started' and thus, below we include in the chart presenting 2015 results, which shows a doubling of the company's activity over the course of 2 years.

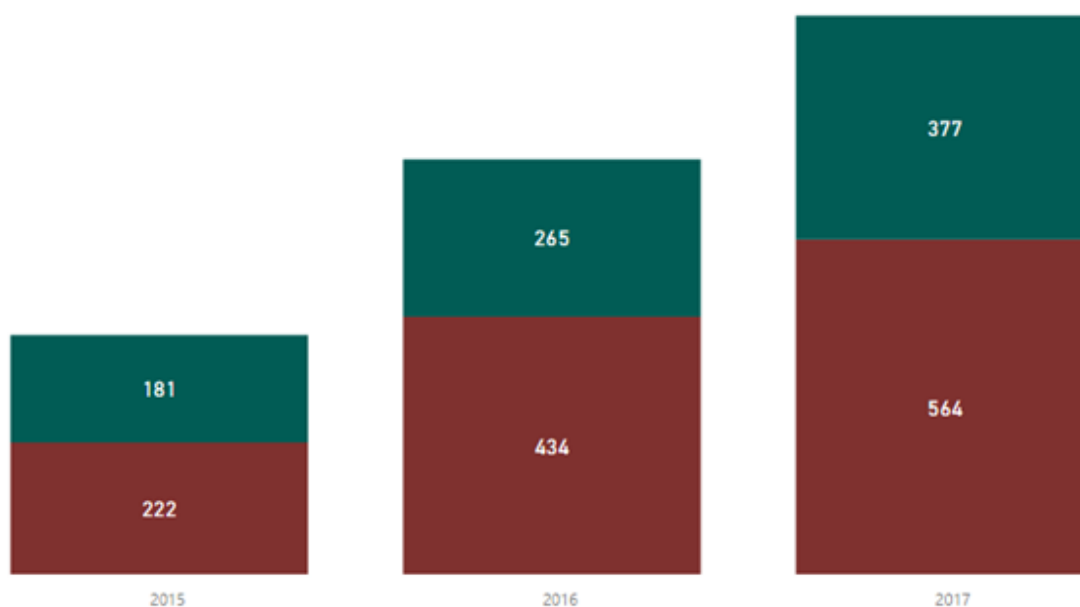


If we analyse opportunities per type of project, the evolution of the project's winning rates are the following:

### Integration

to Report | # INTEGRARE

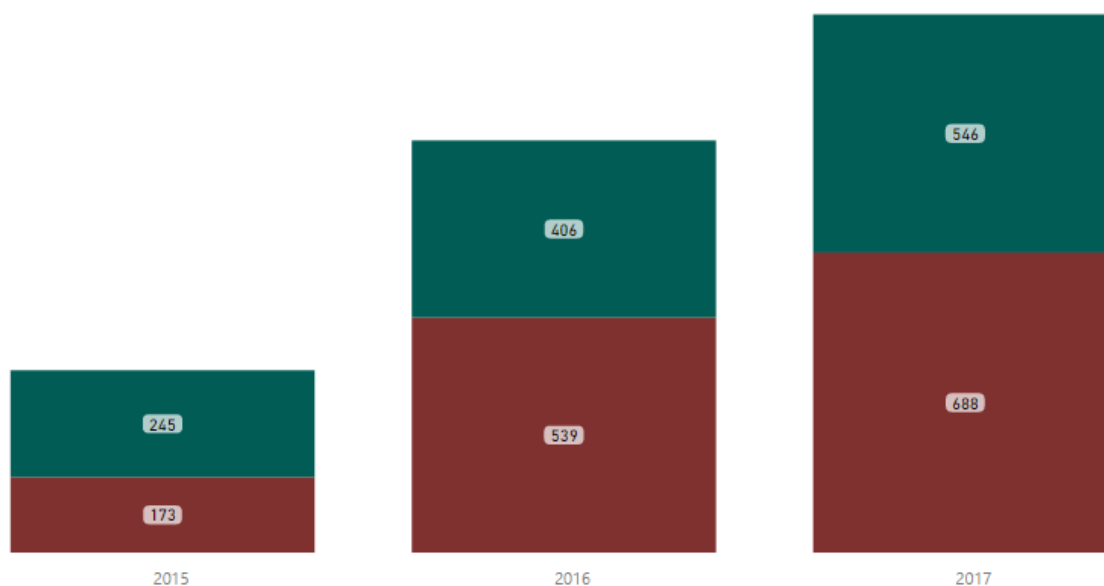
● Lost ● Won



## Training

to Report # TRAINING

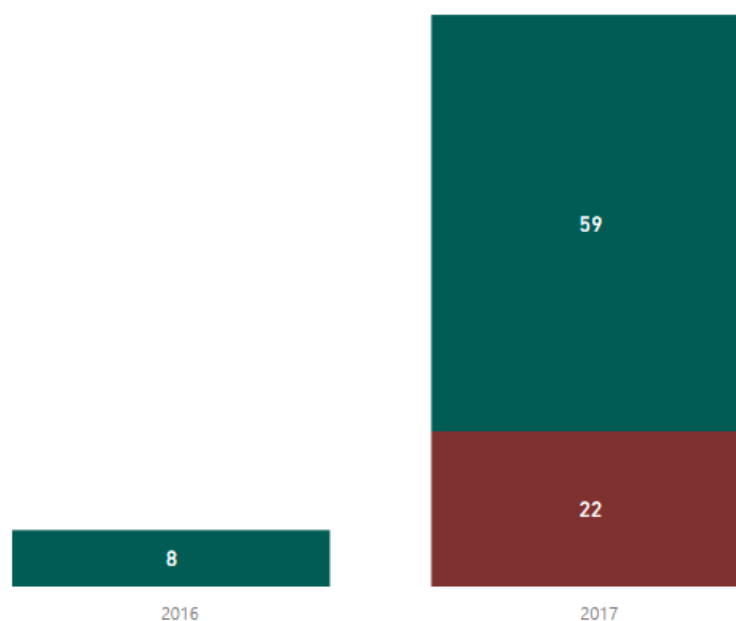
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## Cloud

&lt; Back to Report # CLOUD

StatusText Lost Won



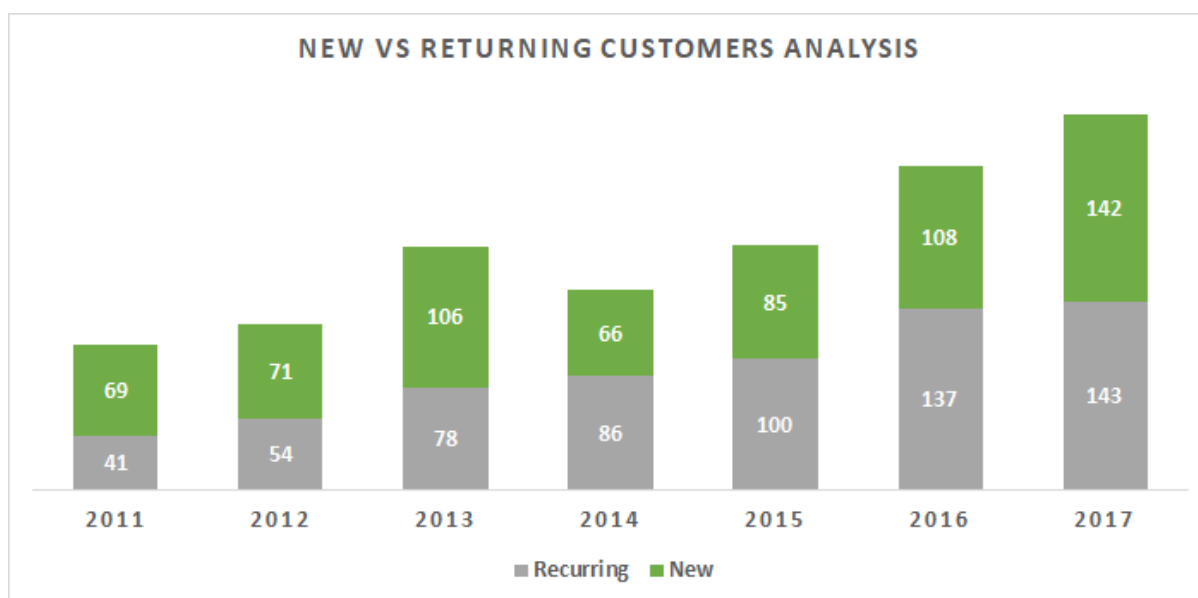
In 2017 sales continued their ascending evolution from previous years. Turnover increased by nearly

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60%, from 13.6 million RON to 21.7 million RON. In 2017 we collaborate with 285 clients, a 16% increase from 245 in 2016.

The table below presents the number of customers served, including a breakdown by new and returning customers. Since 2009, the number of returning customers has been greater year by year, which is a positive trend recognized by the Company. This proves the trust vested in Bittnet, by the clients. This positive evolution offers a high degree of predictability over the total figures that Bittnet anticipates for the following years.



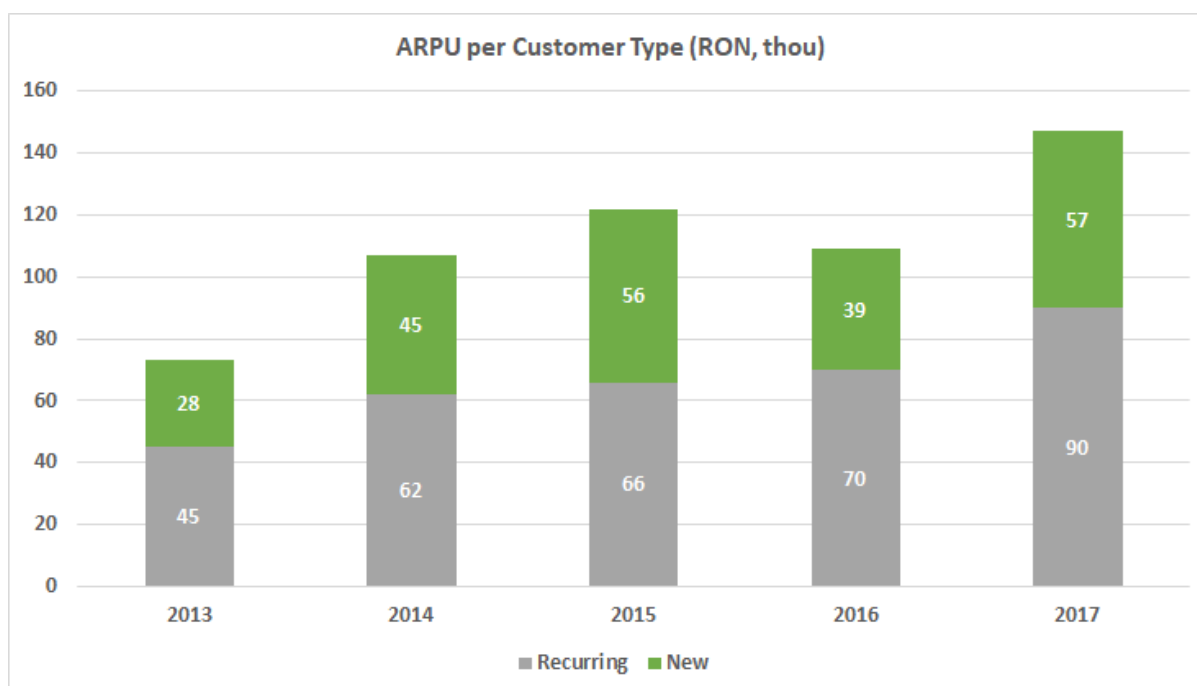
An interesting trend that manifested in 2017 was to bring a larger number of new clients to the cloud - a natural trend, because with the opening of this business line we were able to "target" even smaller clients than those traditional Bittnet (who are mostly 'enterprise' customers). We believe that this trend (and also opportunity) will continue to manifest in 2018, as we accelerate cloud efforts.

Project Type	New Customers	Recurring Customers
Cloud	44	16
Integrare	107	279
Training	148	403

As previously observed, the returning customers have developed trust in our services. On top of that, numbers indicate that they generally spend more when they return. In 2017, this trend has continued, with the average yearly revenue for returning customers being EUR 20.000 vs. EUR 15.000 average from 2016. The general revenue breakdown between Returning and New customers remained in line with the general expectations. The increase in number and revenue percentage from New customers is mainly due to the expansion of the sales team, combined with the expansion of marketing activities,



which naturally generate new customers.



As in previous years the statement *“Recurrent clients trust us more and therefore, on average, buy more than new clients”* has proven to be true. From this point of view, the company’s strategy remains unchanged: we focus on developing our relations with existing customers while dedicating time and resources to attract new clients, whom we can then familiarize with Bittnet’s products and services so that they can become recurrent customers as well.

As such, the company’s sales activity is built in the following manner: Bittnet’s sales team is composed of in-house employees as well as reseller partners and/or middlemen (external legal entities). Because of the nature of the products and services delivered by Bittnet, our clients are in general small, medium and large companies. Over 90% of our clients fit the description “more than 5 million euro turnover and more than 100 employees”.

These companies are characterized by complex processes of acquisition, inter-department organization etc.. For such cases, the B2B sales activity is best handled by “individual” relations of the account manager. In other words, the sales team (internal and external) addresses clients directly, presenting and positioning products and services to people who are relevant in the acquisition process.

Sales activity is further supported by marketing and PR activities, which are designed to ease the beginning of a discussion between the client and the Bittnet salesperson. Marketing and PR activities have to generate awareness in the IT market about Bittnet. It is also an important tool for generating results.

## Marketing and PR



- 21 B2B organized events, with over 700 participants: IT Training Fest Bucharest and Cluj, AWSome Day Bucharest and Cluj, LLPA Summit;
- we participated at important events organized by the main IT vendors such as Cisco Connect, Microsoft Summit;
- event orientation where we were able to target participants interested in cloud products and services: AWSome Day, IT Training Fest, Bucharest Technology Week, TeCOMM, dedicated meetups;
- 321 qualified leads which generated about 193.000€

We operate according to the Business to Business (“B2B”) model, characterized by long sales cycles of our products and services, and a dependence between the sales team and the relationship established by them with the clients. The marketing department has the role to facilitate and improve the work of the sales department, by finding and engaging new customers. Furthermore, the marketing department has to ensure a good visibility of Bittnet through organization of own events and PR activities on the market, with a goal to place the company in the “top of mind” position when customers think of a trusted IT partner (in terms of both training and IT integration).

2017 marked the peak in the number of B2B events addressed to the IT professionals (organized both by Bittnet and third parties) that we took part in. In order to increase our visibility, to get in touch with new potential customers, to educate the market and to increase the cloud technology adoption, in 2017 we participated in 21 (half-day, one day, two or one-week) events. The events we participated in include: IT Training Fest Bucharest and Cluj, AWSome Day Bucharest and Cluj, Cisco Connect Romania, Microsoft Summit, Bucharest Technology Week, Internet & Mobile World, HR Play tech, TeCOMM Cluj, LLPA Summit (which reunited 44 delegates from 27 countries to the fifth edition of the event organized with The Leading Learning Partner Association, an organization that includes market leaders in IT training field, coming from 29 countries across EMEA, India and Australia). We also participated in half-day workshops meet-ups aiming to present cloud technologies: 4 sessions dedicated to Microsoft Azure and 6 sessions dedicated to Amazon Web Services.

The efforts to organize and participate in these events have helped us get in touch with over 700 potential customers that we have already approached or who will be approached together with the sales team through marketing campaigns, in order to generate leads. This is one of the ways through which the Marketing department aims to supporting the company’s continuous strive for portfolio diversification. Through our presence at these events we make sure that our current as well as potential clients are aware of our expanding expertise and certifications.

The events were and still are a basic component of Bittnet's marketing strategy. They help us to have ongoing access to current and potential clients, to have a better exposure towards the IT professionals and companies they work for, to educate the market where there is still little information about a particular technology, to be opinion makers and trendsetters. In general, events provide a more informal and relaxed context to get in touch with clients, to talk to them in order to identify needs and problems they are facing, but also to develop trusted relationships in the medium and long term.

In 2017 we especially focused the marketing team’s efforts on promotion and increasing knowledge, especially in the area of cloud adoption by companies in the Romanian business landscape. Cloud technologies are a strong focus for the Bittnet team, having a number of AWS and Microsoft Azure



certifications that recommend us and prove high technical expertise in this direction. The experience gained over the past 2 years in the migration projects we managed, together with the technical certifications of the team, positions us as the first multi-cloud company in Romania. In order to exploit these resources and competitive advantages, we have organized events such as AWSome Day Bucharest, Cluj, Bucharest Technology Week, TeCOMM Cluj, we included cloud sessions in IT Training Fest Bucharest and Cluj, and we held meet-up sessions dedicated to the Amazon Web Services cloud and Microsoft Azure in Bucharest and Iasi. These steps, of education and development of cloud knowledge in the market, will continue throughout 2018.

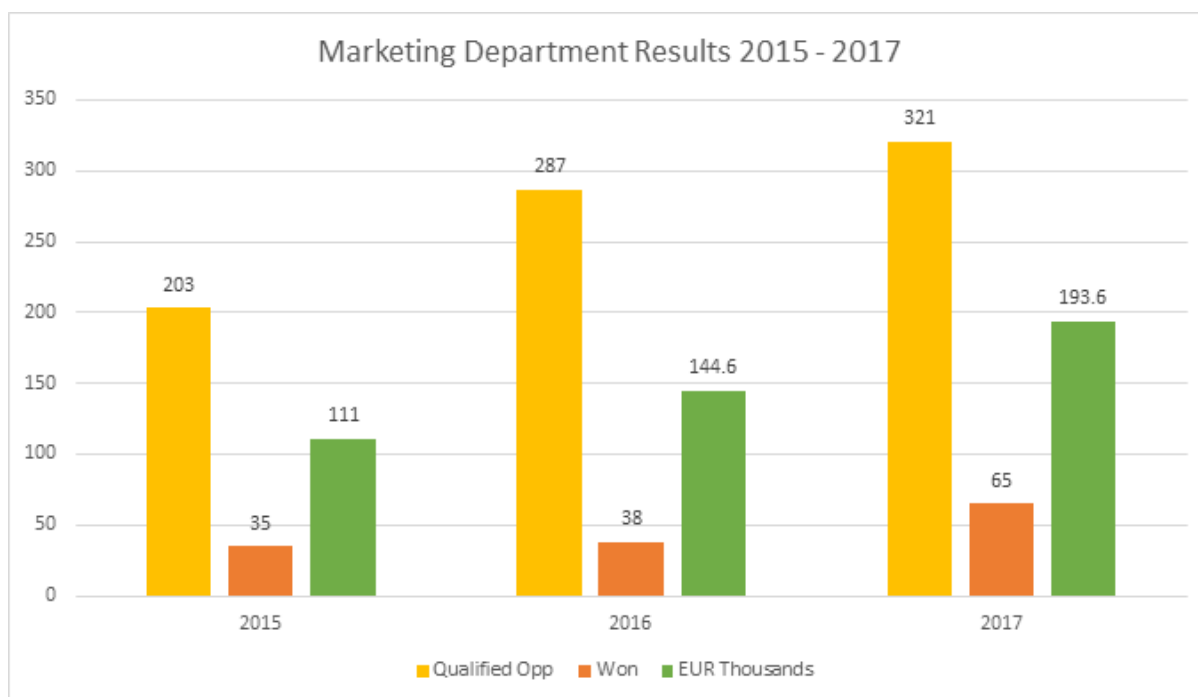
As previously communicated, in 2017 we have also focused our marketing efforts online, as we tried to maximize the potential of Bittnet website. In line with that, in fall we ran a Google AdWords campaign for 3 months, promoting Bittnet courses. Due to the campaign, traffic on [www.bittnet.ro](http://www.bittnet.ro) website has increased as well as the number of online leads.

2017 continued to bring significant improvements to the performance metrics of the site, as can be seen below:

- An increase of + 98.22% in the number of sessions accessed;
- An increase of + 78.56% in users who visited the site and as the bounce rate increased only by 3.74%;
- An increase of + 81.38% in sessions accessed by new users;
- An increase of +110.42% in the number of viewed pages;
- An increase of +6.15% in the opened pages per session (an average of 2.69 opened pages by user per session in 2017);
- An increase in the average time per session spent by a user on our site, up to 1 minute and 57 seconds.

In 2017, the indicators that illustrate the traffic and activity on the website were influenced by the following elements: organic traffic generated by internal marketing activity (sending newsletters and other communications, social networking, PR activity, follow-up events), but also paid traffic generated by Google AdWords campaigns. For 2018, we aim to continue running online promotion campaigns, in order to try new approaches to promote portfolio products. These activities have had a positive impact in the recent years on both Bittnet's image online and sales, so that is why we will continue to dedicate human and financial effort to online marketing activities, in order to generate new leads.





The marketing team's contribution in 2017 can be seen through the figures generated by the sales team. The following results were generated by the marketing team's efforts:

- A total of 321 leads qualified and converted into opportunities for the sales team, which means that about 13.3% of the sales pipeline was generated by the marketing department through the mix of activities carried out, the largest share being from the website traffic;
- 65 of these opportunities were won by the sales team (about 20% of the total number of opportunities generated by the marketing team)
- The total amount, expressed in euro, of the won opportunities in 2017 was approximately EUR 193,620, compared to EUR 144,625 in 2016
- The team is still working on 54 of the opportunities generated in 2017 which are having the "Open" status (about 17% of the total opportunities generated). They have an estimated value of EUR 169K.

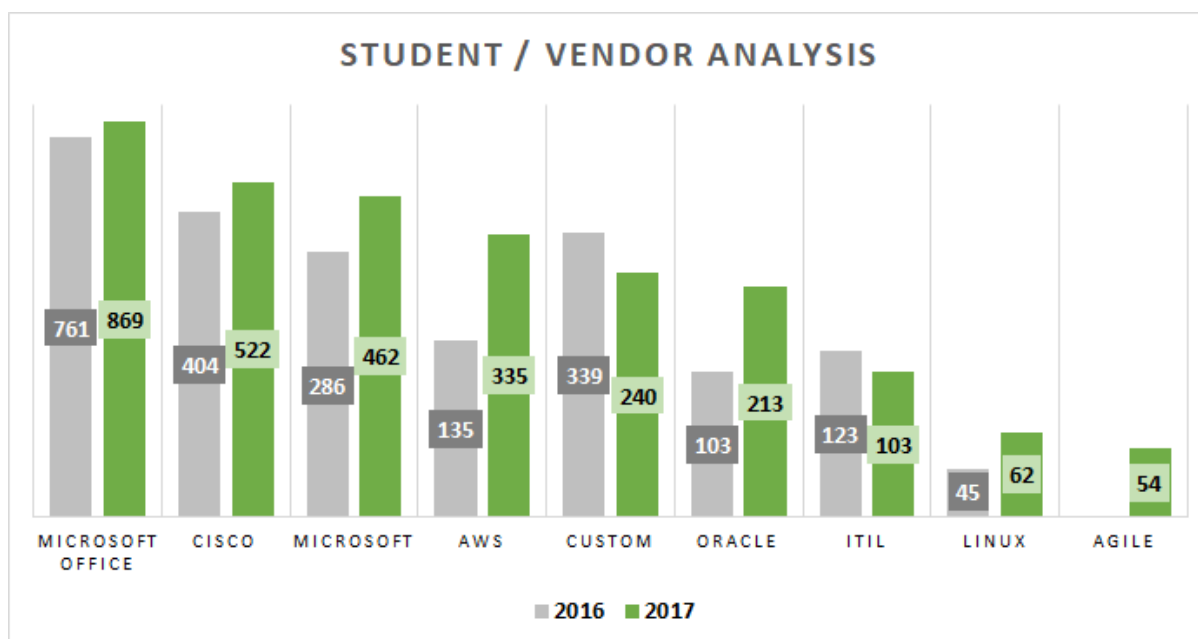
Beyond the number generation, the main goal of the marketing department is to innovate, listen to the customers and help the sales team by addressing their needs, through proactivity and flexibility, openness and memorable experiences.

## IT Training Center - achievements

### New vendors and renewals:

In 2017, we have renewed our partnerships with all the large technology vendors: Microsoft, Amazon Web Services, Cisco, Oracle, Citrix and APMG (for ITIL courses). As a result thereof, all of the partnerships with the vendors are currently active.

As far as the student count goes, the total number of trained students was 3048 - an increase of 25% vs. 2016. Their distribution on major vendors and technologies is reproduced in the chart below, which also captures their evolutions as compared to 2016.



Perhaps the greatest achievement of the training department is that in 2016 there were over 60 open classes, each with more than 5 class attendees. This indicator (the number of students in the classroom) is one of the most important influences on the profitability of the training business.

The total number of open-classes students doubled (307 in 2016 vs. 149 in 2015) and the number of students in closed classes increased by 138% from 919 to 2189.

A very important event in 2017 was the relocation to new offices, in Timisoara Boulevard, no. 26, "Plaza Romania Offices" Building, floor 1. The new facility, located in an "A" class building has over 1,000 square meters, and has triple the delivery capacity compared to the old training centre.

From a 4+1 training rooms centre, we have moved to 7+2 training rooms. 6 of these each have 16 student stations. The 7th training (conference) room is the largest one since it has 40 seats. This brings the total of seats to 152, up almost threefold from 56 in the old HQ. The new headquarters also include a larger cafeteria, with 60 seats. All these amenities make Bittnet the most modern IT training facility in the country

## IT implementation and support projects (other than IT training)

Bittnet's technical department, the second largest team, is responsible for consultancy, integration and training projects. Through this unique combination of responsibilities, we have the advantage of bringing experience gained during implementation projects directly to the training class. Through this model, we can also provide to Bittnet's integration clients the advantage of the teaching profile of technical people in the projection and design phases.

2017 was a year of consolidation and confirmation of investments in technical resources made over the course of last two years. Experiences gained during this period has allowed Bittnet to increase the number of integration projects and the number of trainings delivered by the same technical team.



- Almost 380 integration projects;
- Over 15 management services projects (cloud and security), in line with one of the strategic directions of the company's development;
- Over 6,000 consultancy, support and implementation hours.

Following the relocation to the new office in 2017, there was a need for a technological refreshment. The project marked several technical landmarks, without any functional disruption to services offered by the company:

- A number of 300 ports of 1Gb in 7 training rooms;
- Almost 10 km of cable;
- A new room booking system integrated with cloud calendars (Google Apps and Office 365);
- implementation of Cisco NGFW, ISE and Umbrella security solutions;
- Implementation of an infrastructure management system using Cisco Prime Infrastructure;
- Implementation of the Cisco Spark collaboration solution;
- WiFi solution upgrade - to the 802.11ac Wave 2 standard;
- Migrating the Microsoft Dynamic NAV solution in Azure and as a result, creating a resilient and scalable, infinite solution that, thanks to partnership with Microsoft, costs nothing.

Additionally, in 2017 we started a process of automating certain procedures within the company, currently having a number of 11 software robots that automatically perform the following actions:

1. "Hungry man" - catering orders for trainings.
2. "Wanna study" – ordering books for trainings.
3. Analysis of the available information for each confirmed course class and notification of the operations department about the classes where missing information is needed for the other robots.
4. "One week notice" - notification for the trainers to prepare courses.
5. "House rules" - notification for the trainers on organizational rules at Bittnet headquarters.
6. "Nice guy" - notification for the sales team to add students to classes.
7. "Bodyguard" - notification to the security firm / mall access control company on the list of students attending courses every week for fast access cards allocation.
8. "Pretty woman" - inviting students to the course, sending all the important data (duration, course, trainer, location information, parking, wi-fi, etc.) and setting a reminder in their personal calendars.
9. "Source of truth" - Automatic synchronization between ERP - CRM systems - Website of the course calendar and trainer information.
10. Automated customer information on support tickets and resource load analysis - all information comes from the ticketing system.
11. Automatic reservation of the classrooms, with the confirmation of classes by the training department.

**Description of the competition within the company's field of activity, of the market share, of the company's products or services and of its main competitors;**

The analysis of the company's main competitors should be broken down into two sections, because of the two business lines which differ significantly.

The Company sees itself as the IT training market leader and justifies it by:

- Operating in most IT training market segments (in terms of: vendors, technologies, depth level, national coverage, etc.);
- Not competing with the same competitor in more than 2 market segments, being either the market leader or the second largest provider on each market segment. For example:
  - for the Oracle official trainings, there are 3 authorized providers for Romania (Bittnet, Eta2U, Jademy);
  - for official Microsoft trainings there are 5-6 authorized providers.
- There are market segments where Bittnet has no competitors (e.g. is the only Amazon Web Services, Cisco, Citrix, etc., training partner).

When it comes to the integration market (IT professional services), the very diversified range of Bittnet's services makes it impossible to determine company's percentages of market share. In the IT solution integration market there are hundreds of competitors of various sizes that focused on niche markets, segments of customers, technologies, etc.

The main competitors of the company, players on the IT and training market, with whom the company competes on projects, are presented in alphabetical order:

Main competitors	Description
Avaelgo	Once with the increasing of the cloud services and solutions exposure, traditional competitors 'disappear from the landscape' and the companies we meet at the customer are in the area of software development companies that are trying to enter the cloud business from the final application area. Avaelgo is a Romanian entrepreneurial company focused on Microsoft cloud solutions and 'custom' trainings for solution customers.
Avnet Technology Solutions	Avnet Technology Solutions distributes computing technologies for businesses, software and services. Avnet Technology Solutions is an operating group of Avnet, Inc. (NYSE: AVT). The company offers solutions as: computer components, security & networking solutions, server & infrastructure, server based computing, services, software, storage, document management technologies, virtualization. Through Avnet Academy, the company has for more than 25 years courses for vendors: VMware, IBM, Veeam, Symantec.

Brinel	With an experience of over 25 years in IT, Brinel offers IT solutions through the integration of applications and technology software, hardware, network equipment and services. Brinel has offices in Cluj Napoca, Bucharest, Oradea and Sibiu.
Crescendo	With a 23 years business experience in Romania, Crescendo provides IT&C applications, solutions and services. The company is defined as a "House of IT&C", which builds complex solutions for its customers. Crescendo holds certifications such as APC Certified Silver Reliability Provider, Cisco Gold Partner, Citrix Silver Solution Advisor, EMC Silver Business Partner, HP Gold Partner, Oracle Gold Partner, VMware Enterprise Solution Provider.
Cronus eBusiness	With more than 10 years of experience in the Information Technology field, Cronus eBusiness is an important Systems Integrator on the domestic market. Cronus eBusiness provides a complete services package in the field of ICT infrastructures: Integration Services, Managed Network Services and Managed Desktop Services. The company is one of the 6 Cisco Gold Partners in Romania, Riverbed Gold Partner, Solarwinds Gold Partner, Fortinet Gold Partner.
Datanet Systems	Datanet Systems is a member of Soitron group of companies. The company is one of the 6 Cisco Gold Partners in Romania. The current portfolio of Datanet Systems comprises services for areas as security architecture, data center infrastructure, Software Defined Networking, virtualization, Cloud infrastructure, customer interaction and information security. Datanet Systems is one of the technology providers for air traffic control, banking and financial organizations, large, medium and small companies, public institutions and telecom operators in Romania. The company also provides Cisco courses.
Eta2U	Eta2U is an important provider of IT products and services, leading system integrator and IT solutions in western Romania. Eta2U is an active player since 1992. The big part of the business is on distribution, not on reselling IT products. Eta2U is also a training center focused on Microsoft, Cisco, Oracle, Java, Linux, ITIL, VMware, RedHat courses. Eta2U is active in Timișoara, Arad, Bucharest, Cluj-Napoca, Craiova, Deva, Oradea and Sibiu.
IT Academy	IT Academy carries out its training activity on the Romanian market for 10 years. The company specializes in self-education Project, Programme, Portfolio, Risk and IT Service Management. IT Academy is accredited to deliver Project Management PRINCE2 courses, Risk Management M_o_R, AGILE Project Management, Portfolio Management MoP, ITIL Service Management, IT

	Governance COBIT, ISO20000, ISO27000 and OBASH.
Kapsch Romania	Kapsch is a system integrator and supplier of end-to-end telecommunications solutions for fixed and mobile network operators, railway operators, urban transport organizations and companies seeking real-time asset management solutions.
Learning Solution	Learning Solution is a Microsoft partner since 2005, holding Silver Learning competence, in addition to skills such as Server Platform, Midmarket Solution Provider or Volume Licensing. Learning Solution instructors are actively involved in consultancy projects, implementing or developing solutions based on Microsoft technologies. The company is also testing center for Prometric, Pearson VUE and Certiport.
New Horizons	New Horizons Bucharest is an authorized training provider for many industry-recognized software and certification organizations. New Horizons creates solutions that fit individuals, businesses and governments as: career training for individuals, business solutions, enterprise solutions, government solutions, room rentals.
Pro Management	Pro Management learning center is forming power-users, CAD specialists, network administrators or database, system engineers, senior programmers, business analysts, software architects and project managers. Pro Management is in business for 18 years. The company is Microsoft Silver Learning Partner. However, Pro Management is also a testing center for Prometric, VUE, Kryterion, Autodesk Authorized Training Center, Dassault Systemes by CENIT-Gold Certified PLM Education Partner.
Zitec	Once with the increasing of the cloud services and solutions exposure, traditional competitors 'disappear from the landscape' and the companies we meet at the customer are in the area of software development companies that are trying to enter the cloud business from the final application area. Zitec is a successful Romanian entrepreneurial company focused on software solutions. Starting with 2017, Zitec offers cloud-based IT infrastructure and cloud services, being certified as Microsoft and Amazon Web Services reselling partners.

**Description of any significant dependency of the company on a single customer or on a group of customers whose loss would have a negative impact on the company's income;**

- In 2018 we provided solutions for 285 customers;



- Our customers are the most important companies on the market;
- New customer typology for the “Cloud” business line.

In the description of the sales structure, the concentration of the turnover and the risk of losing significant customers, we should be aware of:

- The fact that the company does not have contracts with multiple, recurrent deliveries. Our type of product is better suited for “framework contract with punctual orders”.
- The recurrence of the customers - the fact that Bittnet clients return and purchase more is the result of two combined factors: our technical capacity of delivering products and services with a high level of specialization and the quality of carrying out of these services.
- Because of these factors, as the time goes by, our relations with “reseller” partners as well as other clients solidify as Bittnet is gaining more and more confidence in the eyes of its partners, which in turn translates into bigger projects.

These factors combined lead to a concentration of sales on an important number of clients. Even though the company served more than 280 clients in 2017, the first 19 clients generated 60% of the turnover. The situation is more favorable than in 2015, when it was the first 10 clients that generated 60% of the turnover. The following table presents the clients with the highest share in the company's turnover within the limits of the confidentiality clauses of the contract. The structure of our clients is dominated by the IT sector.

The main reason behind such a structure is the partnership model that the Company implements. Besides direct sale to clients, the company uses “reseller” partners who contact the client. The company then splits the sales activity but eventually the client comes back to Bittnet for the delivery of the solutions, together with hardware delivery, implementation services, maintenance and training services. This leads to the concentration of “final clients” under the “umbrella” of a reseller.

Clients with the highest share in the total turnover	2014	2015	2016	2017
Telecommunications sector client 1	-	2.26%	9.07 %	10.10 %
Telecommunications sector client 2	11,33%	7,23%	7.4%	8.70%
Financing Partner for customers			0.9%	7.4%
National Registry Company				5.5%
Automotive Company 01			0.90	4.4%





			%	
IT Reseller				3.3%
Global IT Vendor 1 - discount voucher training for RO clients			0.80 %	2.8%
Resale Partner Integration Services	-	11,63%	9.4%	2.30%
Debt Recovery Company				2.2%
UK Training Company			1.40 %	1.8%
RPA Company				1.8%

## 1.5. Evaluation of issues related to the company's employees/staff

**Decifying the number and level of preparation of the Company's employees and the degree of unionization of the workforce; Description of the relationships between managers and employees and also any conflicting elements that characterize these relationships.**

During 2017, the average number of employees of the company was 15. The table below shows the partition by functional departments at the end of the fiscal years:

Department	2014	2015	2016	2017
Sales	4	4	4	4
Technical	3	2	4	4
Marketing	2	2	2	2
Delivery	1	1	1	1
Management	Did not receive remuneration	Did not receive remuneration	4	4

The company externalizes a series of activities to independent subcontractors. At the end of 2017, Bittnet was cooperating with 30 contractors.

All of the company's employees are higher education graduates. The company's employees are not



organized in a union. There has never been a conflict between the management and the employees in the company's history.

As a specific of the IT industry, it must be noted that the industry employees and collaborators (freelancers) are characterized by a certain level of education, a continuing desire to learn as well as a greater level of independence. This type of work environment and professional activity is characterized by cheerfulness, youthfulness, desire to work and to 'prove' professional value.

As we are active in the digital economy area, we also benefit from the advantages of the so-called 'gig economy' as well as the problems it raises. For this purpose, the company actively pursues the positioning as a platform that brings together experts on various topics with relevant customers for the respective services.

## **1.6. Evaluation of issues related to the impact of the issuer's main activity on the Environment**

### **Synthetic description of the impact of the issuer's main activity on the environment as well as of any current or anticipated litigation in connection with the breaching of environment protection legislation.**

Bittnet's professional activity does not have an impact on the environment. Working in the services sector, our activity focuses on acquiring knowledge and transferring it to our clients be it through trainings, consultancy or design and implementation services.

We are not engaged in any litigation and we do not foresee any litigation related to the protection of the environment.

## **1.7. Evaluation of the research and development activity**

### **Expenses during the financial year as well as of those estimated for the next financial year in connection with the research and development activity.**

The company is not involved in any research and development activity. The company gains knowledge (know-how) by assimilating the information from the official materials of the IT producer (course materials, product presentations) and by testing out different scenarios in labs. The company proofs its competencies by obtaining certifications from the IT solutions producers.

The full list of certifications can be found on the company's website at the following link: <http://www.bittnetsystems.ro/certifications>.

## **1.8. Evaluation of the company's risk management activity**

### **Description of the company's exposure to price, credit, liquidity and cash flow risks.** **Description of the company's policies and objectives regarding the risk management.**

The company is exposed to a series of general and specific risks associated with its size and domain

of activity.

### **Price risk**

The price risk represents the risk that the market price on the specific product or service sold by the company may vary in such a way that the existing contracts are no longer profitable.

This risk consists two components: the risk of price fluctuation of the elements that make up the company's fixed costs and the risk of price fluctuation that make up variable costs of each project.

The company carefully addresses the issue of price fluctuation at the level of variable costs through the following actions:

- The company does not operate with inventory and each order to the supplier is based on a firm demand from the client and as such, the commercial margin is "locked in".
- The company does not have any contracts with fixed prices for successive deliveries over long periods of time; any contract renegotiation with the supplier is reflected in the CRM system, so that the sales team is always up to date with the latest prices for the 'raw material', therefore they can take this into account during the offering process.
- The company does not offer such contracts. In case of a demand for such a contract the company adds a "limit of price variation" clause.
- For fiscal year 2018, there is a foreseen need to contract financial products in order to secure a fixed price for buying the currency. Several requests for quotes received from customers request bidding in a different currency than the one in which the services are purchased. The company will analyze and test various financial solutions in this regard.

The company carefully addresses the issue of price fluctuation at the level of fixed costs through the following actions:

- In the case of workforce (employees or subcontractors): the company does not have any long term contracts with successive deliveries and fixed prices with clients, and as such can offer at any time depending on needs. We estimate that an increase of workforce costs will similarly affect the whole industry, not just the company.
- The leader position on the IT training market allows the company to obtain better prices than the competitors.
- Beside the employee and contractor costs, the most important fixed cost is the rent for the work point from Timisoara Boulevard, no. 26, Bucharest. This contract has a fixed price until 2024.

### **Exchange rate risk**

An important element of the price risk is the exchange rate fluctuation risk. The company aims to be neutral to this risk by implementing the following measures:

- The company avoids as much possible to make "cross-currency" offers (offers in a different price than the one in which it was bought).
- In case of such a demands the company includes a "variation limit" clause in the contract.
- All the selling prices from the contract are expressed in currency, with the billing in RON at the exchange rate from the date of the delivery.
- The company does not operate with inventory.
- For fiscal year 2018, there is a foreseen need to contract financial products in order to secure a fixed price for buying the currency. Several requests for quotes received from customers

request bidding in a different currency than the one in which the services are purchased. The company will analyze and test various financial solutions in this regard.

- With the intensification of the export activity, the company keeps the money cashed in the initial currency, in order to be able to directly pay in the currency of the foreign partner. This approach allows us to cancel out the exchange rate fluctuation effect in case of open invoices (because the losses created by the increased value of our debt to suppliers are offset by the winnings produce from the appreciation of FCY reserves). As proof, in 2016 the company recorded a profit from exchange rate differences. Especially with the acquisition of GECAD NET, the earnings from Bittnet clients are more relevant for GECAD NET's payments to external suppliers (GECAD NET has significant number of acquisitions from external suppliers).

### **Liquidity risk**

The liquidity risk is associated with owning immobilized or financial assets. The Company's activity does not depend on owning financial and immobilized assets and transforming them into liquidities. The company's assets (equipment) is used in current activity (services). From the total assets, the largest part consists of debts and assets. From this point of view, the most important risks for the company are the cash flow and credit risks.

For this reason we have analyzed the following: Current liquidity and Rapid liquidity, which are a company's the two of the most important financial ratios. They measure the ability of a company to pay short-term debt using available assets.

Rate	Formula	FY 2016	FY 2017
Current liquidity rate	Current assets / current liabilities	2.79	2.47
Rapid liquidity rate	(Current Assets - Stocks) / Current Debt	2.67	2.42

The decline of these indicators is mainly due to the "immobilization" of a significant amount of the company's cash in the GECAD NET investment during 2017 (the equivalent of 250,000 EUR, the No. 1 Rate of the sale-purchase contract). This investment lowers the current assets in the balance sheet.

An important element in the analysis of liquidity ratios is the increase in the availability of banks as a result of the increase of the business, but also of the cash infusion that the shareholders of the company achieved through the two capital increases with cash contributions during the year 2017 (totaling 1.6 million RON). It is important to mention the sale of corporate bonds from September 2017, which brought to the company accounts the sum of 4.5 million RON. The BNET22 bond issue is due in September 2022, therefore this loan does not affect the immediate liquidity of the company.

Another element is the 37.52% increase in the level of claims in 2017 compared to the end of 2016. The debt increase by 2.8 million RON led to an increase in debt to suppliers of 1.1 million RON. The bank loan also recorded an increase from last year to 4.5 million RON in December 2017. This translates into a stronger financial position, the company being larger and more "finance" in its relationship with creditors. Significant cash availability also shows that the current activity is no longer dependent on short-term debt financing.

In theory, the optimum value for the liquidity level varies greatly depending on the business sector. This way, there are sectors where the optimum liquidity is 2 or even higher, but there are also sectors where companies operate very well at levels of 1.5 or slightly below 1. According to financial analysts, the optimal value of this indicator is around 2. A higher report indicates increased liquidity and a greater ability of the company to meet its short-term obligations.

### **Credit risk**

The credit risk represents the risk for the Company's debtors to not be able to honor their obligations in due date because of financial problems. The Company is less exposed to this risk because of the specific nature of its products and services which address companies of a certain size and being in a specific financial situation.

The company analyzes new customers using specialized tools (specific sites with the capability of analyzing a client's reliability) and has a strict procedure and documentation for orders and delivery of goods and services. As proof of this risk management, the company was in no way affected by the insolvencies of 2K Telecom or Teamnet International (unlike some of our competitors).

Although, the Company has not identified a solution that completely eliminates the credit risk, being one of the most important risks for a company of our size.

### **Cash flow risk**

The cash flow risk is associated with the fact that the company cannot honor its debts at the due date. In the Company's activity this has two components which we closely follow:

- The synchronization of due date payments from our clients for certain projects with due date payments to the suppliers for those projects. The company's working procedures put as priority nr. 0 this synchronization (for the due date from our client to be sooner than the due date from our supplier). This issue takes the form of back-to-back clauses when it comes to receiving invoices for subcontracted services or sales commissions. Additionally, in order to address the issue in which clients with a strong negotiating power require due dates which the suppliers cannot hold, the Company actively and continuously looks for financing solutions like invoice discounting, factoring, etc.. As an example, in 2016 the Company had at its disposal and accessed 2 different non-recourse factoring facilities from 2 different donors.
- The risk of business seasonality. Because of the specific nature of the clients that the company addresses (companies which operate on an annual budget, with investment plans, etc.), in the B2B IT industry segment, we noticed an increase in the volume of business in the fourth quarter. On the other hand, the delivery capacity cannot easily be re-dimensioned and (as such in case of a less-than-expected fourth quarter) there is the risk for the company's profitability to not reach the set goals. Throughout the year, this leads to the necessity of using financing lines. The company actively seeks the extension of financing from banks in both short and long term.

The company takes into account any long-term financing product, which reduces the cash flow risk. More so, for 2018, the company intends to increase the volume of support services, which bring a constant monthly revenue, which in turn reduces the seasonal risk.

**Risk associated with key individuals**

The Company's success depends to a significant degree on its ability to continue to attract, retain and motivate qualified personnel. Bittnet's business relies on highly qualified and adequately compensated engineers, who are limited in number and might receive employment offers from the competition. In case of the Company failing to manage its personnel needs successfully, this could have tangible and significant adverse effect on the business, financial condition, operational results as well as prospects. The Company offers attractive compensation packages and dynamic career paths in order to attract, retain and motivate experienced and promising personnel.

Throughout 2017, Bittnet has faced much less staff fluctuations than the companies with whom we do business. However, two important decisions that we took in 2015 have allowed us to resolve this issue in a 'winning' way:

1. Adding the role of internal HR in the organization and bringing onboard a new colleague who has experienced in recruiting IT professionals. The role of HR has two main objectives:
  - a. continuing recruitment - identifying new talented professionals to include in our technical team;
  - b. create and maintain a pleasant, engaging, and healthy working environment, focused on constantly promoting the values which are at the base of company's culture: competence, performance, integrity, flexibility and fun.
2. Listing on the Bucharest Stock Exchange allowed us to obtain a profile of an appreciated employer, which has helped us to differentiate ourselves as an open and transparent company - an image highly appreciated by all the new as well as the older employees.
3. In addition to the previous points, the move to the new headquarters (A-class building, with a tall office space and modern facilities developed by a highly-valued architecture company in the "fit-out" market) is another investment made in the area of employer branding that was highly appreciated by the team members and collaborators.

This risk continues to be one of the most important 'threats' to our company, and consequently, the management will continue to give importance to this aspect. In 2016, the General Meeting of Shareholders has approved a stock option plan incentive for key employees in order to better align their interests with the long term interests of the company.

Management will propose a new incentive plan for the 2018-2020. On the other hand, taking into consideration the overheating of the labor market and the increase in the proportion in the labor force of the "Millenials" generation, we believe that this risk - related to the ability to deliver promises to customers - is significant one for the company, especially when paired with the continued growth of financial claims of team members and collaborators (a steady increase in fixed costs).

**Risk associated with significant clients**

At the end of 2017 the Company's customer structure was less concentrated than in the previous years as the first 19 customers generated 60% of revenues. The customer structure is dominated by companies from IT&C sector (four out of five largest clients). A highly concentrated customer structure creates risk associated with potential loss of one of main clients. The loss of a key customer may adversely affect the level of revenues and profits reported by the Company.

The company is working actively to develop new partnerships in order to disperse of this risk; in 2017

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the trend of expanding customer exposure continued and, as a result of the expansion of the sales team as well as company's portfolio, the company gained new, significant clients.

**Risk associated with the rights to the trademark**

The „Bittnet Systems” trademark is owned by a third-party who is related personally to the Company's management (hereinafter referred to as licensor). In 2010 the Issuer signed an agreement under which the Company can use the trademark by paying a percentage of turnover value generated in a given year.

The agreement was signed for 10-year length period (until 2020) and does not include any notification period for its termination. The agreement contains contractual penalties, according to which for each day of delay in payments there are interest charged equal to 0,1% of payment value.

During 2016, the Company reached an agreement in principle for the transfer of the trademark to the Company. This agreement foresees the payment of an amount by the company and the transfer of 5% of the company shares held by the founders (Logofătu Mihai și Logofătu Cristian) in exchange of the perpetual right to use the trademark. In 2017, the company has not identified, together with capital market institutions, the practical modality to transpose this agreement in reality, taking into considerations the limitations of the Code of Central Depository on the transfer of shares by major shareholders.

**Risk associated with realization of business development plan**

The Company's strategic objective is to continuously develop relationships with the clients. It cannot be excluded that Bittnet will not be able to expand the current client base or that the relationships with existing customers will deteriorate. There is also the risk that the company will not be able to accomplish other elements of its defined strategy, such as: the expansion of sales team, launching new local offices in the main Romanian cities, strengthening the position of the IT Training market leader, expanding the customer base and providing trainings to more potential customers, developing and creating strategic partnerships with companies of similar or complementary profiles, will not be successful. In order to reduce this risk the Company intends to continue to extend the product and services offer as well as to improve its marketing activities.

**Risk associated with realization of the financial forecasts**

Financial forecasts of the Company start at the hypothesis of successfully implementing the growth strategy, based on existing resources and business units. However, there is risk associated with the realization of the financial forecasts. Forecasts were created with due diligence, however they are subject to many variables. The actual data provided in the future periodic reports may differ from the forecasted values, as a result of unforeseen factors in the company's business environment. The company will provide future information regarding the possibility of the realization of financial forecast.

This chapter deserves a more detailed discussion. Every year the company submits for the shareholders' approval a revenue and expense budget. The Management realizes this budget using an 'up and down' approach - beginning with the evaluation of the ongoing projects (of the available sales pipeline at the time of the production of the budget), of the sales statistics from the previous years, of the already engaged / planned marketing and sales actions, and of the sales targets assumed by each member of the sales team. In other words, the budget is realized in a prudent way.

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On the other hand, what we follow and measure in the relationship with the sales team and with any other partner is the commercial GROSS MARGIN and not the sales amount. This way, every year, at the time of publishing of the budget, the management has to answer to the “If we have a reasonable trust that we will generate 100 RON gross margin, from how much RON in sales will we obtain this margin?” question. It must be taken into consideration that the sales accomplishments are measured and calculated EXCLUSIVELY by the values of gross margins generated. In other words, 100 Euro of gross margin generated by 200 Euro course sales is equally valuable to the company as, for example, 100 euro of gross margin generated from the sale of a 500 euro communication solution.

In order to answer to the “How much RON in sales is necessary to produce the 100 RON engaged margin” question, we must therefore intermediately answer to the “which will be the average percentage of gross margin registered by the company?” question. According to the prudence principle, the management applies small percentage decreases to the already registered gross margin, in order to find out the answer to this question.

The unexpected result of these cautious estimations is that, if we apply a smaller margin percentage, then we actually assume that we will have to ‘work’ more for the same RON gross margin, so the forecasts (the budget) related to the company’s revenues are HIGHER.

Although, the company follows only the gross margin, not the volume of sales, that is why during the budget exercise, it is more likely that the revenue forecasts (turnover) is wrong, and the profitability one is more accurate. In other words, the management does not aim, does not follow, and does not reward the achievement of any revenue targets and, in consequence, the investors should not follow and evaluate the accomplishment of the revenue indicators (turnover), but instead should follow the profitability indicators.

#### **Risk associated with interest rates**

The Company is exposed to the risk of interest rate increase due to the credits and loans taken. Any increase in interest rates will be reflected in an increase of financial costs. The Company regularly monitors the market situation to predict the risk associated with interest rates and stays in touch with as many loan institutions in order to ensure an 'arbitration' between the offerings.

In 2016, the company carried out a placement of bonds with maturity in 2019, through which it obtained from the capital market an "engaged" financing of 4.186.000 RON, which it used for financing its current activity as well as supplementing the sources of financing. The bonds are listed on BVB under the BNET19 symbol.

In 2017, the company carried out another placement of bonds in the value of 4.5 million RON. The bonds are listed on BVB under the BNET22 symbol.

At the same time, in 2017, the company changed the structure of the financing, as follows:

- credit line repayment Banca Transilvania SA: 1 million RON;
- credit line repayment Patria Bank: 1.2 million RON;
- closing financing limit Patria Bank SA: 2 million RON;
- ProCredit Bank loan maturity: initial balance (2014) - 350,000 RON;

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- returning loans founding shareholders: 83,718.97 RON;
- contract credit line ProCredit Bank: 4.5 million RON.

Also, in January 2018, the company extended the bank financing through Procredit Bank through:

- the contracting of a revolving overdraft credit line from ProCredit Bank, amounting to 2,790,000 RON, with a fixed interest rate of 3,75% per year;
- signing a credit agreement with ProCredit Bank in the amount of 697.000 RON, with a variable interest rate, ROBOR6M + 1.5% per year and a maturity of 3 years. For this contract, principal rebates are made monthly.

All credit products accessed by the Company currently have FIXED annual interest. The weighted cost of borrowed capital is slightly below 6.4% per year. We believe that the next financial period (2018 - 2022) will be a time when the fact that we have fixed the price of the borrowed capital will be a competitive advantage.

### **Risk of loss of technological relevance of solutions**

The IT market is an evolving market, with a fast rate of change. The business development plan takes into account the identification of technological trends and positioning in the first part of the adoption curve, the so-called 'first mover' position. There is a risk that the management does not correctly identify trends and that the investments of time and financial resources are misdirected. Such a possibility would affect the company both from a direct financial point of view (non-recoverable investment) and by making the company's offer irrelevant to clients - therefore increasing the risk of loss of income sources.

### **Risk of Business commoditization**

A special case related to the rapid evolution of the IT industry is the trend for every technology to become 'commodity' (very widespread, very widely adopted) and to be very well understood by customers. In such a business environment, the added value of the "resellers" is a very small one, so such a scenario leads to a decrease in trade margins for business lines that are affected by commoditization. All technologies face this risk as their adoption rate increases. The most eloquent example is Microsoft's licenses business, where most of the projects are billed to customers with very small business margins of 0-2%. As other technologies get the same spread and adoption, also reselling them becomes unprofitable.

The company seeks to position itself as a valuable consultant, not as a reseller of "commodity" boxes. Following technological trends and positioning as a 'first mover' helps the company to deliver added value through its services (consulting, building technical solutions, installation and simplicity, optimization, maintenance).

### **Risk of unfair competition**

Low-margin commoditized businesses are prone to unfair competition, especially through dumping prices. Especially in the GECAD NET business, this risk materializes when competitors often offer retail prices that are substantially subdivided below the price of the acquisition of respective licenses. This type of business approach is very difficult and expensive to prove, but can cause harm to the company by losing contracts or reducing profitability. The company has not identified any solution to prevent this risk. The company aims to address new customer and customer typologies for whom the added value of the solution offered is not represented by the price reductions, but by its functionality. The more commoditized the business line, the lower the added value that can be provided by an

integration partner.

**Risk associated with the listing of the Company on the AeRO market – future price per share and transaction liquidity**

The price of shares and the liquidity of transactions for companies listed on the AeRO market depend on the number and size of the buy and sell orders placed by investors. There can be no guarantee regarding the future price of shares and their liquidity after the company's debut on AeRO market. There can not be no guarantee that after an investor has bought shares of the company, that he/she will be able sell them at a satisfying price.

**Risk associated with direct investment in shares**

Shareholders should be aware of the risk associated with direct investment in shares, which is greater than the risk associated with investing in government bonds or in an investment fund, mainly because of the volatility and unpredictable nature of share prices, both on short and long-term.

**Risk associated with changing law and taxation rules in Romania**

Changes in the Romanian legal or tax systems may affect the economic activity of the Company. Changes related to the adjustment of the Romanian legislation to EU regulations may affect the legal environment of Company's business activity and its financial results. The lack of consistent rules and protracted procedure for obtaining administrative decisions may also restrict further development of the Company. In order to minimize the risk, the Company regularly analyzes the changes in these regulations and their interpretations.

On the other hand, all 'unofficial' history shared by tax consultants and other managers or entrepreneurs can be summed up in the colloquial phrase "no matter what you do, you will surely receive the fine" - so we consider this risk a major one for the company because it can not be addressed in any way in a preventive way.

## 1.9. Estimates of the company's future activity

- strengthening our leadership position in IT training;
- value & develop market trends;
- development of strategic partnerships.

**The development strategy of the Company for the short and medium term** is based on the following **pillars**:

- **strengthening the position of the IT Training market leader** with intention of maintaining the perception of a 'one stop shop' provider of IT training in Romania, where the client finds the full range of IT courses. The Company plans to continue to aggressively grow training products portfolio and focus on:
  - **deepening the team's knowledge and ability in the areas that are already covered** (being able to deliver more courses of the current vendors):
    - enterprise networks;



- cloud, hybrid cloud, virtualization;
- cybersecurity;
- unified communications (telepresence, voice over IP, call management);
- mobility (VPN, Bring Your Own Device);
- software and services (Google Apps, Microsoft Office 365, Amazon Web Services);
- middleware;
- databases;
- IT Service Management.
- **widening the team's knowledge in additional areas**, either by adding vendors in portfolios across the previously discussed architectures or by adding new technologies and delivery capabilities. In order to remain at the forefront of technological advances, the Company continuously monitors the technology landscape in order to identify trends that might become popular in future;
- **adding new product lines** in the areas of software training and programming languages, software development tailored to the needs of specific customers,
- **adding new delivery options** other than direct face-to-face classroom training, i.e. virtual remote live training in order to satisfy customers' needs to get training faster, closer to workplace, without having to travel, and with lower general expenses. This would allow the Company to start delivering training outside the borders of Romania having such advantages as: good level of English, excellent IT knowledge and attractive prices,
- **broadening the portfolio by adding end user trainings**, as opposed to trainings aimed at IT system administrators (in different areas of administration), these trainings don't have a predefined user base, meaning that the potential customer base is much larger. The concept is to cooperate with larger companies offering Microsoft end user trainings (including Visio, Project, Office 365, etc.) and launching an "IT Security for Users" type of training which falls into the requirements of a large number of the Company's enterprise customers,
- **capitalizing on the wide industry trends** including cloud services, cybersecurity, robotizing and process automatization, nearshoring (transfer of business and IT processes to companies in a nearby country, as opposed to offshoring to India or China) to Romania. These trends allow the Company to deliver new technology projects to its existing customers, to expand the customer base and to provide trainings to a lot more potential customers that relocate to Romania. Nearshoring of business and IT processes to Romania create a huge opportunity for:
  - providing new companies or their offices with IT infrastructure (desktops, laptops, network infrastructure as: switches, routers, wireless, phones, tablets, servers, security solutions, etc.),
  - providing new companies or their offices with the implementation services and the support and maintenance services for their IT infrastructure,
  - providing new companies with IT user training,
  - providing new companies with continuous IT administration training for their employees in IT support roles,
- **continuous development and creation of strategic partnerships** with companies of similar or complementary profiles, which open a potential 'reseller channel' and enable each party to provide supplementary services to their customers.

The above description is a general framework for development, nevertheless the Company strives to remain flexible and its priority is to adapt to changing market conditions and reality.

The general approach of the management is to follow the strategy of accelerated growth in terms of turnover. We work in a knowledge domain, which requires a large team and experienced professionals both in sales, operations and technical department. This business model results in a high fixed cost structure. On the other hand, once the company exceeds the gross margin generated by fixed costs, profit margin generated automatically becomes profit.

## **II. The company's tangible assets**

### **2.1. The location and main features of the production equipment owned by the company.**

The specific nature of the company's activity does not assume owning significant tangible assets. The Company owns computing assets (laptops, servers, mobile phones), office furniture, multifunctional printers and network equipment organized as course labs and demonstration labs for technical solutions.

The majority of these assets were acquired with a grant received from Regio, code SMIS, project 18446.

This equipment can be found at Timisoara Boulevard, no. 26, "Plaza Romania Offices" building, first floor, district 6, Bucharest.

### **2.2. Description and analysis of the extent of the company's property wear-and-tear.**

The IT equipment owned by the company has physical depreciation specific to an office activity - little one. From the point of view of moral depreciation, most of the equipment subject to 'moral' wear and tear. However, with the move to the new headquarters, the company undertook a gradual renewal of the IT equipment used by employees and trainees, opting for a 'pay as you go' approach - equipment rental rather than investment in tangible assets - according to the mandate given by the GSM in April 2017.

This approach was applied to all tangible assets that could benefit from funding: glass partitions, carpet, chairs, desks, laptops, PCs, monitors, network equipment, security equipment, software licenses, etc.. The company intends to continue this pattern of use of tangible assets.



## 2.3. Potential issues related to ownership rights over the company's tangible assets.

In accordance with the contract for the Regio grant through which the IT equipment was bought, these assets cannot be sold, rented or be offered as warranty in the purpose of contracting credits until 31 of March 2017.

## III. The market for the securities issued by the company

- first IT company listed at the Bucharest Stock Exchange;
- symbol: BNET;
- 5 times increase since the moment of listing;
- two IT corporate bond issuances in Romania: BNET19 and BNET22.



Perioada

Tip grafic

Medie mobila (MAV)

   ☐ Volum ☐ Grafic cu stiri ☐ Performanta (%) ☐

Compara cu: ADAUGA SIMBOL



BET



reset



### 3.1. The markets in Romania and in other countries where the securities issued by the company are traded.

Securities issued by the company are traded on the Bucharest Stock Exchange on the AeRO - ATS market, premium category, symbol BNET, ISIN code ROBNETACNOR1.

In 2017, the company's stock market capitalization increases from 21.4 million RON registered on January 1st, 2017, to 35.6 million RON at the end of the year.

We also consider very relevant the fact that Bittnet shares were traded in 244 sessions, with a total volume of more than 3.6 million. This situates us in the top 10 most traded issuers by the number of transactions.

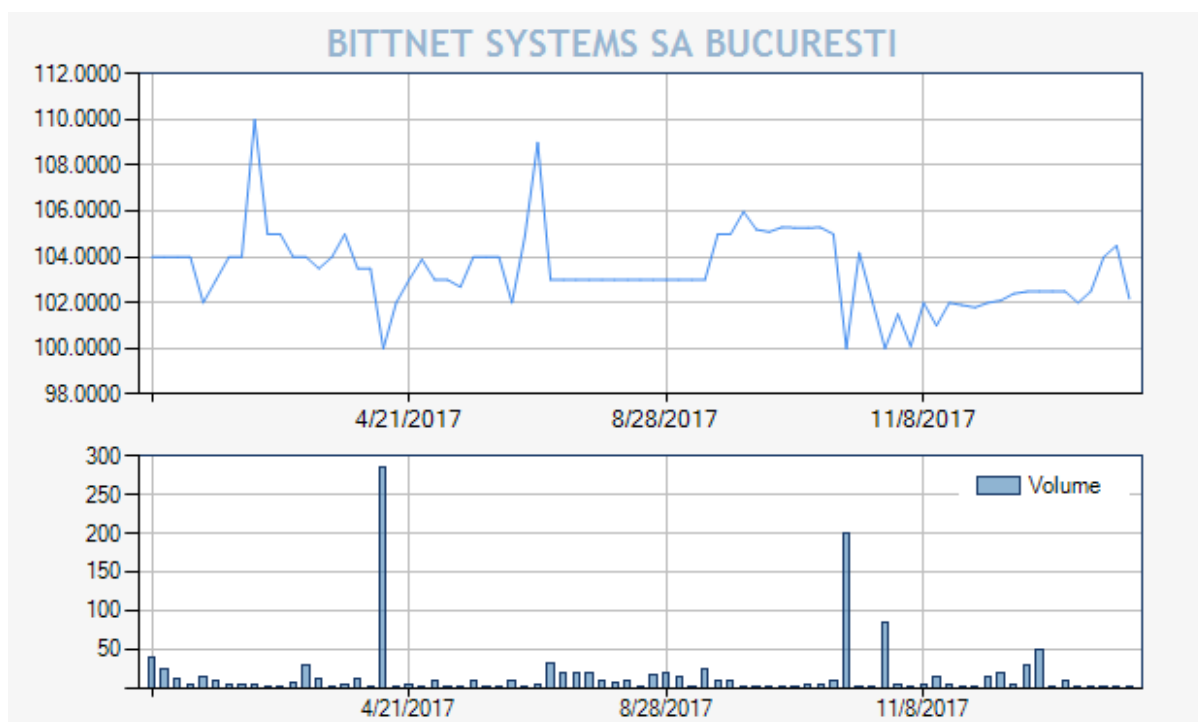
Symbol / ISIN	Company	Value	Volume	Trades	Price	Var. (%)
<b>DBK</b> DE0005140008	DEUTSCHE BANK AG	25,652,515.72	349,370	4,751	65.5500	-20.64 ▼
<b>METV</b> ROMETVACNOR1	METAV SA BUCURESTI	17,233,464.70	2,689,844	24	11.3000	41.25 ▲
<b>CHOB</b> ROCHOBACNOR8	CHIMCOMPLEX BORZESTI SA ONESTI	9,675,088.67	6,971,367	157	1.4500	90.79 ▲
<b>AVUT</b> ROAVUTACNOR2	AVIATIA UTILITARA BUCURESTI SA	9,329,600.00	3,332,000	2	2.8000	0.00
<b>RCHI</b> ROCHIOACNOR3	COMPANIA HOTELIERA INTERCONTINENTAL ROMANIA SA BUCURESTI	9,173,972.57	95,078,985	783	0.1450	32.42 ▲
<b>LCSI</b> ROLCSIACNOR6	LCS IMOBILIAR SA CLUJ NAPOCA	8,546,047.16	822,484	67	11.4000	320.66 ▲
<b>BNET</b> ROBNETACNOR1	BITTNET SYSTEMS SA BUCURESTI	6,447,314.98	4,573,222	4,849	1.2400	-22.01 ▼
<b>PRIB</b> ROPRIBACNOR1	PRIMCOM SA BUCURESTI	5,131,825.92	1,279,442	126	7.1500	-27.78 ▼
<b>DAI</b> DE0007100000	DAIMLER A.G.	4,036,881.65	13,157	484	330.0000	6.11 ▲
<b>SCDM</b> ROSCDMACNOR5	UNIAREA SHOPPING CENTER SA Bucuresti	3,946,389.30	94,295	1,555	44.0000	-33.13 ▼

*\*Attention: the variation (%) presented in the above table is erroneous, since it does not take into account the increases with free shares.*

In September 2016, the corporate bonds issued by Bittnet in July 2016, with the BNET19 symbol, were listed on Bucharest Stock Exchange's AeRO market for bonds. Throughout 2017, BNET19 bonds were traded in 84 sessions, with a total volume of 1,305 bonds - 31% of the total issue - at a weighted average price of 102.07%, meaning 1,027.1 RON/bond (BNET19 bonds have a nominal value of 1,000 RON). The company is up to date with the coupons payment - 2.25% quarterly - through the Central Depository System.

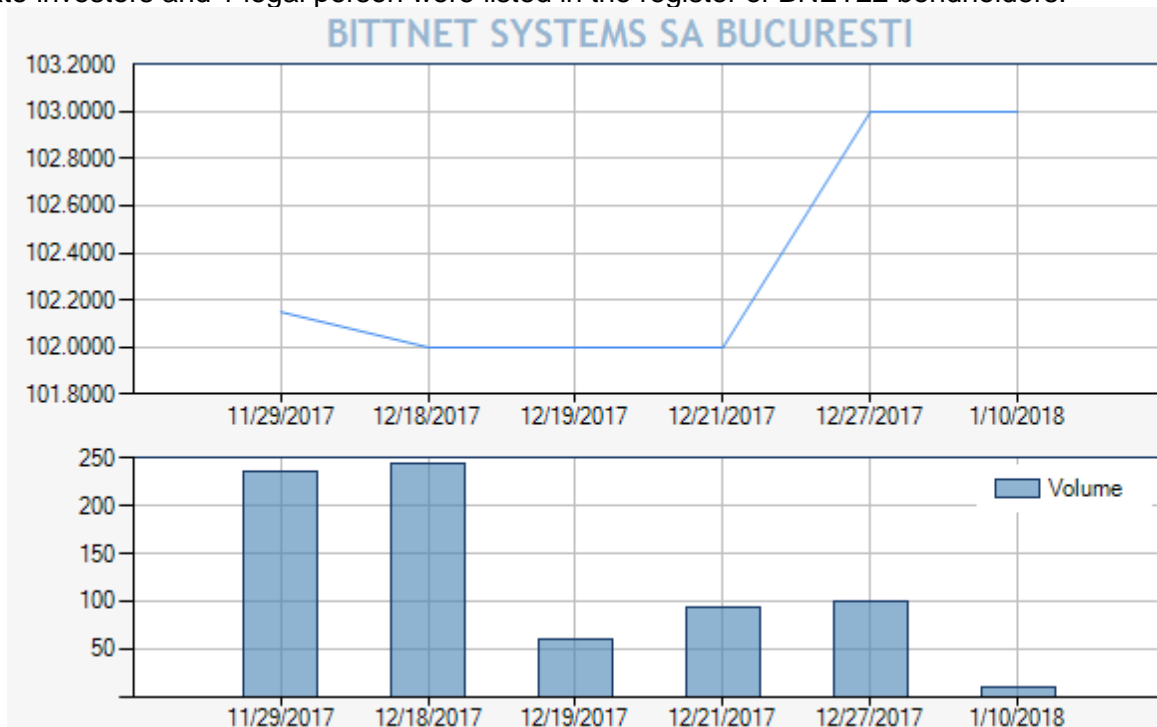
At the time of the issue (July 2016), 40 bondholders chose to invest in BNET19. At the date of the most recent coupon paid by the company (15 January 2018), there were 106 registered bondholders at the Central Depository.





Moreover, starting with November 28th, 2017, the BNET22 corporate bonds have entered into trading, with maturity in September 2022, annual interest 9% payable quarterly, and a nominal value of 100 RON.

In December 2017, thus the only month when the bonds were available on AeRO, they were traded in a number of 5 trading sessions, with a total volume of 736 bonds, which represents an annualized liquidity of 19.62%. The average weighted price for BNET22 bonds was 102.24%. In March 2018, 52 private investors and 1 legal person were listed in the register of BNET22 bondholders.



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In 2018, we intend to continue following the same success model - full capitalization of profits in parallel with the increase with new contributions, in order to continuously strengthen the company's financial position.

At the time of the registration of the new share capital following the increase with new contributions (January 2018), more than 400 investors were registered in the BNET shareholders register of the Central Depository.

### **Debt ratio**

We consider relevant to mention in this subchapter, the analysis of the company's debt ratio:

Indicator	Formula	FY 2016	FY 2017
Debt ratio	Total debt / (Total Debt + Equity)	0.72	0,74
Financial stability	Debt > 1 year / (Debt > 1 year + Equity)	0.58	0.60

The general debt ratio is the most important debt indicator, calculated for both individuals and companies for lending. In Bittnet's case, the debt ratio in December 2017 is similar to the one from previous year. This is a consequence of management's vision of increasing funding in parallel from borrowed sources and its own sources. In theory, the degree of indebtedness is the inverse of the degree of patrimonial solvency and may have values lower or higher by 1. In optimal conditions, the indebtedness is within a range of [0.3; 0.8], which is considered by most analysts to be normal.

An overpassing of a debt ratio of 0,8 represents a dependence of the company on credit, and a debt ratio lower than 0.3 indicates a reluctance of the management towards attracting financing from loans. The management aims to continuously increase the company's funding, as far as possible by following a balance between equity and borrowed capital.

Another way to analyze the degree of indebtedness is through the Financial Stability indicator. It involves reporting long-term debt to the amount of invested capital, in another way said borrowed capital / equity. It is an indicator that shows a reality predicted in the long run (over 1 year) of the company's indebtedness, and is therefore more relevant to investors. This indicator does not take into account short-term debt. In the case of Bittnet, we can see an improvement in financial stability.

### **About the company's evaluation**

At the request of some shareholders, we provide the values of Price to Sales indicators, in the short history of the company as a public company:

Financial Year Results	2015	2016	2017
No. of shares	4,504,123	14,514,123	30,444,258
Consolidated Revenues (Including GECAD NET) - Thousand RON	9,992	13,695	43,100

Consolidated Net Profit (includes GECAD NET) - Thousand RON	1,033	1,158	1,807
Consolidated EPS (cash)	23	8	6
Price per Share (cash) - Beginning of February	157	160	121
Price per Share (cash) - Beginning of May	310	179	
Market Cap at the Time of Results Announcement	7,071,473	23,222,597	36,837,552
Market Cap - Beginning of May	13,962,781	25,980,280	
PER - Beginning of February	7	20	20
PER - Beginning of May	14	22	
Price to Sales- Beginning of February	0.71	1.70	0.85
Price to Sales - Beginning of May	1.40	1.90	

### 3.2. Description of the company's dividend policy.

The General Meeting of Shareholders annually adopts the decision regarding the allocation of profits. However, it is the company's intention to not pay dividends for the following financial years. Bittnet activates in a very dynamic industry - Information Technology. Until now we managed to attain significant growth rates of profitability from both an EBITDA point of view as well as net profit.

However, the current size of the company together with the trend of consolidation present in all industries in the economy give us the feeling that "the only way to go is up". As such we intend to continue to invest all our resources into building up the company.

From the point of view of the shareholders, this policy of complete reinvestment of profits means a "no-dividend" policy. We intend to propose to the shareholders that we continue this investment policy for as long as prospects of growth for the company are greater than those of the general market. In the

long run and in general the value generated by the company will reflect in the company's value itself - share price. The management feels that it can keep an above-the-market rate of growth for a significant period of time.

Our current operational capacity is of the nature that we can extract profits by accelerating the turnover growth. This is the management's intention: to continue the turnover growth in similar conditions of profitability expressed in gross margin. As such, the company will generate more money that can sustain a general fixed structure of costs, in essence the "gross additional margin" contributing almost fully to the gross profit of the Company.

**Specification of dividends due / paid / accrued in the last three years and, if applicable, the reasons for the possible reduction of dividends during the last three years.**

Between 2011-2014 the company decided not to distribute dividends. In March 2015, in process of becoming a public company, Bittnet decided to use reserves from 2007-2011 profits as follows: RON 89.000 to increase capital and RON 40.234 dividends due to shareholders. The amount of RON 40.234 was paid in 2016.

### **3.3. Description of any activity involving the company's purchasing its own shares.**

During 2014 and 2015, following the intention to list on the Bucharest Stock Exchange, the company increased its share capital with money from undistributed profits for the period 2007-2014. The shareholders made no restraining regarding the resulted shares, allowing the company to use them in order to receive capital infusion by placing the shares to new investors.

- 333.330 treasury shares on the basis of the resolution no. 2 of General Meeting of Shareholders conveyed on November 18th, 2014. The shares were paid out of profits available for distribution.
- 117.109 treasury shares on the basis of the resolution no. 2 of General Meeting of Shareholders conveyed on February 25th, 2015. The shares were paid out of profits available for distribution.

On March 9th, 2015 the Company signed a sales-purchase contract with Carpathia Capital S.A. headquartered in Poznań, Poland. According to the contract the Company sold 450 439 treasury shares, having a nominal value of RON 0,10 each and a total value of RON 45 043,90 representing 10% of Bittnet Systems share capital and 10% of total number of votes at the General Shareholder Meeting. The sales price for 450 439 treasury shares amounted to the total value of EUR 150 000.

In 2016 the company approved the capitalization of previous years profits by issuing bonus shares in the ratio of 2 bonus shares for every share held by shareholders on registration date of May 20, 2016. These shares entered in the shareholders' trading accounts on August 23, 2016.

Since February 2017, the Central Depository has implemented a new processing of corporate events system (including the distribution of free shares) system that generates "automatically" free shares the next day following the registration date. For shareholders it is good news, because the free shares approved by the General Meeting on April 2017 could be loaded into the shareholders' accounts just 3



days after the date of registration. The company will continue to propose a similar approach as seen at the successful models of companies such as Banca Transilvania, Albalact or Impact: capitalization of all profits and granting free shares - operation which we estimate will end faster this year.

### **3.4. Where the company owns branches, mention of the number and the nominal value of the shares issued by the parent company and held by the branches.**

Starting with September 2017, the company owns GECAD NED ("daughter company" or "subsidiary"). GECAD NET does not own any Bittnet shares.

### **3.5. Where the company has issued bonds and/or other debt securities, presentation of the way in which the company fulfils its obligations towards the holders of such securities.**

On July 18, 2016 Bittnet informed shareholders about the success of the sale of corporate bonds in a private placement, according to Decision no. 9 of the Extraordinary Shareholders Meeting from 28 April 2016. The intermediary, who has conducted the placement was BRK Financial Group. The bonds have a face value of 1,000 lei a maturity of three years and an annual interest rate of 9%, payable quarterly. A total of 4186 bonds were subscribed during the placement, raising the total amount of the placement to RON 4.186.000. The subscriptions were made by 36 individuals and 4 legal entities. Funds raised were used to support the company's current activities and to continue accelerated development plans. The company bonds were admitted for trading on the Bonds-ATS market of the Bucharest Stock Exchange on September 28, 2016 under the trading symbol BNET19.

Between August 28 and September 8, 2017, Bittnet conducted a new offer for the sale of bonds through private placement under the EGSM decision no. 5 of 26 April 2017. 45,000 bonds with a nominal value of 100 lei each were subscribed, which raised the amount attracted in the BNET22 issue to 4.5 million RON. Each bond has a fixed interest payer, 9% p.a. and the principal reimbursement will be made in September 2022. The subscriptions were made by 19 individuals. BNET22 bonds were admitted to trading on the Bonds-ATS market of the Bucharest Stock Exchange on 21 November 2017.

The company is up to date paying coupons to bondholders for both BNET19 and BNET22 issues.

## **IV. Company administration**

### **4.1. Presentation of the company's administrators and the**

**following information for each administrator:**

- a) CV (family name, first name, qualification, age, professional expertise, position and length of employment);
- b) any agreement, understanding or family connection between the respective administrator and another person who is responsible for appointing him/her administrator;
- c) the administrator's equity participation in the company's capital.

**4.2. Submission of the list of the company's executive management members. For each member the following information shall be included:**

- a) terms of office for the person who is member of the executive management;
- b) any agreement, understanding or family connection between that person and another person who is responsible for appointing him/her member of the executive management;
- c) equity participation of that person in the company's capital.

**4.3. For all the persons referred to in items 4.1. and 4.2, it shall be mentioned the possible litigation or administrative proceedings in which they have been involved in the last 5 years, referred to their activity within issuer, as well as those related to the capacity of that person to fulfil the attributions within the issuer.**

The company's administrator is Mihai Logofatu - founder of the company. The administrator's mandate has a duration of 4 years beginning with March 2015 until March 2019.

The operational management of Bittnet is represented by the two founders: Mihai Logofatu - CEO and Cristian Logofatu - CFO. Mihai and Cristian Logofatu are brothers.

Beginning with 2012, after the capital infusion from Razvan Capatina, Bittnet has put together a consultative Board, composed of people with a special reputation due to their rich entrepreneurial and managerial experience: Sergiu NEGUȚ, Andrei PITIȘ and Dan STEFAN. Starting 2015 with, Dan BERTEANU joined the Advisory Board of Bittnet.

The Board meets at least 4 times a year, when internal management reports are presented to the members, and the board members offer advice and guidance to the company management.

The experience of the board members has proved to be an invaluable resource and a strong support in developing the company for the past 3 years and Bittnet continues to rely on their help.

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**Mihai Logofătu - CEO & Founder****LinkedIn Profile**

[ro.linkedin.com/in/mihailogo/ro](https://ro.linkedin.com/in/mihailogo/ro)

**Education:**

- 2012 PhD in Management from the University of Craiova
- 2009 Master degree in Computer Science – University of Bucharest
- 2007 Bachelor degree in Management – Academy of Economic Studies – Bucharest

**Professional experience:**

- 2007 – Present Bittnet Systems, CEO, Owner
- 2003 – Present Academia Credis Bucuresti, Manager
- 2001 – 2003 Academia Cisco a Universitatii din Bucuresti, Instructor

**Percent of shares held in the Company**

Mihai holds 8.112.906 shares which account for 26,6484% of share capital and 26,6484% of vote rights.

**Additional Regulatory Disclosure Info**

- Mihai is currently also performing professionally as Business Development Consultant for the Credis NGO
- Within the last three years the Mihai was not a member of managing or supervisory board or a partner in a commercial law companies and partnerships.
- Within the last five years Mihai has not been prohibited by the court to act as a member of managing or supervisory bodies in commercial law companies and partnerships.
- Within the last five years there have been no cases of bankruptcy, compulsory administration or liquidation for entities in which Mihai was a member of managing or supervisory bodies.
- Mihai does not perform activities competitive to the activities of the issuer.

As the CEO, Mihai Logofatu is remunerated according to the mandate contract and additional acts voted by the Ordinary General Meeting of Shareholders with a net amount equal to the value of the gross average salary in Romania. Additionally, according to this contract, Mihai Logofatu benefits from





the option to purchase shares in amount of 1% of the Company's share capital for each year of activity at a preferential price.

## **Cristian Ion Logofătu - CFO & Founder**

### **LinkedIn Profile**

[ro.linkedin.com/in/cristilogo/ro](https://ro.linkedin.com/in/cristilogo/ro)

### **Education:**

- 2006 Master degree in Computer Science – University of Bucharest
- 2003 Bachelor degree in Finance – Academy of Economic Studies – Bucharest

### **Professional experience:**

- 2007 – Present Bittnet Systems, CFO, Owner
- 2003 – 2007 University of Bucharest – ODL Department, Economist
- 1999 – 2002 University of Bucharest – ODL Department, WebDesigner

### **Percent of shares held in the Company**

Cristian holds 8.284.180 shares which account for 27,2110% of share capital and 27,2110% of vote rights.

### **Additional Regulatory Disclosure Info**

- Cristian is currently also performing professionally as Executive Director for the Credis NGO
- Within the last three years the Cristian was not a member of managing or supervisory board or a partner in a commercial law companies and partnerships.
- Within the last five years Cristian has not been prohibited by the court to act as a member of managing or supervisory bodies in commercial law companies and partnerships.
- Within the last five years there have been no cases of bankruptcy, compulsory administration or liquidation for entities in which Cristian was a member of managing or supervisory bodies.
- Cristian does not perform activities competitive to the activities of the issuer.

As the CFO, Cristian Logofatu is remunerated according to the mandate contract and additional acts voted by the Ordinary General Meeting of Shareholders with a net amount equal to the value of the average gross salary in Romania. Additionally, according to this contract, Mihai Logofatu benefits from the option to purchase shares in amount of 1% of the Company's share capital for each year of activity at a preferential price.

**Sergiu Neguț – Member of Advisory Board****LinkedIn Profile**

[ro.linkedin.com/in/sergiu/ro](https://ro.linkedin.com/in/sergiu/ro)

**Education:**

- 1990 – 1995 Universitatea “Politehnica” din Bucuresti, Master of Science, Computer Science
- 1992-1995 Academia de Studii Economice din Bucuresti, Bachelor degree, International Business Administration
- 2003-2003 INSEAD, Master of Business and Administration
- 2010-2010 Harvard Business School, Executive Course, Leading High Performance Healthcare Organizations

**Professional experience:**

- 2013 – Present Maastricht School of Management Romania, Associated Dean of Entrepreneurial Growth
- 2014 – Present Mindit Consulting, Partner
- 2012 – Present SVP Consult, Owner
- 2013 – Present 2Parale, Associate Partner
- 2011 – Present frufru, Associate Partner
- 2012 – 2014 Wanted Transformation Consultancy, Transformation Partner
- 2006 – 2011 REGINA MARIA, The Private Healthcare Network, Deputy CEO & Board Member
- 2005 – 2005 Amgen GmbH, Project Manager Business Development
- 2004 – 2005 Amgen CEE, Project Manager CEE
- 1998 – 2000 Windmill International, Country Manager
- 1994 – 1998 Windmill International, Steel Trader

**Percent of shares held in the Company**

Sergiu holds 235.132 number of the Company’s shares which account for 0,81% in share capital and 0,81% of total number of votes in the General Shareholders Meeting.

**Additional Regulatory Disclosure Info:**

- Sergiu is currently Associate Dean in Maastricht School of Business.
- Currently Active partner in: SVP Consult, Intermedicas Worldwide SRL, Hart Human Resource Consulting SRL, 2 parale afiliere SRL, Mondo di pasta SRL, MINDIT Consulting SRL, Mindit Software SRL, Instore Media Retail SRL, Spark Education SRL. Previously active in: Wanted Transformation Consultancy
- Within the last five years indicated person has not been prohibited by the court to act as a member of managing or supervisory bodies in commercial law companies and partnerships.
- Within the last five years there have been no cases of bankruptcy, compulsory administration or liquidation for entities in which the person was a member of managing or supervisory bodies.
- Sergiu does not perform activities competitive to the activities of the issuer.

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T: +4021.527.1600, F: +4021.527.1698 - Companie listata la Bursa de Valori Bucuresti, simbol BNET

**Andrei Pitiș – Member of Advisory Board****Profil LinkedIn**

[ro.linkedin.com/in/andreipitis/ro](https://ro.linkedin.com/in/andreipitis/ro)

**Education:**

- 1995 – 1996 Master degree in Computer Science, Universitatea “Politehnica” din Bucuresti

**Professional Experience:**

- 1995 – Present University Politehnica of Bucharest, Associate Professor
- 2005 – 2010 IXIA, Senior Director
- 2013 – Present Vector Watch, Founder & CTO
- 2012 – Present ANIS, President
- 2011 – Present Clevertaxi, Board Member

**Percent of shares held in the Company**

Andrei holds 227.642 number of the Company’s shares which account for 0,74% in share capital and 0,74% of total number of votes in the General Shareholders Meeting.

**Additional Regulatory Disclosure Info**

- Member of the following NGOs: President of ANIS – the National Association of Software Producers, Member of TechAngels and Member of Innovation Labs.
- Currently Active partner in: Vector Watch, Clever Taxi and TechMind (Simple Systems). Previously active in: I-rewind.
- Within the last five years indicated person has not been prohibited by the court to act as a member of managing or supervisory bodies in commercial law companies and partnerships.
- Within the last five years there have been no cases of bankruptcy, compulsory administration or liquidation for entities in which the person was a member of managing or supervisory bodies
- Andrei does not perform activities competitive to the activities of the issuer.

**Dan Ștefan – Member of Advisory Board****LinkedIn Profile**

[dz.linkedin.com/in/danstefan/ro](https://dz.linkedin.com/in/danstefan/ro)

**Education:**

- 2001 – 2002 Master’s Degree, International Business, University of Paris
- 2000 – 2001 Master’s Degree, International Economics, Universite d’Orleans
- 1997 – 2001 Bachelor’s Degree, International Trade, Academia de Studii Economice din Bucuresti

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**Professional experience:**

- 2006 – Present      Autonom Rent a Car, Executive Director and Owner
- 2007 – Present      Autonom Lease, General Manager and Owner
- 2002 – 2006        IAC, Purchasing Consultant

**Percent of shares held in the Company**

Dan holds 235.132 number of the Company's shares which account for 0,81% in share capital and 0,81% of total number of votes in the General Shareholders Meeting.

**Additional Regulatory Disclosure Info**

- Dan does not perform any activities outside the Issuer which are significant for the Issuer.
- Currently Active partner in Autonom Rent a Car and Autonom Lease.
- Within the last five years indicated person has not been prohibited by the court to act as a member of managing or supervisory bodies in commercial law companies and partnerships.
- Within the last five years there have been no cases of bankruptcy, compulsory administration or liquidation for entities in which the person was a member of managing or supervisory bodies.
- Dan does not perform activities competitive to the activities of the issuer.

**Dan Berteanu - Member of Advisory Board****LinkedIn Profile**

<https://www.linkedin.com/in/danberteanu>

**Education:**

- 1990 - 1995      Master of Science Bio-Informatics, University Politehnica of Bucharest
- 2000 - 2015      multiple international certifications in Adult Education, Return on Investment, Project Management, Coaching and Gamification

**Professional experience:**

- October 2014 - present      Equatorial - Managing Partner Equatorial
- January 2009 - October 2014      United Business Development - Partner
- September 2002 - December 2008      AchieveGlobal Romania – General Manager
- November 1997 - August 2002      NCH Corporation - Regional Sales Manager
- June 1996 - November 1997      RomWest EURO – Area Sales Manager

**Percent of shares held in the Company**

Dan holds a number of 83.350 from the Company's shares which account for 0,2737% in share capital and 0,2737% of total number of votes in the General Shareholders Meeting

**Additional Regulatory Disclosure Info**

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- Visiting Professor at the Polytechnic University
- Currently active partner in: United Business Dynamics Ltd, Equatorial Equatorial SRL and Gaming Training SRL
- Within the last five years the person was not prohibited from being a member of the board or supervisory board in a company or a partnership.
- Within the last five years there have been no cases of bankruptcy, compulsory administration or liquidation for entities in which the person was a member of managing or supervisory bodies.
- Dan performs activities that are not in competition with the issuer's activities.

## V. Financial and accounting statements

Presentation of an analysis of the current economic and financial position in comparison with the previous 3 years, with reference to at least:

- a) balance sheet items: assets accounting for at least 10% of total assets; cash and other liquidities; reinvested profits; total current assets; total current liabilities;
- b) profit and loss account: net sales; gross income; cost and expenditure items accounting for at least 20% of net sales or gross income; risk and various expenses provisions; reference to any sale or interruption of an activity segment during the last year or estimated for the next year; dividends paid;
- c) cash flow: all the changes occurred in the cash flow generated by the company's main activity, by investments or financial activities, the cash flow at the beginning and at the end of the period.

### BALANCE SHEET

DESCRIPTION	ROW	31 DEC 2014	31 DEC 2015	31 DEC 2016	31 DEC 2017
		RON	RON		



<b>A. FIXED ASSETS</b>					
<b>I. INTANGIBLE ASSETS</b>	1	98.493	147.682	178.603	99.620
<b>II. TANGIBLE ASSETS</b>	2	179.073	58.742	4.501	1.815
<b>III. FINANCIAL ASSETS</b>	3	92.923	90.902		2.266.254
<b>FIXED ASSETS - TOTAL</b>	4	370.489	297.326	183.104	2.367.689

<b>B. CURRENT ASSETS</b>					
<b>I. INVENTORY</b>	5	995.189	132.610	408.878	416.201
<b>II. RECEIVABLES</b>	6	3.249.575	4.815.606	7.499.261	10.313.567
<b>III. SHORT TERM INVESTMENTS</b>	7				
<b>IV. CASH &amp; CASH EQUIVALENTS</b>	8	812.944	3.007.788	2.354.993	10.349.946
<b>CURRENT ASSETS - TOTAL</b>	9	5.057.708	7.956.004	10.263.132	21.079.714

<b>C. PREPAID EXPENSES</b>	10	68.672	94.669	686.217	1.164.516
<b>D. SHORT TERM DEBT</b>	11	3.557.154	5.623.092	3.677.445	8.512.531
<b>E. NET CURRENT ASSETS / NET CURRENT</b>	12	1.567.397	2.421.826	6.824.913	13.002.133



<b>LIABILITIES</b>					
<b>F. TOTAL ASSETS LESS CURRENT LIABILITIES</b>	13	1.937.886	2.719.152	7.455.008	16.099.388
<b>G. LONG TERM DEBT</b>	14	657.788	499.858	4.354.951	9.818.415
<b>H. PROVISIONS</b>	15				

<b>I. PREPAID / ADVANCE REVENUE</b>	16	417.184	305.269		
<b>1. Subsidies for investments</b>	17	415.355	299.514		
<b>2. Unearned revenue</b>	18	1.829	5.755		
<b>less than one year</b>	19	1.829	5.755		
<b>more than one year</b>	20				
<b>3. Income received in advance for assets transferred from customers</b>	21				
<b>Negative goodwill</b>	22				

<b>J. CAPITAL &amp; RESERVES</b>					
<b>I. CAPITAL</b>	23	333.333	450.438	1.351.315	3.044.426
<b>1. Subscribed paid</b>	24	333.333	450.438	1.351.315	3.044.426

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capital					
2. Subscribed unpaid capital	25				
3.Patrimony (autonomous public sector entities)	26				
4. National institutes of research and development patrimony	27				

II. PREMIUM SHARE CAPITAL	28	1.250	1.250		680.247
III. REVALUATION RESERVES	29				
IV. MANDATORY RESERVES	30	60.359	61.073	69.147	164.559
Company own shares	31	33.333			
Gains related to equity instruments	32				
Losses related to equity instruments	33				

V. RETAINED EARNINGS					
CREDIT BALANCE	34	309.066	392.026	507.392	896.861
DEBIT BALANCE	35	0	0	0	0



<b>VI. PROFIT (LOSS) FOR THE YEAR</b>					
<b>CREDIT BALANCE</b>	36	212.643	1.033.833	1.180.277	1.590.291
<b>DEBIT BALANCE</b>	37	0	0	0	0
<b>Profit allocation</b>	38	18.575	18.840	8.074	95.411
<b>SHAREHOLDERS EQUITY - TOTAL</b>	39	864.743	1.919.780	3.100.057	6.280.973
<b>Public patrimony</b>	40				
<b>CAPITAL - TOTAL</b>	41	864.743	1.919.780	3.100.057	6.280.973

## PROFIT AND LOSS ACCOUNT

DESCRIPTION	ROW	31 DEC 2014	31 DEC 2015	31 DEC 2016	31 DEC 2017
		RON	RON	RON	RON
<b>1. NET TURNOVER</b>	1	8.179.532	9.992.994	13.694.914	21.745.520
Sold production	2	3.256.157	4.370.986	7.813.729	12.623.082
Revenues from sold merchandise	3	4.923.375	5.621.974	5.881.185	9.122.438

Commercial discounts	4				
Interest expenses recorded by entities removed from the genera register and which have open leasing contracts	5				
Income from subsidies related to net turnover	6		34		

<b>2.Revenues corresponding to production in progress (account 71)</b>					
CREDIT BALANCE	7		71.913	0	138.912
DEBIT BALANCE	8		0	25.540	0

<b>3. Producția realizată de entitate pentru scopurile sale proprii și capitalizată</b>	9				
<b>4. Other operating revenues</b>	10	154.354	492.263	78.650	33.445
- including revenues from negative goodwill	11				
OPERATING REVENUES – TOTAL	12	8.333.886	10.557.170	13.748.024	21.917.877

<b>5. a) Expenses with</b>	13	190.804	400.784	378.816	827.140
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<b>raw materials and consumables</b>					
Other expenses	14	77.022	145.942	189.694	281.067
<b>b) Other expenses with utilities and water</b>	15	615			37.773
<b>c) Goods for resale</b>	16	4.459.307	5.149.093	4.959.338	7.865.799
Discounts received	17	18.462	489	357	104.190

<b>6. Personnel expenses</b>	18	436.073	574.947	957.792	1.023.431
a) Salaries	19	345.724	468.355	780.154	834.238
b) Social security contributions	20	90.349	106.592	177.638	189.193

<b>7.a) Depreciation and amortization</b>	21	169.327	153.268	114.304	81.669
a.1) Expenses	22	169.327	153.268	114.304	81.669
a.2) Revenues	23	0	0	0	0
<b>b) Adjustments related to current assets</b>	24		1.573		
b.1) Expenses	25		1.573		
b.2) Revenues	26				

<b>8. Other operating expenses</b>	27	2.646.005	3.389.695	5.434.918	9.250.237
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8.1. Expenses related to third parties	28	2.635.894	3.354.710	5.388.012	9.179.858
8.2. Expenses related to profit tax, other taxes and similar	29	80	3.621	1.360	2.342
8.3. Other expenses	30	10.031	31.364	45.546	68.037
Refinancing interest expense recorded by entities removed from the general register and having open leasing contracts	31				
Adjustments for provisions	32				
Expenses	33				
Revenues	34				
OPERATING EXPENSES - TOTAL	35	7.960.691	9.814.813	12.034.505	19.262.926
OPERATING PROFIT (LOSS)					
- Profit	36	373.195	742.357	1.713.519	2.654.951
- Loss	37	0	0	0	0

<b>9. Revenues from investments</b>	38				
- including revenues from subsidiaries	39				
<b>10. Revenues from</b>	40				



<b>other investments and loans part of the assets</b>					
- including revenues from subsidiaries	41				
<b>11. Interest revenues</b>	42	309	2.280	2.262	1.430
- including revenues from subsidiaries	43				
Other financial revenues	44	39.544	710.403	98.865	84.465
<b>FINANCIAL REVENUE – TOTAL</b>	45	39.853	712.683	101.127	85.895

<b>12. Value adjustments on financial assets and financial investments held as current assets</b>	46				
- Expenses	47				
- Revenues	48				

<b>13. Interest expenses</b>	49	118.990	172.908	328.572	597.714
- including expenses to subsidiaries	50				
Other financial expenses	51	24.946	60.664	103.124	234.911
<b>FINANCIAL EXPENSES – TOTAL</b>	52	143.936	233.572	431.696	832.625
<b>FINANCIAL PROFIT</b>					

(LOSS):					
- Profit	53	0	479.111	0	0
- Loss	54	104.083	0	330.569	746.730

<b>14. PROFIT (LOSS) FROM ORDINARY ACTIVITIES:</b>					
- Profit	55	269.112	1.221.468	1.382.950	1.908.221
- Loss	56	0	0	0	0

<b>15.Extraordinary Revenues</b>	57				
<b>16. Extraordinary expenses</b>	58				
<b>17. PROFIT (LOSS) FROM EXTRAORDINARY ACTIVITIES:</b>					
- Profit	59	0			
- Loss	60	0			
TOTAL REVENUES	61	8.373.739	11.269.853	13.849.151	22.003.772
TOTAL EXPENSES	62	8.104.627	10.048.385	12.466.201	20.095.551
GROSS MARGIN / PROFIT BEFORE TAX					
- Profit	63	269.112	1.221.468	1.382.950	1.908.221
- Loss	64	0	0	0	0



<b>18. Income Tax</b>	65	56.469	187.635	202.673	317.930
<b>19. Other taxes</b>	66				
<b>20. NET PROFIT (LOSS) FOR THE YEAR:</b>					
- Profit	67	212.643	1.033.833	1.180.277	1.590.291
- Loss	68	0	0	0	0

**CONSOLIDATED  
STATEMENTS OF  
CASH FLOWS**

DESCRIPTION	ROW	31 DEC 2014	31 DEC 2015	31 DEC 2016	31 DEC 2017
		RON	RON	RON	RON
+ Net profit	1	212.643	1.033.833	1.180.277	1.590.291

+Amortisation&provisi ons	2	169.327	153.268	114.304	81.669
- Change in inventory (-/+)	3	+ 979.205	- 862.579	+ 276.268	7.323
- Change in receivables (-/+)	4	- 772.675	+ 1.566.031	+2.683.655	+2.814.306
+ Change in short- term liabilities (-/+)	5	- 318.131	- 241.628	+33.916	1.134.369
+ Change in other liabilities (-/+)	6	+ 536.358	+ 229.333	+169.748	1.274.731

<b>+= Cash flows from operating activities</b>	<b>7</b>	<b>+ 393.667</b>	<b>+ 471.354</b>	<b>-1.461.678</b>	<b>+1.259.431</b>
- Investments - total, of which:	8	206.735	119.031	90.984	2.266.254

<b>+= Cash flows from investment activities</b>	<b>9</b>	<b>- 206.735</b>	<b>- 119.031</b>	<b>-90.984</b>	-2.266.254
+ Change in amounts owed to credit institutions (= -) - total of which:	10				
+ Short-term loans (under one year)	11	+ 734.774	+2.162.961	-2.150.320	+3.462.543
+ Medium and long term loans	12	0	-242.658	+3.856.102	+4.414.768

<b>+= Cash flows from financial activities</b>	<b>13</b>	<b>+ 734.774</b>	<b>+ 1.920.303</b>	<b>+1.705.782</b>	<b>+7.877.311</b>
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- Change in other asset (- / +)	14	- 49.905	- 12.929	+500.646	+478.299
+ Change in other liabilities (-/+)	15	- 179.330	- 90.711	-305.269	+1.602.764

<b>+= Cash flow from other activities</b>	<b>16</b>	<b>- 129.425</b>	<b>- 77.782</b>	<b>-805.915</b>	<b>+1.124.465</b>
+ Cash of Opening balance	17	20.663	812.944	3.007.788	2.354.993

<b>+= Net cash</b>	<b>18</b>	<b>+ 792.281</b>	<b>+ 2.194.844</b>	<b>-652.795</b>	<b>+7.994.953</b>
+ Cash of Closing balance	19	812.944	3.007.788	2.354.993	10.349.946

## STATEMENT OF CHANGES IN EQUITY until 31.12.2017

Denumirea elementului	Sold la Inceputul exercitiului ui financiar	Cresteri		Reduceri		Sold la sfarsitul exercitiului ui financiar
		Total, din care:	Prin transfer	Total, din care:	Prin transfer	
Capital subscris	1.351.315	1.693.111				3.044.426
Patrimoniul regiei						
Prime de capital		680.247				680.247
Rezerve din reevaluare						
Rezerve legale	69.147	95.411				164.559
Rezerve statutare sau contractuale						
Rezerve reprezentand surplusul realizat din rezerve din reevaluare						
Alte rezerve						
Actiuni proprii						

**BITTNET Systems SA**, Bd Timisoara, nr. 26, Et 1, S 6, 061331, Bucuresti, Capital Social 3.044.425,8RON, RO21181848, J40/3752/2007, W: [www.bittnet.ro](http://www.bittnet.ro), E: [investors@bittnet.ro](mailto:investors@bittnet.ro),

T: +4021.527.1600, F: +4021.527.1698 - Companie listata la Bursa de Valori Bucuresti, simbol BNET



Castiguri legate de instrumentele de capitaluri proprii						
Pierderi legate de instrumentele de capitaluri proprii						
Rezultat reportat reprezentand profitul sau pierderea neacoperita	Sold C	507.39	1.172.203		782.733	896.861
	Sold D					
Rezultatul reportat provenit din adoptarea pentru prima data a IAS, mai putin IAS 29*32	Sold C Sold D					
Rezultatul reportat provenit din corectarea erorilor contabile	Sold C Sold D					
Rezultatul reportat provenit din trecerea la aplicarea reglementarilor contabile conforme cu Directiva a patra a comunitatilor Economice Europene	Sold C Sold D					
Profitul sau pierderea exercitiului financiar	Sold C	1.180.277	1.590.291		1.180.277	1.590.291
	Sold D					
Repartizarea profitului	Sold C					
	Sold D	8074	95.411		8.074	95.4114
<b>Total capitaluri proprii</b>		<b>3.100.057</b>	<b>5.135.852</b>		<b>1.954.936</b>	<b>6.280.973</b>

## VI. Corporate Governance Principles

Board of Directors Responsibilities		
	Section A - mandatory provision	Section B - fulfillment model
<b>A.</b>	The role of the Board of Directors (Board) must be clearly defined and based on articles of association of the Company, in the internal regulations and / or other similar documents.	The incorporation paper of the company clearly states the duties of the administrator. The Company is managed by a single administrator, not a Board of Directors.
<b>A.1.</b>	The company should have an internal regulation of the Board which includes terms of reference for the Board and the key management functions of the company. The conflict of interests at the Board level should also be presented in the Board's regulation.	The Company is not managed by the Board but by the sole administrator. Both in the chapter Company Management from the Annual Report and on the Company's website, in the area of CV's can be found details of all interests the administrator has.
<b>A.2.</b>	A Board member's other professional commitments, including executive and non-executive Board positions in companies (excluding the company's subsidiaries) and non-profit institutions, should be disclosed to the Board before appointment and during his/her mandate.	Both in the chapter of Company Management (in the Annual Report) and on the company's website, (in the area of 'CV' s) detailing all interests of the administrator. The interests are detailed (in Annual Reports and on the website) and applied to all members of the Advisory Board.
<b>A.3.</b>	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly shares representing not less than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	Both in the chapter of Company Management (in the Annual Report) and on the company's website, (in the area of 'CV' s) detailing all interests of the administrator. The interests are detailed (in Annual Reports and on the website) and applied to all members of the Advisory Board.
<b>A.4.</b>	The annual report should inform on whether an evaluation of the Board has taken place under the leadership of the chairman. It should also include the number of the meetings of the Board.	Not applied - The Company is managed by a single administrator.
<b>A.5.</b>	The procedure regarding the	Not applicable



	cooperation with the Authorized Consultant for the period in which this cooperation is imposed by the Bucharest Stock Exchange, will contain at least the following:	
<b>A.5.1</b>	The contact person with the Authorized Consultant;	
<b>A.5.2</b>	Frequent meetings with the Authorized Consultant (which will be at least once a month or whenever events or new information involves transmitting current reports), so still Authorised Consultant can be consulted;	
<b>A.5.3</b>	The obligation to inform the Authorised Consultant with all reports and any information that reasonably require to fulfill his responsibilities;	
<b>A.5.4</b>	The obligation to inform Bucharest Stock Exchange regarding any dysfunctions in cooperation with Authorized Consultant, or changing of the Authorized Consultant.	
<b>Section B - Internal Control System</b>		
<b>B.1.</b>	The Board should adopt a policy ensuring that any transaction of the company with any of its subsidiaries that is equal to or more than 5% of the net assets of the company as stated in the latest financial report should be approved by the Board.	In September 2017, the company has bought Gecad Net SRL. Starting with the fiscal year 2018, the company will inform shareholders about the transactions with the Gecad Net SRL subsidiary.
<b>B.2.</b>	The internal audit should be carried out by a separate structural division (internal audit department) within the company or through retaining an independent third-party entity which should report to the Board, while within the company, it should report directly to the CEO.	The internal audit is conducted by the CFO, and the company's independent audit by the external auditor.



Section C - Fair rewards and motivation		
C.1.	The company should publish in its annual report a remuneration report including the total revenues for the Board members and the CEO for the past financial year and the total value of any bonus payments or other variable compensations and also the key assumptions and guidelines for calculating the above revenues.	<p>The Company is managed by a single administrator, not a Board of Directors. During 2017, the Administrator was remunerated according with the mandate contract approved in the General Shareholders' Meeting - at the value of an average gross salary in Romania.</p> <p>The Financial Director was remunerated according with the CFO contract approved in the General Meeting of Shareholders - with the value of an average gross salary in Romania.</p> <p>In the year 2018 this value will be adjusted according to the law.</p> <p>According with the Administrator and CFO contracts, both the Administrator and the Financial Director benefit with options for preferential share, detailed in this Report, page 69.</p>
Section D - Building value through Investors Relations		
D.1.	In addition to information required by legal provisions, the corporate website should have a dedicated Investors Relation section, both in Romanian and English, with all relevant information of interest for investors, including:	All the Company's reports are made available both in Romanian and English
D.1.1	Principal corporate regulations, in particular the articles of association and internal regulations of its governing bodies	The document can be found on the website
D.1.2	Professional CVs of the members of its governing bodies	The CVs are published on the website
D.1.3	Current reports and also periodic reports	All reports can be found on the website after they are published on Bucharest Stock Exchange.
D.1.4	Information related to general meetings of shareholders: agenda and the materials sustaining the agenda of the meeting; the resolutions of the general	Information about General Meeting of Shareholders will be available on the website





	meetings	
<b>D.1.5</b>	Information on corporate events, such as payment of the dividends, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations	Information will be available on the website when necessary
<b>D.1.6</b>	Other extraordinary information that should to be provided: the break down/ change/ start of cooperation with an Authorized Adviser (AA); the signing/ renewal/ termination of agreement with a Market Maker.	Information will be available on the website when necessary
<b>D.1.7</b>	The company should have an investors relations function (IR), and will include on the IR section of the company's website the name and contact data of a person who should be able to provide knowledgeable information on request.	Information are published on the website
<b>D.2.</b>	A company should have adopted a dividend policy of the company, as a set of directions related to the distribution of net profit that the company declares to follow. The dividend policy principles should be published on the corporate website.	Information are published on the website and in the Annual Report
<b>D.3.</b>	A company should have adopted a policy with respect to forecasts, whether it would be distributed or not. Forecast means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called, assumptions). The policy should provide for the frequency, the period envisaged and content of forecasts. Forecasts, if published, may only be part of annual, half-yearly or quarterly reports. The forecast policy should be published on the corporate website.	The policy has been published on the website. The Company aims to provide annual financial forecast upon condition of feasible planning terms. The financial forecast will be published once a year in the annual report and on the corporate website and will include both revenues and operational and gross / net profit data.
<b>D.4.</b>	A company should set the date and place of a general meeting so as to	The Company will organise the General Meeting of Shareholders at the



	enable the participation of the highest possible number of shareholders.	company's headquarters, during working days
<b>D.5.</b>	The financial reports should include information in both Romanian and English as regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators.	All Company's financial reports are published in both Romanian and English
<b>D.6.</b>	The company should organize at least one meeting/conference call with analysts and investors each year. The information presented on these occasions should be published in the IR section of the website of the company at the time of the meeting/conference call.	During fiscal years 2015, 2016 and 2017, the Company organized a yearly meeting with analysts / investors, at the Bucharest Stock Exchange, 14th floor - Aquarium Room. The video call of the meeting can be found on the website. For year 2018, the Company will organise "Investors Day" at the new headquarter.

## VII. Signatures

The report shall be signed by the representative authorized by the Board of Directors, by the manager/CEO and by the company's chief accountant.

Where the company owns branches the information shown in the annual report shall be presented both in connection with each of the branches and in connection with the company as a whole.

The annual report shall be accompanied by copies of the following documents:

- the company's documents of incorporation, if they have been altered during the year for which the report has been drawn up;
- important contracts concluded by the company during the year for which the report has been drawn up;
- resignation/dismissal papers, if any, involving administration and executive management members, financial revisers;
- list of the company's branches and companies controlled;
- list of the company's related parties.



**ADMINISTRATOR - MIHAI LOGOFATU**

**CFO - CRISTIAN LOGOFATU**