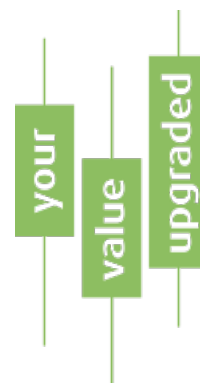


# BNET FY 2019

## Preliminary Financial Report

Company name	BITTNET SYSTEMS S.A.
Registered office	Soimus Street, No.23, Building 2, Apartment 24, District 4, Bucharest
Point of business conduct	Timisoara Boulevard, No. 26, 1st Floor, "Plaza Romania Offices" Building, District 6, 061331, Bucharest, Romania
Telephone/Fax number	021.527.16.00 / 021.527.16.98
Single Register Code at the Trade Registry Office	21181848
Order Number to trade Registry Office	J40/3752/2007
Market on which the issued securities are traded	AeRO ATS Premium
Symbol	BNET - shares BNET22, BNET23, BNET23A, BNET23C - bonds
Subscribed and paid-up share capital	11,620,320 RON
Main characteristics of the securities issued by the company	116,203,206 shares with nominal value of 0.10 RON per each share



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## 2019 in 10 paragraphs

*Below we present selected key financial indicators and their long-term evolution. We nonetheless encourage the investors to read the report in its entirety, in order to have a clearer picture of the Group's evolution in 2019.*

Consolidated figures, [in thousands lei]:

	Revenue	Oper <sup>1</sup> . Profit	Net Profit	CashFlow Oper.	Cash Flow	Assets	Cash	Shr. Equity	Mkt. Cap.
<b>2014</b>	8,180	582	115	394	792	5,428	813	865	7,896
<b>2015</b>	9,993	1,608	889 <sup>2</sup>	471	2,195	8,253	3,008	1,920	8,108
<b>2016</b>	13,667	1,929	870	(1,768)	(652)	10,446	2,355	3,100	21,418
<b>2017</b>	27,682	2,743	1,206	373	8,705	30,898	11,060	5,961	16,982
<b>2018</b>	47,891	1,319	4,408	3,397	1,988	59,069	13,048	14,001	55,530
<b>2019H1</b>	39,747	(2,504)	(5050)	(1941)	2,174	71,760	15,222	13,219	175,089
<b>2019H2</b>	60,051	4,147	1,927	7461	5,019	78,326	20,241	11,991	112,717
<b>2019</b>	99,798	1,643	(3,123)	5,520	7,193	78,326	20,241	11,991	112,717
<b>CAGR</b>	65%	23%	-294%	70%	55%	71%	90%	69%	70%
<b>YoY</b>	108%	25%	-171%	62%	262%	33%	55%	-14%	103%

### Best H2 in history

The second half of 2019 was the best half in the Group's history, with all the companies being profitable and the Group recorded significantly better financial results than in the first half of 2019. In the second semester the operating profit was of 4 million lei and the net one of 2 million lei, while the cash flow from operations exceeded 7 million lei.

During this period, at an individual level, Bittnet, the listed entity, registered a net profit of 1.4 million lei (minus a non-cash accounting adjustment of 1.1 million lei according to IFRS2), while Equatorial registered a net profit of 585,000 lei, Dendrio of 1.25 million lei, and Elian a net profit of 313,000 lei.

The investment in Dendrio has started to pay off, and the signs are positive. The significant profit registered in the second semester gives us confidence that we have overcome the hard part of the "J-curve". Moreover, between the end of the fiscal year and the date of publication of this report, we continued to record revenues from the business transfer, exceeding the threshold of issuing the last installment of the payment regarding the transaction with Crescendo. Thus, we can say that we have successfully completed the business transfer, and from 2020 we will shift our attention towards accelerated growth and return on the investment.

**If we analyze the entire fiscal year 2019, the consolidated business of the group increased by more than 100%, reaching the total value of 99,8 million lei. Operating profit increased by 25% compared to 2018, up to 1.64 million lei, and the operating cash flow exceeded 5 million lei.**

During 2019 there were discussions in which the investors focused on the consolidated result of the Group, which is normal, but it does not take into account the individual results which make up the consolidated result. Thus, the negative result registered by Dendrio in the first half of the year diverted the attention from the evolution of the other companies in the group. For example, at the level of the full year 2019, the other company under the Technology

<sup>1</sup> Coloana „Profit Operational” reprezinta valori inregistrate de business de baza. Aceste valori au fost determinate de management prin ajustari precum eliminarea tranzactiilor de tip 'one time only' sau a ajustarilor contabile non-cash (provizionarea creantelor, SOP).

<sup>2</sup> Retratarea IFRS nu a avut ca obiect anii 2014 si 2015. Pentru comparabilitatea rezultatelor, am aplicat aceeasi ajustare a creantelor ca si in 2016-108 (3% din total creante), pentru a determina profitul net ajustat comparabil.

division, Elian Solutions, recorded revenues of 4.7 million lei, which is an increase of 20% compared to 2018, and an annual profit of 261,000 lei, higher by 31% when compared to 2018.

The results of Bittnet Systems SA, the listed company, include on the other hand the individual results generated by the IT Training activity (the 'Education' Division) and the activities of the 'mother company' of the group. If we turn our attention to the Education Division, it has achieved spectacular results in the course of 2019 and additionally, has managed to launch 4 new products that have the potential to revolutionize the group's revenues in the future.

In the case of Bittnet, we are referring to the UXI platform, which simplifies the management of the learning processes of our clients, and in the case of Equatorial we are talking about 3 new games, all launched in Q4 2019, which means that they did not generate any results last year. Even so, Equatorial's business exceeded 3 million lei, and the profit increased by 13%, to 247,000 lei. The revenues registered by Bittnet from Equatorial in 2019 represented a capital return of over 20%!

In the case of Bittnet Training, the operational activity generated a turnover of 12.68 million lei, an increase of 71% compared to 2018 and an operating profit of 2 million lei, compared to loss of 71,000 lei in 2018. The gross profit of the Education line amounted to 792,000 lei, up by 1.7 million lei compared to 2018.

We believe that these results once again demonstrate the theory that these businesses work better on a larger scale, thus justifying our desire to continue accelerated growth. For example, in 2019, only the "IT Training" business line generated revenues comparable to those recorded by the entire company just 3 years ago, in 2016.

In the course of 2019, Bittnet shareholders registered an increase in the value of the investment of over 57 million lei, representing a 90% increase. We intend to continue in 2020 with our approach that has generated a compound annual growth of 70% from 2015 until today, meaning to realize a capital increase with free shares in proportion of 7 or 8 free shares to 10 shares held, accompanied by a capital increase with new contributions, offering a good returns for investors.





## Letter from the CEO

Since listing on AeRO market 5 years ago, Bittnet has registered increases of revenues, assets, cash-flows, and shareholders' equity, with an average compound annual growth rate of 70% for each of these indicators in the specified period. As a result, also our market capitalization has grown 14 times, from 7.9 million lei on 15th of April 2015, until 112 million lei as of last day of December 2019. Also, the shareholders liquidity of BNET shares have improved significantly. Last year, BNET shares were the 17th most trade stock on Bucharest Stock Exchange – what for us was the conclusive evidence that the transfer to the Main Market is a natural next step that will offer our shareholders even more liquidity. We closed 2019 with over 1,400 shareholders and 700 bondholders, whom we thank for sharing our long-term vision regarding our company as well as business model.

We estimate that with the transfer to the Main Market, in Bittnet shareholding might enter institutional investors in Bittnet as well as Bittnet shares might be potentially included in BVB's indices. Last but not least, by being listed on the Main Market and having access to larger pools of capital, we are confident that we will be able to continue finance the further accelerated growth of our business in a more effective and sustainable manner. We were pleased that the positive vote during the General Shareholders Meeting Decision from January 29th, 2020 showed that our investors are aligned with our point of view and are sustaining our decision to move to the Main Market.

When we talk about the opportunity to access larger pools of capital, we are thinking about the future M&A transactions, especially across the CEE region, for which we have already have an appetite and which we have announced in November 2019, as one direction in which we consider the future of Bittnet Group to be. Before we dive into the future, it is worthy to take a look at the past year, 2019.

2019 has been a different year than the two years we have had before – while in 2017 and 2018 we have focused on expansion and acquisitions (GECAD, Elian, Equatorial and transfer of IT&C Division of Crescendo), 2019 has been a year of much needed consolidation and alignment of the strategies. In 2019 we shifted our attention from the M&A activity to the organization of operations on a significantly larger scale, redesigning the organizational chart with new roles, with the processes and tools capable of ensuring scalability for the next period.

Coincidentally, 2019 was also a year of political and economic tensions that the whole Romanian business environment had to go through, marked with OUG 114, elections and overall political instability. This context, which is referred to be experts as VUCA - volatility, uncertainty, complexity, ambiguity, had a direct impact on the plans of our clients from both public and private sectors and which in turn, had a direct effect on our business as part of the projects from the pipeline were postponed to 2020.

Nonetheless, even in the unfavorable market environment, we have managed to reach revenues at the consolidated level of approximately 100 million lei, a growth of over 100% compared to the previous year. The operating profit grew by 25% compared to 2018, to 1.6 million lei while the net profit decreased from 4.4 million lei to consolidated loss of approximately 3 million lei.

The difference between the operational and net profit was especially caused by over 90% increase in interest expenses, up to 3 million lei, as well as 5 times increase in depreciation, up to 1.1 million lei. Additionally, application of IFRS2 standard generated a non-cash accounting adjustment of 1.1 million lei. These three elements resulted in the company having a net loss at the consolidated level in 2019. On the other hand, the two halves of the year were different, first one bringing a net loss of 5 million lei while the second one a profit net of 3 million lei and accounting adjustment of 1.1 million lei.



I would like to dedicate some of your attention into more in-depth look at the 2019 results registered at the level of the two business lines as well as individual businesses. It is important to underline that at the organizational level, starting from 2019, each of the two lines of business, education and technology, has different goals and plans for independent development, without being linked to the objectives of the other line of activity. In this way, each of the two lines of business can develop faster, in the directions considered relevant, in the most agile ways. Therefore, we only consider it right that they are given individual attention also from our shareholders.

2019 has been a year of great growth at the revenues number but a mixed result when it comes to the profitability.

“Technology” business line, which includes Dendrio and Elian, has been the largest contributor to the turnover growth, as the revenue of the line grew from 40.4 to 87.1 million lei. Out of that amount, in 2019, 4.7 million lei revenue came from Elian, alongside the net profit of 261,000 lei, which overall results in an impressive increase of 20% of revenues and 31% of net profit compared to the 2018 result.

The remaining revenue has been generated by Dendrio and resulted in a loss registered by the company of 3.6 million lei. Here what is significant to underline the fact that in 2019, Dendrio has registered 12 months of costs, but only 9 months of revenues – process which was previously signaled by us and which was caused by the integration of the IT&C division of Crescendo into Dendrio.

This hypothesis is further supported by the fact that in the second half of the year, Dendrio has generated a net profit of 1.2 million lei makes us confident that we are over the maximum depth of the “J-curve” and the business is slowly recuperating and is coming back on the growth path that will also support the overall profitability of the business at the consolidated level. Therefore, we continue paying maximum attention to Dendrio in order to ensure accelerated revenue growth and to organize it more efficiently and with an increased focus on profitability.

While all the investment plans previously presented to investors were built with a significant margin of safety of 5 years, we believe that the efforts from 2019 and Q1 2020 will significantly improve Dendrio’s overall situation in the years to come.

Moving onto the “Educational” line, which includes Bittnet Training and Equatorial. Bittnet Traing has registered revenues of 12.68 million lei while the operational profit was 2 million lei (compared to a loss of 71,000 lei in 2018) and the gross profit was 792,000 lei, an increase of 1.7 million lei when compared to 2018.

What is important to mention here is the fact that in 2019, the educational division has launched 4 products which are expected to bring first revenues in the course of 2020 and have a potential of revolutionizing the overall turnover at the Group level. 3 out of these 4 products are games developed by Equatorial. Speaking about Equatorial’s performance, I would like to underline here that in 2019, Equatorial’s revenues overpassed 3 million lei while the profit grew by 13%, from 217,000 lei to 247,000 lei. This means that Bittnet’s investment in Equatorial brought in 2019 a capital return of over 20%.

A last element when we analyze the 2019 performance is the results registered by Bittnet Systems SA, that is the mother company of the group, which registered revenues from the IT training activity, some “legacy” revenues from the IT integration activity as well as revenues and expenses related to the activity of the mother company.

Due to the switch to the IFRS reporting method, the overall results registered by Bittnet at both individual and consolidated level are different than those that the shareholders were used to in the past 5 years. For more information about the changes imposed by the IFRS reporting, I would like to direct you to chapter: “IFRS reporting framework” where we deal with that subject exclusively.



Ending up the brief financial analysis, I would like to underline that the gross individual profit of Bittnet Systems SA, together with the share premiums and the profits retained from the past years, allows us to propose to our shareholders a distribution of the free shares during this year, with a distribution rate of 7 or 8 free shares for each 10 shares held. In this manner, we continue to implement the development model that we have promised to our shareholders and implemented year-by-year since 2015.

We enter 2020 strong, with many new projects in the pipeline as well as pool of loyal customers who have been an integral part of our strong growth over the years. The local and global market evolution are also very favorable for our business. As an example, ANIS estimates that the Romanian IT industry currently employs over 150,000 people, with a prospect of growing up to 300,000 employees in the coming years. For us, as market leader in IT training, 2019 has been the best year in history for the training activity, having trained 4,000 students, who are the said IT employees the ANIS study covers.

The projected growth best shows the potential that in order to grow the market share from 1% to 2% or 5%, which would generate double, or quintuple revenue, there is no need for a certain market evolution. All that is necessary is to continue the sales efforts, both with the help of classic tools, such as through sales and marketing team, as well as new IT tools, such as our UXI platform. We have seen this model apply to Bittnet Training's business over the course of past years and we are confident it will continue to yield results also in the coming future.

Moving into more complex projects, at the end of 2019 we have announced our partnership with investment platform ROCA. We strongly believe that any company will soon become a technology company. Through strategic partnerships, we are confident we can have a positive impact at the next generation of the Romanian entrepreneurs, helping them in the process of digitalizing their business.

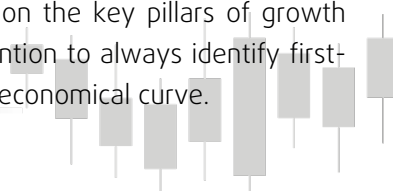
At the same time, technology itself does not solve all the problems of a company and therefore through collaborations, we plan also support an optimal ecosystem of growth and professionalization of the management teams of the companies. This does not only mean providing IT&C solutions to companies but also ensuring that the respective teams have all the necessary skills, such as digital skills, robot and automation programming but also critical thinking and human skills.

Just recently, the World Economic Forum has estimated that by 2022, at least 54% of all employees will need reskilling and upskilling in order to meet the demands of their ever-changing job. On the other hand, McKinsey's 2019 study "The Rise of Digital Challengers: Perspective on Romania" estimates the digitalization can be an engine of durable growth for Romania, adding over EUR 42 billion to Romanian GDP by 2025.

Pairing these data together clearly indicates the potential of the local IT market and the growth prospects for the very near future. As Bittnet Group is a unique player on the Romanian market, having distinctive educational as well as technology division to our business, we think that we have a unique opportunity to build our leadership in this niche and become a market leader in the area of technology and resulting from it, technology education.

We are now fully aligned at a Group level and as a result thereof, we are also ready to develop complex projects for our clients, combining multiple elements from portfolios of different companies, making us the partner of a choice for end-to-end digital transformation of our clients. We remain dedicated to the goal of turning Bittnet into a player of a reference on the CEE markets in the course of next 10 years.

Overall, we are confident about what 2020 holds, including the beginning of BNET's journey on the Main Market. We remain dedicated to maintaining the accelerated development of the Group, based on the key pillars of growth mentioned throughout this report. At the same time, we continue to pay utmost attention to always identify first-hand the major trends in order to always remain ahead of the technological and socio-economical curve.



We will continue to do this based on the human and business values that have brought us here: honesty, flexibility, competence, professionalism. In this process we will not forget about optimizing our access to finance, developing our products portfolio, forming new partnerships as well as, most importantly, involving our employees directly in the development of our company. Here I would like to underline some of fundamental believes we have at the organizational level, namely to share the value created with all the actors involved in the process. Bill Gates and Mark Cuban support that you need to involve employees in the company as shareholders, as the only way to create great assets. That is why we have always encouraged to involve as many of the team members in sharing the interests of the shareholders and we are happy that last year, aligning these interests have brought tangible results.

Last year, the value of the company increased by 57 million lei. We estimate that approximately 11 millions from that sum has represented the growth of the holdings of our employees, who have accepted that a significant part of their financial reward to be directly related to the value brought to the shareholders. We plan to continue to operate under this model as we are confident it will be fundamental in accelerating our growth, and value to the shareholders, in the years to come.

In addition to delivering financial results, we aim to continue to excel in the area of transparency and investor relations, for which we have been recognized over the 5 years as a public company. In this regard, in 2019 we launched a new version of website for investor relations: <https://investors.bittnet.ro/>. The current structure resulted from in-depth research and good practices specific to the stock exchange and websites dedicated to investor relations.

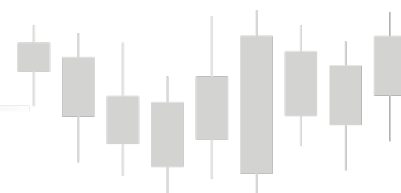
The site has been designed in such a way that it is easier to use, the information is presented in graphic form, it is integrated with the TradeVille's website and has developed a number of new sections, dedicated to corporate bonds, testimonials from our investors, or many more

I invite you to continue reading about our performance in the course of 2019 on the following pages and I hope that we have provided sufficient amount of information that will help you better understand all the revenue and profitability drivers of our business.

Like in the previous years, I would like to use this opportunity to extend to you an invitation to the Bittnet Investor day, which this year, will take place on April 15th. We hope you will all join us numerously and that we will have an opportunity to discuss together the results from the last year as well as our vision for the future. So, mark your calendars, 15.04.2020 and we look forward to hosting you yet again this year at our premises!

Mihai Logofătu

CEO Bittnet Group





# Information about the evolution of shares and bonds on the stock exchange

## BNET shares in 2019

In 2019, Bittnet shares were on 17th place in the liquidity ranking on the entire Bucharest Stock Exchange, which would have allowed them to be included in the BET-XT index if they were listed on the Main Market. The average daily value of the transactions was over 180,000 lei, more than the Main Market issuers such as Conpet, Erste Bank or Medlife. In relation to the AeRO market, Bittnet shares were not only the most liquid, but represented more than 20% of the liquidity of the entire market (with a total value of 46 million lei compared to 230 million lei for the entire market in 2019). Per number of transactions, Bittnet shares represented 38% of the total trading on AeRO, which was acknowledged by the capital market community. In November, the Romanian Brokers Association offered the company the award for the most traded issuer on AeRO market, for the second consecutive year.

These liquidity figures provide an even greater value to the performance of the share price, which increased by about 97% in split-adjusted terms (an increase more than double than the one recorded by the BET-TR index). Thus, the market capitalization continued to increase, exceeding the threshold of 100 million lei on May 16th. The last trading session in 2019 closed with BNET shares trading at the price of 0.97 lei/share, 'fixing' the market capitalization of the issuer at 112 million lei, compared with 55 million lei as of 31.12.2018.



In line with the idea that we encourage, namely looking at Bittnet as a long-term investment, we provide below the evolution of Bittnet's capitalization since listing in 2015 until December 31, 2019 - by far the best investment of the last five years<sup>3</sup>.



In 2019 we continued to increase the capital, in line with the market operations of the past years, capitalizing profits from the previous years but also implementing an incentive program for the first time for a listed company in Romania:

- On May 13, 2019, the Central Depository released the consolidated synthetic structure as a result of the completion of the first SOP (Stock Option Plan - incentive plan for key persons), SOP2016 approved by the EGMS Decision of April 2016, by a public ('open') company in Romania, implemented through capital increase and not by buying back shares from the market. The effect was neutral for the issuer's treasury and it was not necessary to displace significant amounts of cash for the buyback of the shares. On the other hand, as a result of the transaction, Bittnet's share capital increased by 347,796.70 lei, and the equity increased additionally by 3,584,392.30 lei, share premium.
- According to the EGMS Decision no. 1 from 26.04.2019 the share capital was increased with the amount of 5,523,320.5 lei by issuing free shares for the benefit of the shareholders, registered on 08.07.2019. The allocation rate was 1 free share for each 1 share held. The sources of the increase were the profits, reserves, and share premium from the past years. The new shares were loaded to the trading accounts of the shareholders on 09.07.2019. As a result of this transaction, Bittnet's share capital increased to 11,046,641.00 lei.
- The last operation of capital increase in 2019 came through the implementation of the incentive plan for the key persons (SOP2017), approved by the shareholders' EGSM Decision from April 2017. Thus, the share capital increased by 573,679.6 lei and the 'share premium' position with the sum of 3,502,314.18 lei. The operation was completed at the end of October.

In 2020, the company also aims to capitalize the share premium and profits from previous years, distributing the shares in a proportion of 7 or 8 free shares for each 10 shares owned.

### Bonds issuances BNET22, BNET23, BNET23A, BNET23C in 2019

The company is up to date with coupon payments to bondholders. Throughout 2019, coupons were paid for five bond issues - BNET19, BNET22, BNET23, BNET23A, BNET23C. For BNET19, coupon payment no. 10 was made on January 15, 2019. For BNET22, coupon payments were made on March 15, June 15, September 15, December 15, 2019. For BNET23, coupon payments were made on February 15, May 15, August 15, and November 15, 2019. For BNET23A, the first coupon was paid on July 15, 2019; and in the case of BNET23C, the first coupon was paid on July 23, 2019. All bond issues have fixed interest rates of 9% per year, payable quarterly (BNET22, BNET23) or half-yearly (BNET23A, BNET23C), through the Central Depository.

On February 22nd, 2019, the Company activated the 'call back' option for BNET19 bonds, repaying in advance the issue of 4,186,000 lei at nominal value and paying the coupon fraction calculated from the last coupon date (January 15) and up to the early repayment date. In this way, the Company managed to reduce the degree of indebtedness and reduce the financial expenses with the interests.

All the bond issues were traded above the nominal value, up to a maximum of 106%, offering both liquidity to the initial investors and relevant returns for the investors on the secondary market:

- **BNET22:** 3,016 BNET22 bonds changed holders in 2019, approximately 6.7% of the total issue volume, in a number of 130 transactions at an average price of 104.5% of the nominal value and a total trading value of 317,318.32 lei.
- **BNET23:** 20,254 BNET23 bonds changed the holders in 2019, approximately 43.09% of the total volume of the issue in a number of 617 transactions at an average trading price of 104.5% of the nominal value and a total value of the transactions of 2,108,811.83 lei.
- **BNET23A:** 7,000 BNET23A bonds changed the holders in 2019, approximately 7.21% of the total volume of the issue in a number of 71 transactions at an average price of 102.41% of the nominal value and a total value of the transactions of 727,840.64 lei.
- **BNET23C:** 35,412 BNET23C bonds changed the holders of 2019, approximately 35.41% of the total volume of the issue in a number of 739 transactions at an average price of 105% of the nominal value and a total value of the transactions of 3,718,140.23 lei, an even higher performance given that BNET23C bonds were admitted to trading on the AeRO-Bonds market in the second quarter of 2019.
- **BNET19 (delisted):** From the beginning of the year until the moment of suspension from trading as a result of early redemption (13.02.2021), 344 BNET19 bonds in a total value of 346,353.69 lei, approximately 8.21% of the total issue, were traded.

Bittnet bonds were, in the course of 2019, among the most traded fixed income instruments on the AeRO-Bonds market, totalling transactions of 7.21 million lei, which stands for 12.44% of the annual value of the transactions in the secondary bond market, and 25% of the total value of the 4 bond issues.



## Segment Bursa

Segment Principal SMT RASDAQ

## Moneda

RON EUR USD

## Tip instrument financiar

Actiuni Obligatiuni Drepturi Unitati de fond Structurate

An ▼	Sedinte de tranzactionare	Nr. tranz.	Volum	Valoare	Valoare medie zilnica	Societati emitente
2020	30	965	150.532	15.188.028,73	506.267,62	14
2019	249	5.323	342.207	57.984.040,77	232.867,63	16
2018	249	2.242	173.808	20.324.882,94	81.626,04	7
2017	248	918	36.804	6.753.903,61	27.233,48	7
2016	254	526	23.708	7.493.701,84	29.502,76	4
2015	174	52	4.281	4.315.619,51	24.802,41	2



## Group structure and analysis of main business lines and individual companies

Bittnet was founded in 2007 by Mihai and Cristian Logofătu, both of whom are still occupying leadership positions within the company. From its early beginnings, Bittnet was 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.

In February 2009, the company changed its legal status into a joint-stock company (SA), following an increase of share capital, using profits generated in 2008. In 2012, the company had another capital infusion received from business angel Razvan Capatina, who still remains a significant shareholder of the company.

Since March 2015, Bittnet is listed on AeRO market of the Bucharest Stock Exchange with ticker BNET. Bittnet was the first IT company to ever list on the BVB, following an infusion of EUR 150K into the company, received from Polish fund Carpathia Capital SA in exchange for 10% stake. Since then, Bittnet has been actively using capital markets mechanisms in order to grow and develop, having already successfully placed five bonds issues, 2016, 2017, 2018 (twice) and in 2019. In almost 4 years since listing on the Bucharest Stock Exchange, Bittnet has attracted more than EUR 10 million using capital market financing mechanisms (corporate bonds, capitalization of profits, capital increases, etc.), with part of the capital being used for fueling M&A activity. Since 2016, the company has followed the patented success model of Banca Transilvania, distributing to the shareholders the accrued profits in the form of free shares, and consistently growing its share capital through the years.

In 2016, the company has created a new area of competence by introducing consultancy and cloud migration services. As a result thereof, Bittnet has launched a number client-engaging actions strictly for this range of services, targeting a new group clients, with a slightly different profile. Throughout 2017, the company continued to invest in increasing and diversifying the technical competencies specific to AWS and Azure in order to be able to respond to incoming requests.

The company's founders have always believed that the Romanian IT market needs to be strengthened and consolidated. This is why in the course of 2017 the company has identified the first opportunity to act in this direction and acquired GECAD NET from Radu Georgescu. The process of acquiring and the subsequent turnaround was a success as following the acquisition, at the end of 2017, GECAD has ended the year on profit for the first time in 3 years. In the first half of 2018, GECAD Net rebranded to Dendrio Solutions. Today, Dendrio is the only "multi-cloud" integrator in Romania, having a consolidated position as a highly certified company by the world's leading IT vendors focusing on cloud and cybersecurity.

In April 2018, Bittnet has adopted the Group structure and restructured the business, which is nowadays based on two key vectors:

- Education, which currently consists of IT training segment where Bittnet Training is a market leader.
- Technology, which will be focused on IT integration services, offering integration solutions that were previously offered by both, Bittnet and GECAD NET. This activity will have a shared products, services and solutions portfolio and a larger team that allows for bigger workload, both from technical and sales standpoint.

Soon after announcing the new structure, Bittnet has announced two new acquisitions – purchasing of a majority stake in ERP solution provider, Elian Solution as well as game-based learning company, Equatorial Marathon. Following

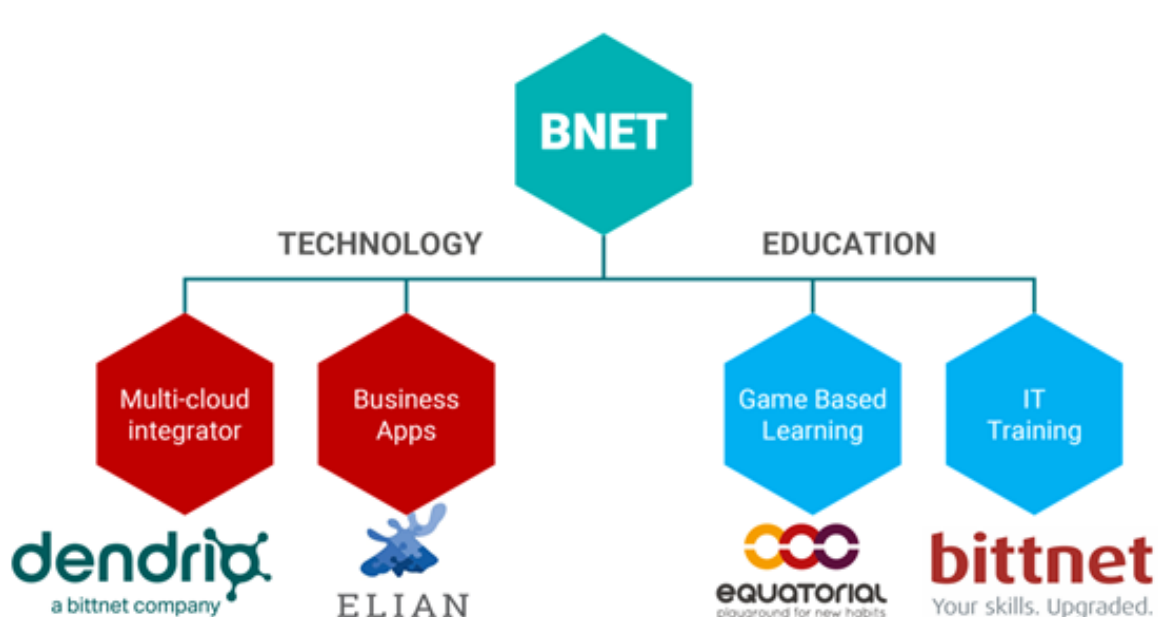


the acquisition, activities of Equatorial Solutions were integrated under 'Education' division while Elian completed the IT integration services offer by adding ERP solutions to the group's portfolio. In October 2018, Bittnet has announced that it has successfully closed negotiations for purchasing the IT&C integration activities of Crescendo International SRL, a company with 25 years of experience in Romania and foreign markets. The activities of Crescendo were integrated in Dendrio and, as a result of the merger, the company was able to benefit from a more stable business structure, extended personnel as well as enlarged portfolio of customers, products and services.

Today, Bittnet Group has two key 2 divisions, education and technology. The company has a total of 120 employees and collaborators, who work in and for one of the 4 companies included in the group.

## Group Structure

Following two years of consistent acquisitions, Bittnet Group has undergone a major development – from a single company operating in two key areas of education and technology to a Group that now includes several organizations active in these two key areas of interest.



## I. Bittnet Training

- Shareholding structure: mother-company, Bittnet Systems SA, which is listed on the stock exchange, which keeps at this moment the IT training activity
- Responsible: Dan Berteanu, VP of Education Bittnet Group
- Number of employees/collaborators: 45
- 2019 revenue: 12.68 million lei, 71% growth compared to 2018
- 2019 operational profit: 2 million lei, compared to a loss of 71,000 lei in 2018
- Website: [www.bittnet.ro](http://www.bittnet.ro), <https://bittnet.training>

## II. Equatorial Gaming SA

- Shareholding structure: 24,9989% Bittnet SA (with option to increase until 45%); rest - founders
- Responsible: Diana Rosetka, Managing Partner
- Number of employees/collaborators: 15
- 2019 revenue: 3 million lei, similar to 2018
- 2019 operational profit: 555,000 lei, compared to 395,000 lei in 2018
- Website: [www.equatorial.ro](http://www.equatorial.ro), [www.vrunners.com](http://www.vrunners.com), [www.equatorialmarathon.ro](http://www.equatorialmarathon.ro)

## III. Dendrio Solutions SRL

- Shareholding: 100% Bittnet SA
- Key responsible: Cristian Herghelegiu, CEO
- Number of employees/collaborators: 45
- 2019 revenues: 82,4 million lei, growth of 150% compared to 2018
- 2019 operational loss: 380,000 lei, compared to operational profit of 1.4 million lei in 2018
- Website: [www.dendrio.com](http://www.dendrio.com)

## IV. Elian Solutions SRL

- Shareholding structure: 51.0082% Bittnet SA, rest split equally between founders
- Responsible: Iulian Motoi, CEO
- Number of employees/collaborators: 22
- 2019 revenues: 4,7 million lei, 18% growth compared to 2018
- 2019 operational profit: 335,000 lei, 30% growth compared to 2018
- Website: [www.elian-solutions.ro](http://www.elian-solutions.ro)





## Technology Division

*"The first step is to establish that something is possible; then probability will occur."*

*Elon Musk*

### Dendrio

2019 represented for Dendrio, company of the Bittnet Group that delivers integrated IT solutions, a year of consolidation both at the level of the teams and at the level of the solutions offered to the market. Throughout the entire year, Dendrio team went through an intense process of alignment and operationalization, while also managing to achieve a significant increase in the IT integration activity. In this sense, Dendrio's activity recorded revenues of 82 million lei, more than double compared to 40 million lei in 2018. The 103% increase is due to a 27% increase in figures comparable to 2018, and the rest of 76% comes from the business transfer signed in 2018 with Crescendo International. The organic growth rate of 27% registered by Dendrio significantly exceeded the ANIS estimate, of 14.3% growth recorded by the entire IT sector in Romania in 2019.

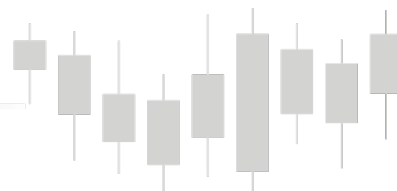
The continuous growth of the IT integration activity has proven that the growth strategy based on the two pillars - the organic growth of the business and the generation of synergies through acquisitions and consolidations in the profile market - is successful. We clearly notice that at the level of the entire Romanian IT market, this consolidation process accelerated - in 2019 and at the beginning of 2020, several important transactions were recorded, such as SNEF-NetBrinel, Cognizant-Softvision and the recently announced transaction between S&T Romania and Cronus eBusiness. It is important to underline the fact that Dendrio still has a unique position on the market - by belonging to the Bittnet Group - having the possibility to offer its clients an extremely wide range of solutions related to the IT field, from specialized training, to high-performance IT infrastructures, up to ERP / CRM business applications. In this way we can significantly increase the number of clients with whom Dendrio interacts but also the depth of the services offered.

During the Bittnet Investor Day from April 2019 we mentioned that during the year 2019 we will focus on two growth pillars in the IT integration activity:

- 1) Integration of the Dendrio team as a result of the business transfer from Crescendo; and
- 2) Initiating a change process at the level of the business model - the transition to value-added services, from "technical functionality" to "value for the customer" and from "technical complexity" to "operational simplicity".

**1. Integration of Dendrio - Crescendo teams.** Regarding the integration of the teams we can say that, although the integration process is normally a long one, the end of 2019 was practically the moment when the Dendrio team exceeded the turning point - the last quarter of 2019 marked the quarter with the one highest value in the company's history (gross margin of 1.15 million euro in 2019 versus 608,000 euro in 2018). This result was obtained by several steps, the most important being:

- aligning sales teams under common management;
- rebalancing client portfolios to use the benefits offered by local teams;





- implementation of a common mechanism for identifying and profiling opportunities - centered on a team of architects and specialists in technology;
- creation of joint projects for the implementation teams;
- development of joint projects with major vendors (Microsoft, Cisco, AWS, Autodesk, DELL EMC, HP);
- the operational platforms have been unified and currently a single CRM platform is used to manage the interactions between customers and Dendrio;
- attracting "enterprise" type of projects in which the combined teams can work together throughout the entire operational flow.

Of course, the process of aligning the objectives throughout the company will continue throughout the year 2020, with main objective being the increase in business agility - faster identification of the real needs of the customers and reducing the delivery time of the technological solutions to them.

## 2. Value added services. From complex to simple!

We believe that companies in Romania (as in the entire region of Eastern European) can benefit from an extraordinary boost if they manage to use their capital and resources to truly create value through what they offer on the market. In this regard, we believe that those companies that succeed in using technology (including IT) as a lever to achieve sustainable growth are and will continue to be successful examples for the business environment in this region. These companies are the ones that Dendrio can help reach their goals faster!

The year 2019 was a year in which we managed to open some new directions with potential for growth or to continue on the previously initiated directions:

- **A market explored too little.** The first step in 2019 was to identify a market, where technology can play a significant transformational role. In this sense, we identified a market segment which was not yet very much explored: Romanian companies that are expanding. Thus in 2019, Dendrio has attracted a number of clients, and even partners, who want to invest capital in a smart way (including the one attracted from the Romanian capital market) - thus obtaining an increase in productivity and/or optimization of the operational flow.
- **Digital Transformation.** We have new clients who digitize their operational processes (simplification and scalability), who implement ERP (Enterprise Resource Planning) systems on the cloud infrastructure provided by Dendrio and make informed decisions using Power BI tools. Last but not least, 2019 was the year in which, together with selected partners, we started delivering software robots to companies in the retail, banking and auto manufacturing segment.
- **Game of Technology.** To speed up the process of identifying these companies, the Dendrio team, using Equatorial know-how in gamification (adult learning through gamification), has launched a new concept: Game Of Technology - a concept through which decision-makers can quickly understand, in a friendly manner, the impact of cloud technologies, cybersecurity or Data Analytics systems. A first GoT session was held during the "Made in Romania" workshop held by BVB in the fall of 2019.
- **Scalability and performance = cloud.** In 2019 we continued to increase the number of opportunities won on public cloud platforms, achieving a success rate (opportunities gained) of over 65%. Large companies in the financial field but also Romanian technology start-ups that become regional and even global players are currently using Dendrio's expertise in this area. This dynamic gives us confidence to continue investing in the development of the technical expertise of the Dendrio team also for the years to come.

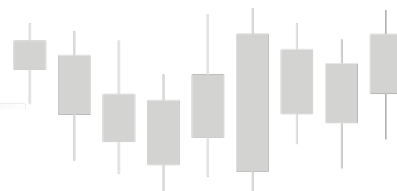


- **Extension of the team and its expertise.** During 2019, together with Bittnet Training, we opened offices in two new regions:
  - Nord-West - office in Oradea
  - South-West - office in Craiova

2019 also brought for Dendrio the positioning of the brand in the online environment. At the beginning of April, we launched the new website where we consolidated the portfolio of IT products and services. During this period, 20,662 unique visitors visited 41,830 pages. In the fourth quarter we started a series of online campaigns aimed at increasing the traffic on the site. In parallel, we are working on an inbound marketing strategy that will attract relevant audiences to our site. We constantly produce content for the site and blog: articles, videos, technical webinars.

The Dendrio website functions as a tool for collecting and measuring all marketing efforts. We measure through the messages generated the various efforts online and offline. During this period we received an average of 20 requests per month. Also in the 4th quarter we started to develop Dendrio's LinkedIn channel where we managed to increase the number of followers by 170%, both through daily posts and through a special career page that will help to strengthen the employer brand. All these projects will continue throughout the year 2020.

A very important evolution to mention in the case of Dendrio is the continuation of the significant increase of the recurring annular income (ARR). If in 2017 they were of 11.7 million lei, in 2018 of 15.8 million lei, in 2019 we exceeded the threshold of 24 million lei recurring annual revenues. Not only do they provide a stable basis on which we can continue to grow, but, accounting for 30% of Dendrio revenues, they create the premises of a very different evaluation from 'old business'. For guidance, in the case of the evaluation on the multiple incomes of the public IT&C services companies, the market multiples are about 8x - which would generate an evaluation only for the Dendrio of over 200 million lei!



## Eliau

2019 marked two significant increases on two lines of business, in the area of recurring revenues:

1. Cloud licensing for Dynamics 365 BC has increased by 90% compared to 2018.
2. The revenues from support services increased by 65% compared to 2018, resulting in the expansion of the team with 2 new colleagues.

In the area of big projects, in 2019 Eliau managed to close the implementation project for Tanex and signed a new contract with another player from the textile industry, Pandora Focsani. These types of projects have brought an increase of 28% to the volume of *on-premise* licenses compared to the previous year.

Overall in 2019, Eliau licensed 248 users in both licensing versions: cloud and on-premise, however, reducing delivery times on large projects with over 50 users, from an average of 150 days to an average of 100 days. This was made possible by increasing the core of implementers and developers with experience within the team, but also by moving the reporting package from the ERP solution to the BI solutions. Eliau currently has two solutions in its portfolio: Jet Reports and PowerBI.

Also in 2019, Eliau continued the development of 3 own products on the Microsoft Dynamics Nav platform, completely migrating them on the Dynamics 365 BC platform onto two platform programming environments: C/Al specific to OnPrem licensing and AL specific to OnCloud licensing. The basic product still remains the location of the system (bringing revenues 18% higher than the previous year) and is registered and certified as an Add-On at Microsoft. The other 2 products that are licensed by the Eliau team are the Retail and Time Management solutions on production processes.

Starting from the market direction given by Microsoft, where the vast majority of products are positioned as a service, after several internal and group level analyzes, we are ready to launch the service called "price per user implemented". This product aims to meet the financing needs of any client who chooses the Eliau team and the Dynamics 365 BC solution. This is a 60-months financing, in which the client pays the price of 230 EURO per implemented user, the service including the following:

- Dynamics 365 BC licenses in the cloud --> for the period of 5 years of financing.
- Hosting in Azure -> for the period of 5 years of financing
- Configure the Azure setup and the types of connections to users.
- Windows Server licenses and SQL instances.
- Implementation services including specific customizations.
- Support -> support services (the equivalent of the support contract), for the period of 5 years of financing.

2019 also marked the renewal of the GOLD certification for the partnership with Microsoft. The renewal was made possible by the recertification of 60% of the implementation team, the recommendations of the clients from the portfolio and a new business increase of 20% compared to the previous year.



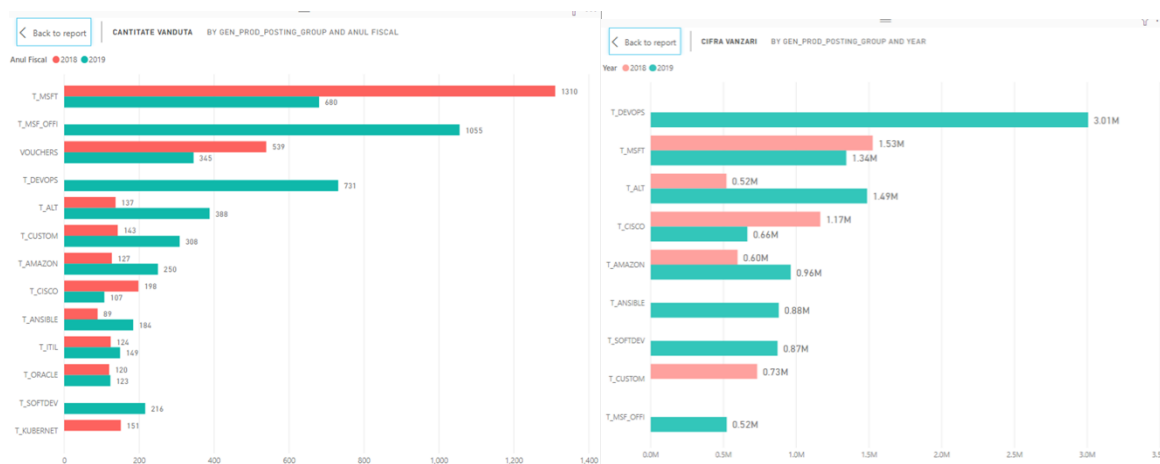
## Education Division



*"If you're not serving the customer, your job is to be serving someone who is"*

*Jan Carlzon, CEO SAS Group*

Last year was full of challenges, opportunities and special achievements for the Education Division of the Bittnet Group. The number of projects won was 719, increased by 96 compared to 2018, and the number of clients we served was 190, similar to 2018. At Bittnet Training alone, in 2019, we trained 4,400 students, an increase of 850 students compared to 2018.



The most popular courses, by the number of students, remained those of Microsoft. At the same time, DevOps courses generated the most revenues in 2019.

The best-selling courses were those from our own curriculum, developed around cloud and DevOps technologies - one of the development pillars identified and followed since 2015. We recognize this correct 'bet' is the result of our entrepreneurial mentality of always paying attention to the demands of customers, of experimenting and adapting "on the go" to the evolution of the industry. Imagine that in 2017 the DevOps courses were not even included in the annual statistics.

As we communicated to both our colleagues and investors in April 2019, on the occasion of Bittnet Investors Day, our ambition was to:

- increase the Bittnet Training revenues above the market growth average (we achieved over 70% growth);
- increase Equatorial Gaming revenues by 15% (we did not achieve this goal: the revenues in 2019 were in line with those of 2018. In return, we obtained an increase in profit - from 217,000 lei to 247,000 lei);
- keep the gross margin of the game-based learning projects at 60% (we achieved 61% in 2019).

We believe that the philosophy of "infinite mindset" communicated at the beginning of the year and reiterated throughout in performance discussions, meaning, focusing on strategic direction and long-term approach, has inspired our colleagues to focus on desirable behaviors instead of feeling the pressure of an arbitrary result. We believe that



as long as all the members of the Education Division maintain a high level of activity and "practice what they preach", sooner or later, the results will come, because they will be only a consequence of the work done.

To support this ambition related to the sustained growth of the business, the Education Division went through a process of reconfiguring the teams and the business model, both in Bittnet Training and in Equatorial Gaming. Thus, during the year 2019, we built in the two companies a similar operational structure, agile and customer centered, composed of:

- **Key Account Management Team** – with the role of developing a pro-active business in the portfolio of large clients (Corporate);
- **Inside Sales Team** – with the role of taking over the requests received through the website, the marketing leads and also developing pro-active business in the portfolio of medium and small clients (SME & SOHO);
- **Product Management Team** – with the role of developing partnership relationships with our vendors and partners and creating special education and promotion projects and campaigns;
- **Customer Experience Team** – with the role of making the learning experience memorable for the more than 3.000 students who cross the threshold of our training center every year;
- **Implementation Team** – with the role of delivering training programs (closed classes at client premises or open classes) and ensuring the transfer of knowledge and skills to students, as well as the success of those who decide to pursue the certification process.

All this architecture is of course supported by the group's shared services functions such as Marketing & PR, Finance & Operations and Human Resources.

Thus, in 2019, we managed to complete the operational alignment stage within the Education Division, having a solid basis and we believe the best premises for starting the synergy development phase between the two companies.

The year 2019 was also a year in which we focused within the Education Division on investments that can bring significant results to our organization in the long term. We refer here not only to differentiating from our competitors, but also to the development of the business model that brings predictability in relation with our most important clients and especially recurring revenues. Thus significant investments and efforts have been directed to the following initiatives:

- **Development of the UXI platform** – a *Learning Management System* which allows our clients to manage, monitor and analyze the results of the learning projects they build with us. UXI earns time for HR departments, brings visibility to our students' managers and offers them the opportunity but also the responsibility of the learning process.
- **DevOps curriculum development** - we continued the development of both *basic* and *advanced* levels, reaching at the end of 2019 over 70 course topics. In addition to the live-virtual deliveries, which we make in an overwhelming proportion outside the country, these significantly contribute to increasing the Division's margin, we have started to implement open or closed classes for clients in Romania. The revenues obtained in 2019 from these courses were at 5 million lei (up 325% from 2018) and the margin was 3.95 million lei (up 406% from 2018). The fact that 3 years ago we were the "pioneers" of promoting this technology gives us today a privileged position in the market.
- **Consolidating the relationship with LLPA** - our membership in the Leading Learning Partner Association, the largest association of Microsoft training centers, has brought us the status of Microsoft's only training partner in Romania. This fact helped us in 2019 to be the only Microsoft customer training providers within the largest

skilling & reskilling campaign conducted by this vendor so far. We managed to have over 250 students, but the good news is that this campaign will have a special foothold also in 2020.

- **Launch of the beta version of the Oligopoly business simulation game** - In the second part of 2019, we launched this complex simulation within a training project offered to the clients of a Romanian bank. The feedback from the participants (managers and entrepreneurs) was encouraging and helped us understand what we need to keep, what we need to change and what we need to add so that version, which is planned for launch in Q2 2020, will have a great impact.
- **Finalizing of the INTRAPRENEUR project** – it was the first project with EU funds implemented by the Equatorial team, a complex project that consisted in the training of over 400 students in entrepreneurship courses in Cluj, Timisoara, Brasov, Iasi, Pitesti and Constanta. The project helped us to enter a new market that we have not addressed until now.
- **Finalizing the beta version for the White Hat game** – it is the first learning game for the IT industry that helps students increase the retention rate of technical information, learn collaboratively and receive development recommendations based on comparative data. The game is supported and developed in collaboration with some of the big sellers and aims to integrate most of the technologies we teach in the classroom or virtual.
- **Launch of the beta version of the Bona Fides Agency game** - it is the first game to develop the skills of the future, as they are presented in the World Economic Forum studies, such as critical thinking, complex problem solving, logic, decision making, creativity. The game was used in two events from two different industries, namely HR Play Tech and Microsoft Envision Summit, with the feedback obtained helping us to discover new applications in the areas of teambuilding, engagement and customer experience.

Analyzing the financial results of the two entities of the division, in the case of Bittnet Training, revenues reached the threshold of 12.68 million lei, 71% (5.4 million lei) higher than in 2018. To give a perspective, in 2014 - the year before Bittnet listing - the entire company recorded total revenues of 8.2 million lei. If we analyze only the IT training business, revenues have increased more than 5 times in these 5 years.

The operational profit of "Bittnet Training" was in 2019 of 2.1 million lei, increasing more than 6 times compared to 2018. The gross margin generated increased as a percentage from 56% to 60%, yet again demonstrating that the choice of a business model focused on accelerated growth is correct. This is based on the assumption that our businesses operate much better on a larger scale, and the increase in gross margin (revenues minus direct costs) with the increase in revenues each year proves this theory, and the direction we are embarking on.

Equatorial's financial and operational results improved compared to 2018: a turnover of 3 million lei and a profit of 247.000 lei (compared with 3.2 million lei revenues and 217,000 lei profit in 2018). Our investment in Equatorial brought us revenues of 220.000 lei in 2019, representing a return of 20% (compared to the capital invested as equity), in line with the return on equity in Bittnet.



## New reporting framework – IFRS

Without wishing to conduct a theoretical or ideological debate on IFRS versus Romanian accounting standards, we feel the need to show some significant differences, in order to try to create a clearer picture for shareholders.

IFRS standards require the listed company to record a cost of granting options, regardless of how these options are settled. In particular, the IFRS2 standard requires that the accounting records reflect a cost even if the options expire without being exercised, or if a shareholder transfers shares from the personal portfolio (without even an increase in the total number of shares). We consider that the registration of an amount as an expenditure, which can never be adjusted, and which will never generate a cash outflow from the company (settlement is made by a capital increase - so a balance sheet item, not a profit and loss account) is not likely to help shareholders to better understand the company's situation.

Another example is the depreciation of the Bittnet brand. Although the depreciation of assets is an expense and allows the company to replace those assets as they reach the end of their life, we consider that in the case of the asset 'Bittnet brand' (or other assets of this kind), the assumption that over 10 years it will be worth zero lei, or that every year it is necessary to invest 10% of its value in order for it to remain relevant, both are incorrect assumptions, which have the effect of distorting the understanding of the company's situation.

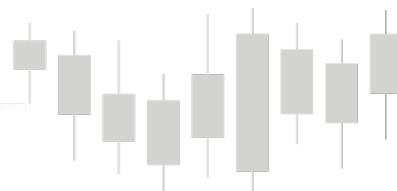
It is sufficient to analyze the table on the first page, which shows a positive cash flow of 5 million lei from operations, and compare it with the accounting result, to see how big the discrepancy is given by these adjustments. As Warren Buffett says, investors need to be very cautious when management changes the reporting mode, or begins to present other indicators than in the past. That is why we continue to present the indicators that we have presented previously.

However, there are 3 significant changes for the Group, which generate some significant differences in the indicators presented above, so we chose to add a few indicators that we think better capture the evolution of the company. The 3 significant changes are: the change of the reporting framework (IFRS vs RAS), the acquisition of assets with significant values compared to the previous operating model (both M&A Crescendo and the "Bittnet" brand), but also financing through bond issuances some of our significant investments for 5 years. The IFRS reporting generates adjustments of amounts that were not previously required, being non-cash, and the other two situations generate a significant increase in Amortization and Interest expenses. In this case, we chose to pay more attention to 'operating profit' and cash flows, not just net profit.

Starting with the year 2020, a new IFRS standard will come into force, which requires us to reflect as a depreciable asset the right to use the space in which we operate. Thus, instead of recording monthly expenses with the rent (based on invoices that the owner of the space writes "rent for the month ...", the new standard requires us to record these figures as depreciation!

In the case of fiscal year 2019, at the consolidated level, the aforementioned differences have the following effects on the operating result (which was previously quite close to the gross result):

1. SOP adjustment: 1.1 million lei
2. Ammortization of "Bittnet" trademark: 580,000 lei
3. Ammortization of Dendrio's assets from Crescendo business transfer: 350,000 lei
4. Interests: 2.8 million lei vs. 1.3 million lei in 2018



## Overview of financial results

We present below the key positions from the consolidated financial results, unaudited, the values in the tables being expressed in lei (RON).

### Overall Results

[RON]	2019	2018	2017
Other Revenue (Bittnet trademark)	0	5,968,250	0
Revenue	100,705,992	47,891,044	27,844,998
Cost of sales	(79,197,578)	(39,013,343)	(20,313,764)
<b>Gross Margin</b>	<b>17,105,288</b>	<b>8,877,701</b>	<b>7,531,234</b>
Sales Costs	(5,793,386)	(2,485,635)	(1,633,463)
Administrative Expenses	(12,533,501)	(6,006,901)	(3,554,966)
<b>EBIT</b>	<b>(563,864)</b>	<b>385,164</b>	<b>2,342,805</b>
Financial Expennses	(2,331,086)	(1,244,130)	(883,170)
Investments	6,411	180,328	-
<b>Gross Profit</b>	<b>(2,888,539)</b>	<b>5,289,611</b>	<b>1,459,636</b>
Income tax	(234,337)	(881,666)	(254,026)
<b>Net Profit</b>	<b>(3,122,876)</b>	<b>4,407,945</b>	<b>1,205,609</b>

As we already mentioned in last year's letter and in the Income and Expenditure Budget for 2019, expenses "below the operational line" recorded higher values compared to previous years. The explanation is threefold:

- the existence of several investments financed with bond issues generates higher interest expenses, immediately while the investments are estimated to produce profits growing in the 5 years duration of the bonds.
- the existence of several investments brought to the group amortizable assets, so the increase of the expenses with the depreciation related to the business.
- accounting adjustments, non-cash, according to IFRS.

As this is the first year that these factors are combined, we have tried to treat each one in more detail to give investors the tools to analyze the situation of the company alone.

Especially the last position is producing distorting effects on the results. IFRS2 requires the company to record an expense to incentivize key people with options, even if the operation is completed by raising capital (not by buying back the shares) and even if the options expire. The negative effect on profitability was thus of 1.2 million lei.

Additionally, the "Bittnet" brand is supposed to have no value over 10 years, which is obviously contradicting the analysis of Bittnet's history but also of the global economy. Even in the case of insolvent or liquidated companies, the brand was often the only asset that could be marketed. The negative effect of this on profitability: about 600,000 lei.





## Reporting per Segment (Business divisions)

	Education			Tehnology	
Segment / Anul (cifre in lei)	2019	2018		2019	2018
Revenue From Customers	12,684,910	7,408,425		87,113,297	40,664,870
Cost of sale s	-5,005,164	-3,239,216		-77,030,020	-35,774,128
<b>Gross Margin</b>	<b>7,679,745</b>	<b>4,169,209</b>		<b>10,083,277</b>	<b>4,890,742</b>
Sales Costs	-1,894,505	-1,107,663		-3,898,880	-1,377,973
Business Expenses	-3,758,068	-2,794,670		-6,563,508	-2,460,163
<b>Operational Profit</b>	<b>2,027,172</b>	<b>206,876</b>		<b>-379,111</b>	<b>1,052,606</b>
Amortization	-615,532	-137,593		-472,820	-46,790
SOP Expenses	-1,123,573	-567,685		0	0
<b>EBIT</b>	<b>288,067</b>	<b>-438,402</b>		<b>-851,931</b>	<b>1,005,816</b>
Financial Expenses	-625,083	-766,531		-1,703,706	-297,271
Trademark Revenue	0	5,786,000			
<b>Gross Profit</b>	<b>-330,605</b>	<b>4,581,067</b>		<b>-2,557,935</b>	<b>708,545</b>

As in previous years, the Technology division generated most of the group's revenues, which is also natural, as the total IT technology market is much larger than the IT training market. In contrast, the education activity, when done correctly, can be a very profitable business.

Revenue sharing between business lines demonstrates once again that there was a need to launch a new brand, Dendrio, for the IT&C integrator activity: Bittnet is known (rightly) as a leader in the IT training market, but only 15% of turnover comes from from this activity, with the the press and investors overlooking 85% of the revenues when they describe Bittnet as "just" a training company.

At the same time, although we will continue to watch the accelerated growth in the training business, the market where Dendrio is active in has a value of almost \$6 billion annually **in Romania alone** (Source: ANIS). This study shows an annual market growth of less than 10%, while our group has increased by approximately 70% annually.

Returning to the profitability analysis, the theory that the business operates better on the scale is easily observed from the following evolutions:

### In the case of the Education Division:

- The increase with 70% of the revenues is accompanied by an increase of only 37% of the direct costs, which generates therefore the doubling of the gross margin generated.
- Additionally, due to the different reporting base, the increase in fixed expenses by 70% (in line with the increase in turnover), generates an increase in the gap between revenues and expenses, that is, a 7-fold increase in operating profit!

### In the case of the Technology Division:

- The increase with 114% of revenues and 115% of direct costs generates almost a triple of the gross margin (an increase of 170% means a total value of 270% compared to the previous period).
- In contrast, the particularity of the operational model described since 2015 in the shareholder manual re-demonstrates that a certain level of business is needed to generate enough gross margin to overcome the "threshold" given by the fixed costs. Only then does the very rapid increase in profitability begin. In 2019, the

technology division, in particular through Dendro in H1, had fixed costs that not accompanied by the sufficient gross margin, generating an operating loss of 380,000 lei versus a profit of 1.05 million lei in the previous year. Significant influence is given by the 'acquisition of fixed costs' with the Crescendo investment.

Obviously, if we had two H2's, the annual profit of Dendro would have reached **USD** 1 million, which shows why we are confident about the long-term evolution of the business.

## Financial Position

	31/Dec/19	31/Dec/18	31/Dec/17
Goodwill	12,241,308	12,241,308	2,536,315
Other Intangible Assets	5,425,152	6,099,112	163,040
Tangible Assets	1,755,021	2,003,818	475,751
Investments	1,236,738	1,230,328	(0)
Other financial assets	1,056,588	1,056,588	768,821
<b>Total fixed assets</b>	<b>22,136,780</b>	<b>22,631,153</b>	<b>4,031,935</b>
Inventory	1,997,289	618,060	395,856
Receivables	33,368,209	22,771,507	15,409,713
Cash	20,824,117	13,047,882	11,060,150
<b>Total current assets</b>	<b>56,189,615</b>	<b>36,437,449</b>	<b>26,865,719</b>
<b>Total assets</b>	<b>78,326,395</b>	<b>59,068,602</b>	<b>30,897,655</b>
Subscribed Capital	11,620,321	5,175,524	3,044,426
Premiums	0	2,594,889	680,248
Other Elements	1,240,852	1,038,755	471,070
Legal Reserves	343,644	266,124	164,559
Retained Earnings	1,707,150	352,234	394,597
Profit / Loss	(3,245,762)	4,371,203	1,205,609
<b>Total Equityi</b>	<b>11,666,204</b>	<b>13,798,728</b>	<b>5,960,508</b>
<b>Total Shareholder Equity</b>	<b>11,990,907</b>	<b>14,000,546</b>	<b>5,960,508</b>
<b>Total Long Term Debts</b>	<b>28,932,552</b>	<b>19,666,438</b>	<b>9,171,761</b>
Bonds	-	4,164,585	-
Bank Loans	8,368,104	8,017,675	6,000,000
Income Tax	20,188	570,928	320,568
Payables	28,908,774	12,648,430	9,444,817
<b>Total short term debts</b>	<b>37,402,935</b>	<b>25,401,618</b>	<b>15,765,385</b>
<b>Total debt</b>	<b>66,335,487</b>	<b>45,068,055</b>	<b>24,937,146</b>
<b>Total debt and equity</b>	<b>78,326,395</b>	<b>59,068,602</b>	<b>30,897,654</b>

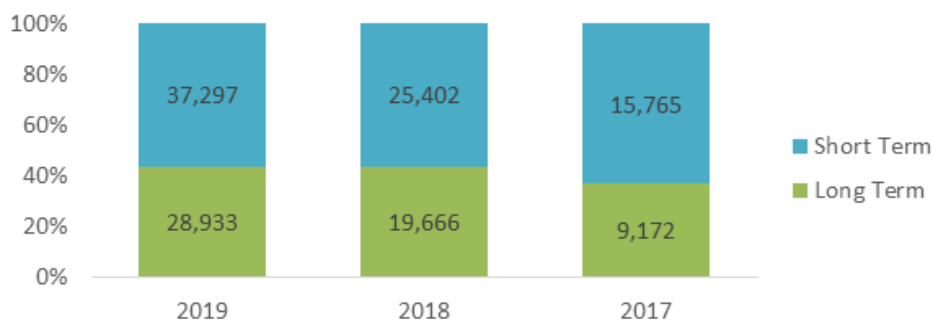


The decrease of the fixed assets is the natural evolution due to the depreciation (except the depreciation of the "Bittnet" brand, for which we consider that there is no need for annual investments in branding of 600,000 lei to preserve the value of this asset).

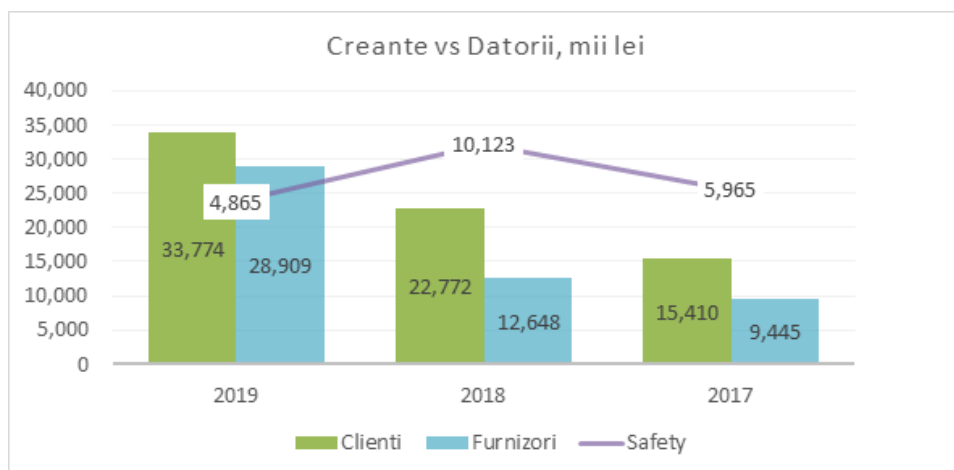
The increase in inventory at the end of the reporting period was generated by the need to purchase during the year 2019 some part-numbers that were to expire, which are delivered to customers in monthly installments. In this way, Dendrio was able to register an additional profit, both from the difference of the purchase price in bulk, as well as from the financing cost transferred to the clients. Our companies do not operate with stocks, as a business principle, but in this case we have estimated that the potential for profit outweighs the counterparty risk (the clients are well-known clients of the company).

## Considerations about leverage

In previous years there have been some discussions on this topic, so we will allocate some paragraphs this year to deal with the topic. The group's debts have the same composition as in previous years:



Long-term debts are due mainly in 2023 (4,7 million lei in 2022 and the rest in 2023), and short-term debts are mainly composed of debts to suppliers (commercial debts). As always, they are covered by a large margin of safety of the amounts to be collected from the clients (the Group tries to be neutral at the risk of cash flow):



## CashFlow

	31/Dec/19	31/Dec/18
<b>Operational Cashflow:</b>		
Gross Profit	(2,888,539)	5,289,611
<b>Adjustments:</b>		
Amortization	1,083,253	179,283
Stock Option Plan	1,123,573	567,685
Receivables provisioning	(3,557)	127,770
Interest Expenses	2,864,523	1,329,611
Interest Income	(371,828)	(72,889)
Investments gain / loss	(6,411)	(180,328)
<b>Operational Profit before working capital adjustments</b>	1,801,014	7,240,743
Variation of receivables	(10,082,050)	(6,123,581)
Variation of inventory	(1,379,229)	(219,330)
Variation of payables	16,781,062	2,921,255
<b>Cash from current business</b>	7,120,797	3,819,086
Income tax	(603,701)	(514,751)
<b>Net Cash from current business</b>	6,517,096	3,304,335
<b>Investment cashflow</b>		
Payments for acquiring subsidiaries, minus acquired cash	(699,585)	(1,299,042)
Payments for acquiring non-controlling interests	-	(1,050,000)
RP Loans	-	(1,050,000)
Goodwill purchases	-	(9,366,943)
Fixed Assets purchases	(582,469)	(7,413,586)
Interest income	405,485	39,232
<b>Net cash from investment activities</b>	(876,569)	(20,140,339)
<b>Financing Cashflow:</b>		
Issuing stock	-	2,899,332
Accessing Bank loans	-	5,197,000
Reimbursing bank loans	(813,770)	(2,015,126)
Issuing bonds	10,000,000	14,072,141
Reimbursing bondholders	(4,186,000)	
Interest payments	(2,864,523)	(1,329,611)
Dividend payments	-	-
<b>Net cash from financing activities</b>	2,135,707	18,823,735
<b>New cash increase</b>	7,776,234	1,987,731
<b>Cash at the beginning of the year</b>	13,047,882	11,060,150
<b>Cash at the end of the year</b>	20,824,117	13,047,882

## Key events in 2019

### Business transfer operation Crescendo International SRL | January 2019

On December 31st, the business transfer of the IT&C integration activity of Crescendo International SRL to Dendrio Solutions SRL, a Bittnet company, has been formally completed. Thus, starting with January 1st, 2019, Dendrio Solutions took over Crescendo International's IT&C integration business. Along with the transfer of the IT&C equipment as well as all the other assets that are needed to carry out the ongoing work, the deal also involved the transfer of 41 employees from Crescendo International to Dendrio.

### Registration of share capital increase | January 2019

On January 10th, Bittnet received certificate attesting the registration of the share capital increase with 3,044,426 new shares issued as a result of the GSM resolution from April 25th, 2018. The payment date, that is the date on which the newly issued shares were available for trading, was January 14th, 2019. As a result of the transaction, Bittnet's share capital increased to 5,175,523.80 lei.

### Private Placement for BNET23C bonds | January 2019

On January 18th, Bittnet has successfully closed the 5th private placement of corporate bonds, 1st one from 2019. During BNET23C placement, the Company obtained 10,000,000 lei from investors. During the placement process, 100,000 nominative, dematerialized, unconvertible, unsecured corporate bonds, with a face value of 100 lei / bond, were settled through the Bucharest Stock Exchange mechanisms (POFBX market). The private placement offer run between January 14th and 18th, 2019.

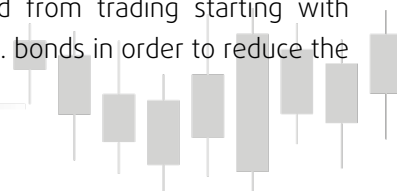
### Announcement capital increase for SOP2016 implementation | February 2019

On February 6th, the company announced its decision to raise capital in order to implement the Stock Option Plan (SOP) by issuing a number of 3,477,967 common shares, registered, dematerialized, of equal value and with a nominal value of 0,1 lei each, in the account of the option holders, key persons according to the incentive plan. Bittnet's SOP plan has been approved by the Extraordinary General Meeting of Shareholders since 28.04.2016. It was for the first time in the history of the Romanian capital market when a Stock Option Plan of a listed company was realized by raising capital and not by repurchasing shares in the market.

As a result of this operation, Bittnet's share capital increased by 347,796.70 lei, and the equity increased by an additional 3,584,392.30 lei, the issue premiums. According to SOP2016, a number of 18 persons were given the right, but not the obligation, to purchase from Bittnet shares at a price per share equivalent to a capitalization of the company of 7,800,000 lei. During the year 2018, all the 18 persons exercised this option.

### BNET19 bonds call back | February 2019

On February 7th, the company informed the shareholders about the early and full redemption of the BNET19 bond issue in accordance with the Memorandum and the Decision of the Sole Administrator no. 5627 of 07.02.2019 through which the call option was exercised. The redemption price of the BNET19 bonds was 100% of the face value and the registration date for the identification of the bondholders who benefit from the early buyback was 14.02.2019. The payment date was established on 22.02.2019 and BNET19 bonds were suspended from trading starting with 13.02.2019. The Company's management has made the decision to call back the BNET19 bonds in order to reduce the debt ratio and increase profitability by reducing financial expenses.



## Floating BNET23A bonds on ATS AeRO market | February 2019

On February 18th, BNET23A bonds floated on the ATS AeRO market of the Bucharest Stock Exchange.

## Floating BNET23C bonds on ATS AeRO market | April 2019

On April 17th, BNET23C bonds floated on the ATS AeRO market of the Bucharest Stock Exchange.

## Bittnet Investor Day | April 2019

On April 17th, Bittnet organized the second edition of Bittnet Investor Day at the Company's headquarters in Bucharest. During the event, the Company managed to host estimated 85 investors, shareholders, representatives of the local capital market as well as the media. During the event, the company's management has presented the results for fiscal year 2018 as well as the strategy for 2019.

## General Shareholders' Meeting | April 2019

On April 24th, the General Shareholders' Meeting of the Company took place during which the shareholders have approved, among other points, the following items on the agenda:

- Capital increase of the amount of 5,523.320,50 lei by issuing 55.233.205 new shares with nominal value of 0,1 lei per share, to be distributed to shareholders at the registration date of July 8th, 2019. The allocation ration of the newly issued shares was 1 bonus share for each 1 share held;
- Increase of shared capital through new contributions (with pre-trade of the preference rights) – by offering 11.046.641 new shares. The shares shall be offered for subscription taking into consideration the following formula for premium issue  $[(\text{average transaction price for last 30 days}) / \text{adjustment factor}] - 0,1$ ;
- Issuance of non-convertible bonds with a maximum value of 50 million lei;
- Incentive plan for the key personnel, a stock option plan, which offers an option to purchase share in the maximum amount of 5% of the total number of shares of the Company at a preferential price.

The full text of the decisions rendered during the General Shareholders' Meeting can be found at the following link: [http://www.bvb.ro/info/Raportari/BNET/BNET\\_20190320190056\\_CR17---current-report---engl.pdf](http://www.bvb.ro/info/Raportari/BNET/BNET_20190320190056_CR17---current-report---engl.pdf).

## Capital increase for SOP2016 Implementation | May 2019

On May 10th, Bittnet received certificate attesting the registration of the share capital increase with 3,477,967 new shares issued as a result of the Stock Option Plan (SOP) operation approved by Decision no. 6 of EGSM from 28.04.2016.

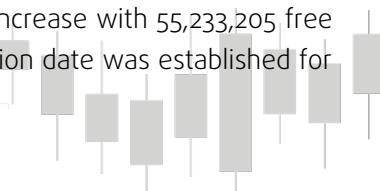
The date on which the newly issued shares were available for trading, was May 13th, 2019. As a result of the transaction, Bittnet's share capital increased to 5,523,320.50 lei.

## Significant contract | June 2019

On June 12th, Dendrio Solutions signed a significant contract with electricity distributor for software licensing. The contract had a delivery time in July 2019 and January 2020 and was in the value of EUR 1,4 million.

## Registration of free shares | June 2019

On June 27th, Bittnet received certificate attesting the registration of the share capital increase with 55,233,205 free new shares issued as a result of the GSM resolution from April 24th, 2019. The registration date was established for



July 8th, 2019 and the payment date, that is the date on which the newly issued shares were available for trading, was July 9th, 2019. As a result of the transaction, Bittnet's share capital increased to 11,046,641.00 lei.

## Distribution of 5.5 million lei worth of stock dividend | July 2019

On July 9th, the shareholders of Bittnet received, for the fourth consecutive year, dividends in the form of free stocks. During the process, the company distributed the accrued profits from 2018, in the amount of 5,523,320.50 lei under the allocation ratio of 1:1, meaning that 1 free share was awarded for each BNET share held by the investors. During the process, 55.233.205 new shares with nominal value of 0.1 lei per share were issued.

## Capital increase for SOP2017 implementation | August 2019

On August 8th, Bittnet announced the decision of the sole administrator to increase the capital by issuing a number of 5,736,796 common shares, registered, dematerialized, of equal value and with a nominal value of 0.1 lei each, according to the Stock Option Plan from 2017. 12 persons received the right, but not the obligation, to buy shares from the Company at a price per share which took into account the capitalization of the company as of 31.12.2016. As a result of the transaction, the share capital increased with the amount of 573,679.6 lei, and the equity increased additionally with the amount of 3,502,314.18 lei, the share premiums.

## Strategic Partnership Bittnet Group – ROCA | November 2019

On November 21st, the company announced a strategic partnership with ROCA, that aims to transform digitization into an accelerated development tool for companies in the fund's portfolio. Through this partnership, the companies in the ROCA portfolio are benefiting from the expertise accumulated by the Bittnet Group in the IT field. The main objective of the project is to identify new opportunities for integrating the technological components into the processes used and the products made by the companies in the ROCA portfolio.

## Publication of financial results for years 2016-2018 in accordance with IFRS | December 2019

On December 6th, Bittnet informed the investors about the availability of the company's financial results in accordance with the International Financial Reporting Standards (IFRS) for years 2016, 2017 and 2018. The Company published the financial results in the context of the transfer to the Main Market.

## Significant contract | December 2019

On December 13th, Elian Solutions signed a significant contract with a company from textile industry for the implementation of the Dynamics 364 Business Central solution and support service. The contract had value of 141,599 euro without VAT.

## Convening the General Meeting of Shareholders for the transfer to the Main Market | December 2019

On December 23rd, Bittnet has published a convening notice for General Shareholders Meeting for January 29th, 2020 for the purpose of approval of the admission to trading of the shares of the Company on the regulated market administered by the Bucharest Stock Exchange S.A. and the empowerment of the Board of Directors to take all the necessary actions and formalities for this purpose.

## Payment of coupons for BNET bonds | Throughout 2019



Throughout 2019, the company paid coupons for all of its five bond issuances - BNET19, BNET22, BNET23, BNET23A, BNET23C. In the case of BNET22, BNET23, BNET23A and BNET23C issues, the company is up to date paying interest to the bondholders.

## Changes to the Group financing structure | Throughout 2019

- On February 13th, Bittnet Systems extended the maturity of the revolving overdraft ceiling from ProCredit Bank to 13.02.2020. The value of the overdraft remained unchanged, in the amount of 2,790,000 lei.
- On July 25th, Bittnet Systems S.A. repaid early the loan of 4.5 million lei contracted in August 2017 from ProCredit Bank;
- On July 25th, Dendrio Solutions SRL contracted a revolving-overdraft lending product from ProCredit Bank in the amount of 4,500,000 lei, a 24-month maturity with the possibility of extension and the interest rate ROBOR3M + 2.4% p.a. ;
- On July 25th, Elian Solutions SRL extended the revolving-overdraft facility from Unicredit Bank in the amount of 224,000 lei with a maturity of 6 months and interest rate ROBOR1M + 6% p.a. ;
- On October 7th, Dendrio Solutions SRL extended the credit agreement with ING Bank NV Amsterdam - Bucharest Branch, due in November 2019. The extension was made over a period of 12 months and under the same conditions as the initial agreement, with total overdraft value of 2,000,000 lei and Interest rate of ROBOR1M + 2.9% pa. Maturity of this facility is 21.11.2020;
- On November 14th, Bittnet Systems S.A. signed a factoring agreement with Banca Transilvania for discounting invoices with a customer from telecom industry. The maximum financing ceiling is 3,000,000 lei, with 100% coverage of the value of the invoices, interest: 1.5% + ROBOR1M per year, calculated at the value of the projects and validity of 16 months with the possibility of extension.

