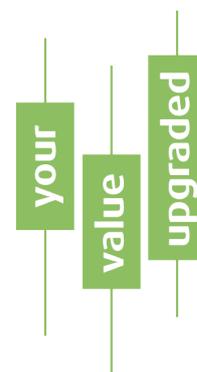


2019 ANNUAL REPORT

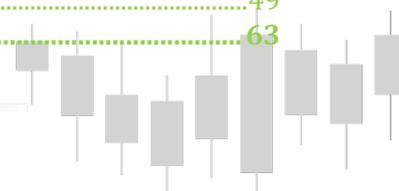
Annual report in accordance with	Annex 15 from ASF Regulation NR. 5/2018
For financial period	01.01.2019 - 31.12.2019
Report date	27 March 2020
Company name	BITTNET SYSTEMS S.A.
Registered Office	Soimus Str. no. 23, bl 2, ap. 24, Sector 4, Bucharest
Correspondence address	Timisoara Bd. no. 26, Plaza Romania Offices Building, 1 st Floor, Sector 6, Bucharest
Telephone / Fax Number	021.527.16.00 / 021.527.16.98
Fiscal Code at the Trade Registry Office	21181848
Trade Registry Office Number	J40/3752/2007
Market on which the securities are traded	AeRO STM Premium
Subscribed and paid up share capital	11,620,320.60 RON
Main characteristics of the securities issued by the company	116,203,206 common shares at the nominal value of 0.10 RON per share ¹
Symbol (BSE)	BNET – shares BNET22, BNET23, BNET23A, BNET23C – bonds
ISIN Code	ROBNETACNOR1
Contact	investors@bittnet.ro



¹ At the publishing time of this report, the Company is in progress with a capital increase operation for a maximum number of new shares: 11,046,641.

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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 of lei]:

	Revenue	Operational Profit	Net Profit	CashFlow Oper.	Cash Flow	Assets	Cash	Shareholder Equity	Market Cap.
2014	8,180	582	115	394	792	5,428	813	865	7,896
2015	9,993	1,608	889	471	2,195	8,253	3,008	1,920	8,108
2016	13,667	1,929	870	(1,768)	(652)	10,446	2,355	3,100	21,418
2017	27,682	2,743	1,206	373	8,705	30,898	11,060	5,961	16,982
2018	47,891	1,319	4,408	3,397	1,988	59,069	13,048	14,001	55,530
2019H1	39,747	(2,504)	(5,050)	(1,941)	2,174	71,760	15,222	13,219	175,089
2019H2	60,003	4,629	2,419	10,443	5,602	88,462	20,824	12,372	112,717
2019	99,750	2,125	(2,631)	8,502	7,776	88,462	20,824	12,372	112,717
CAGR	65%	30%	-287%	85%	58%	75%	91%	70%	70%
YoY	108%	61%	-160%	150%	291%	50%	60%	-12%	103%

Best H2 in history

The second half of 2019 was the best half in Bittnet Group's history, with all the companies being profitable and the Group recording significantly better financial results than in the first half of 2019. In the second semester the operating profit was of 4,6 million lei and the net profit was approximately 2,5 million lei, while the cash flow from operations exceeded 8 million 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 60% compared to 2018, up to 2.1 million lei, and the operating cash flow exceeded 8 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 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, it 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 yet 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 free shares to 10 shares held, accompanied by a capital increase with new contributions, with good (20%) return 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 60% compared to 2018, to 2.1 million lei while the net profit decreased from 4.4 million lei to consolidated loss of approximately 2.6 million lei in 2019.



The difference between the operational and net profit was especially caused by over 125% increase in interest expenses, up to 2.8 million lei, as well as 13 times increase in depreciation, up to 2.3 million lei. Additionally, application of IFRS2 standard generated a non-cash accounting adjustment of 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 3.4 million lei and accounting adjustment of 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 86.9 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 3.3 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 1.5 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 Training has registered revenues of 12.83 million lei while the operational profit was 3.3 million lei, compared to 2 million lei in 2018 while the gross profit was 2.2 million lei in 2019 compared to 1.9 million lei in 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%, 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.

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 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.

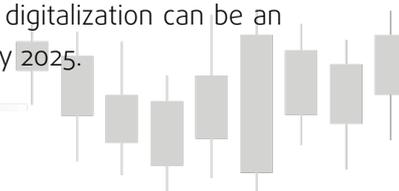
We enter 2020 strong, with many new projects in the pipeline as well as pool of loyal customers who have been an integral part of our strong growth over the years. The local and global market evolution are also very favorable for our business. As an example, ANIS estimate that the Romanian IT industry 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 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 million 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, and 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. Considering the current context (state of emergency and quarantine imposed by the military ordinance), we made the necessary arrangements for this event to take place online, using the technologies that the Dendrio puts at the disposal of its clients.

In addition, due to the same situation, we made have put efforts in order to have yet another premiere on the Romanian capital market: organizing the Annual General Meeting of Shareholders in virtual format, using technology. Thanks to the solution, the shareholders will be able to send us the vote electronically, for the entire duration between the reference date and the end of the vote in the General Meeting. I encourage you to join us as many as possible at our online GMS, but also send us your vote starting from April 21, 2020!

Mihai Logofătu
CEO Bittnet Group



Analysis of the activity of Bittnet Systems (the company)

Specify the date of establishment of the company

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 of client-engaging actions strictly for this range of services, targeting a new group of 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. Therefore, 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.

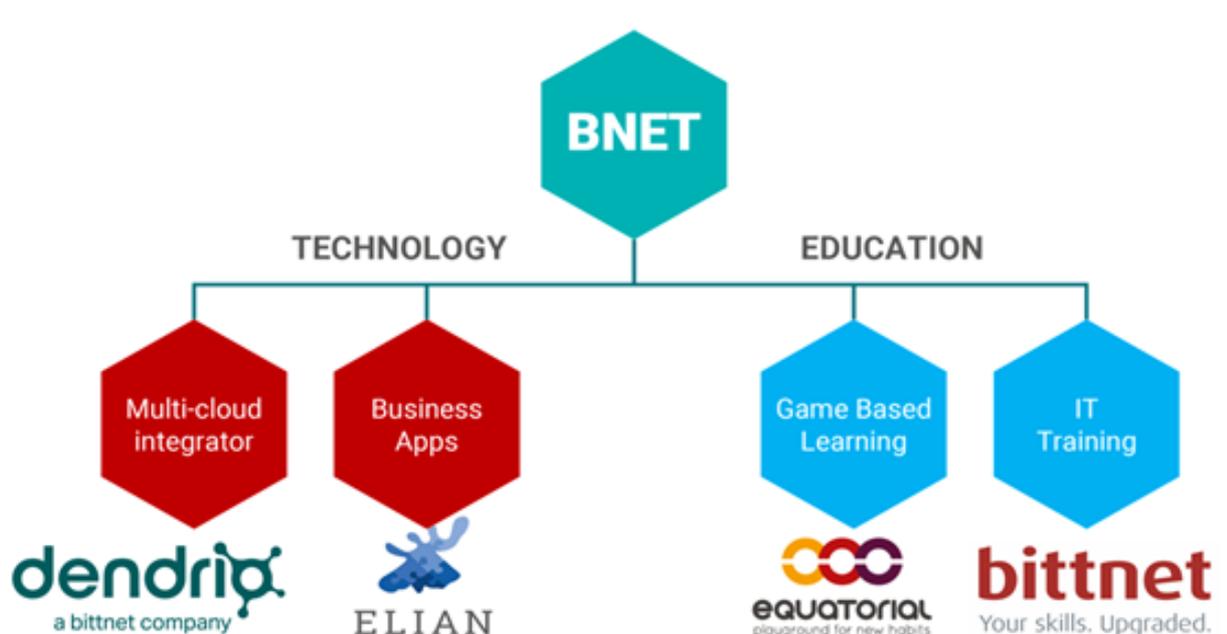


Soon after announcing the new structure, Bittnet has announced two new acquisitions – purchasing of a majority stake in ERP solution provider, Elian Solution as well as game-based learning company, Equatorial Gaming. Following the acquisition, activities of Equatorial were integrated under ‘Education’ 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.

Description of key activities of the company – the group structure

Following the acquisitions carried out in the past years, 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
- Website: www.bittnet.ro, <https://bittnet.training>

II. Equatorial Gaming SA

- Shareholding structure: 24,9989% Bittnet SA (with an option to increase until 45%); rest - founders
- Responsible: Diana Rosetka, Managing Partner
- Number of employees/collaborators: 15
- Website: www.equatorial.ro, www.vrunners.com

III. Dendrio Solutions SRL

- Shareholding: 100% Bittnet SA
- Key responsible: Cristian Herghelegiu, CEO
- Number of employees/collaborators: 45
- Website: 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
- Website: www.elian-solutions.ro



TECHNOLOGY DIVISION

Dendrio



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

Elon Musk

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.

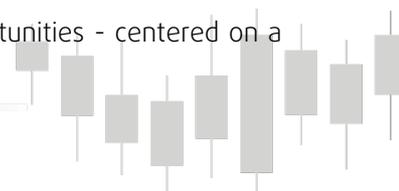
The continuous growth of the IT integration activity has proven that the growth strategy based on the two pillars - the organic growth of the business and the generation of synergies through acquisitions and consolidations in the profile market - is successful. We clearly notice that at the level of 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.

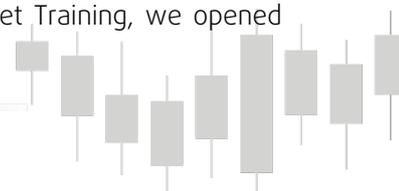
Of course, the process of aligning the objectives throughout the company will continue throughout the year 2020, with main objective being the increase in business agility - faster identification of the real needs of the customers and reducing the delivery time of the technological solutions to them.

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!



Elian

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

- Cloud licensing for Dynamics 365 BC has increased by 90% compared to 2018.
- 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 Elian 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, Elian 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. Elian currently has two solutions in its portfolio: Jet Reports and PowerBI.

Also, in 2019, Elian 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/AI specific to OnPrem licensing and AL specific to OnCloud licensing. The basic product 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 Elian 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 Elian 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.



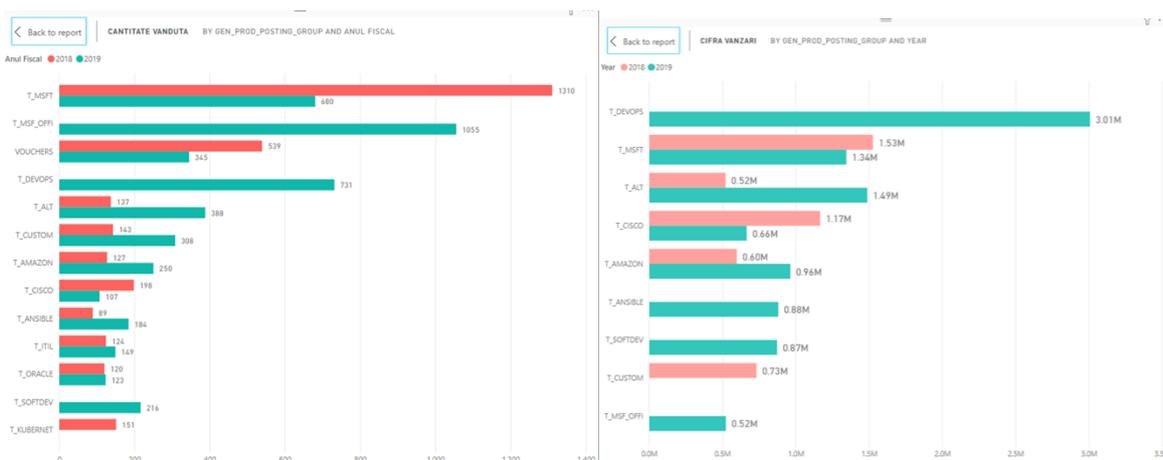
EDUCATION DIVISION

"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:

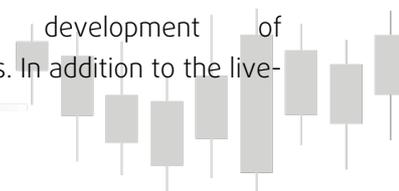
- **Key Account Management Team** – with the role of developing a pro-active business in the portfolio of large clients (Corporate);
- **Inside Sales Team** – with the role of taking over the requests received through the website, the marketing leads and also developing pro-active business in the portfolio 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 4.000 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.

From the point of view of the external image, the year 2019 meant a refresh of the visual identity for Bittnet Training with the purpose of modernizing the brand image, building a community around it and making the services that Bittnet offers more clear. Bittnet's website has been redesigned to increase the flexibility and speed of adaptation to the curricular changes coming from the main technology vendors. Additionally, we also wanted to reduce as much as possible the dependence on the sections with the programming component that involved a lot of time and additional costs, in conjunction with the possible errors coming from different versions of the applications which the Bittnet site integrates.

Therefore, a solution was created that is simple, efficient, easy to understand by all the members of the marketing team, and at the same time is integrated with the technological platforms for tracking the results. Another reason for changing the website was related to the recommendations received on the SEO side and the construction of the pages so that they can support integrated marketing campaigns.

Analyzing the financial results of the two entities of the division, in the case of Bittnet Training, revenues reached the threshold of 12.83 million lei, 73% (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. 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.

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

Until 2016, the company did not undergo through any merger or reorganization. Starting with September 2017, following the approval of the General Meeting of Shareholders in April 26, 2017, the Company acquired a 100% stake in the company GECAD NET (CUI: RO11973883). The acquisition was carried out in two stages, the participating in the increase in the share capital of GECAD NET followed by the transfer of all social parts, financed with the capital raised in a private placement of corporate bonds (BNET22).

During 2018, Gecad Net SRL underwent a rebranding process, being known today in the IT market under the new name Dendrio.

In 2018, the General Meeting of Shareholders approved the investment in Elian Solutions - CUI (23037351) - Bittnet acquiring a majority stake in a three-stage process that was finalized in September 2018. Also, in April 2018 GSM also approved the investment in Equatorial Gaming SA - Bittnet becoming a shareholder with a stake of approximately 25%, with the option to increase to 45% - operation completed in Q3 2018.

At the end of 2018, Dendrio Solutions - fully owned by Bittnet - took over the IT&C integration division from Crescendo International.

Description of acquisition and/or alienation of assets

The increase in fixed assets from RON 22,631,153 in 2018 to RON 33,339,974 in 2019 is explained by the following components:

1. variation of goodwill (RON 17,701,643 in 2019 versus RON 12,241,308 in 2018), which is explained by the recording of the adjustment value of the investment in the business transfer signed by Dendrio with Crescendo at the end of 2018.
2. The increase of the tangible assets from RON 2,003,818 in 2018 to RON 6,742,571 in 2019, which is explained by applying for the first time the IFRS16 - Leasing standard - which requires the Issuer to register as a depreciable asset the right to use the rented property for a longer duration of 12 months (the working space in Timisoara Bd. no. 26 - working point), in counterpart with the recognition of a



lease debt bearing the interest related to future payment obligations. Also, IFRS16 applies the same treatment for operational leasing contracts (Grenke Leasing and Autonom Leasing). This is not an acquisition but a retreat according to a new standard. The amount registered is 6 million lei at the beginning of 2019, which were amortized in 2019 by 1,27 million lei.

- Investing the amount of 422,000 RON in the development of the Learning Management Platform - "UXI" During the financial year 2019.

No assets were alienated during 2019.

Description of the main results of the company's activity evaluation

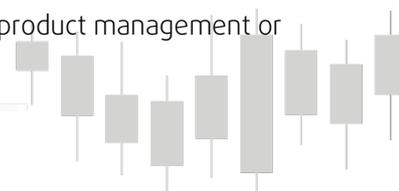
1.1. General evaluation elements

The below numbers are presented in RON.

	2019	2018	2017
Revenues Bittnet trademark		5,968,250	
Revenue	100,407,563	47,891,044	27,844,998
Cost of sales	-82,494,676	-39,013,343	-20,263,782
Gross margin	17,912,887	8,877,701	7,581,216
Sales Expenses	-6,417,530	-2,485,635	-1,633,463
Administrative Expenses	-11,658,788	-6,006,901	-3,604,948
Câștig titluri puse in echivalenta	6,411	180,328	-
Financial income	371,828	72,889	1,601
Financial expenses	-3,177,062	-1,317,020	-884,771
EBIT	-2,962,255	5,289,611	1,459,636
Income Tax	331,642	-881,666	-254,026
Net profit	-2,630,613	4,407,945	1,205,609

The significant evolutions of the elements of the results are:

- The gross margin generated at the consolidated level remained similar as a percentage of revenues on the two lines of activity (56% at training, 12% at integration). As expected, the technology division has increased in the overall percentage of business. What is remarkable is that with the increase in revenues, the gross margins remained similar, which re-demonstrates that the principle on which the sales team's bonus system is built is a correct one: aligning the interests of the sales team with those of the shareholders.
- Sales expenses increased by 160% compared to 2018 due to the significant growth of the team, in all areas of activity (both sales team and associated functions such as pre-sales, product management or



marketing). The component of marketing expenses - generated by rebranding and new online marketing activities increased from RON 200,000 to RON 950,000.

3. General and administrative expenses increased by 94% compared to 2018 due to the following factors with important effect:
 - a. Increasing the expenses with team as a result of increasing by 100% of human resources as a result of the investment in business transfer from Crescendo - 2.65 million lei
 - b. Increased expenses with depreciation: 2.12 million lei, as follows:
 - Depreciation of the Bittnet brand: 386,000 lei;
 - Depreciation of assets recognized in accordance with IFRS16 (rights of use of the rented office building, operating leases Grenke Leasing, Autonom leasing): 1.32 million lei;
 - Depreciation of assets transferred from Crescendo: 340,000 lei.
 - c. accounting adjustments, non-cash, according to IFRS: 1 million lei in 2019 versus 570,000 lei in 2018

As we have warned in both last year's letter and in the Income and Expenditure Budget for 2019, the existence of several investments financed with bonds generates immediate higher interest expenses, while investments are expected to produce growing profits in period of 5 years (bonds maturity) - the effect is an increase by RON 1.8 million in interest expenses compared to 2018.

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

Especially the last position, the IFRS adjustment, represents a difference from the Romanian reporting framework based on which the individual situations are drawn up, and which we have applied to the reports of previous years. IFRS2 requires the company to record as an expense incentivizing key persons with options, even if the transaction is completed by raising capital (not by repurchasing the shares) and even if the options expire. On this subject there have been many discussions over the years, sometimes reaching semantics and philosophy. There are certainly among the readers of this report many people who already have an opinion formed in one way or the other.

For the others, we briefly express the argument against accounting it as costs. The process of rewarding the key persons with options implies for them (**“the option holders”**) **the right, but not the obligation to buy shares from the company at a price valid previously. In the case of Bittnet, the incentive plans with options last for two years. In other words, if the activity of the key persons was positively appreciated by the capital market, the value of the company (and therefore of the investment of each individual shareholder and of all collectively) increased, the key persons are entitled to 5% (example based on the approved plans by the Bittnet shareholders) from this increase recorded in the trading accounts of the shareholders.**

For option holders to receive the shares, the simplest way would be for the company to make a capital increase, addressed only to option holders, issuing 5% in shares, at the reference price of the options plan (closing price from 31 December "2 years ago"). If the law allows this, the company will register a capital increase, as is normally recorded: increase in assets (cash received from option holders), increase in liabilities (new shares issued). This operation is reflected in the balance sheet of the company. Unfortunately, unlike the United States or England, the Romanian legislation is very restrictive with the operations in which only certain people participate in capital increases, and that is why the process that we have identified and developed for the first time for the Romanian market is much more complex.



In contrast, the important part of this report is the argument that, if we had a different capital market legislation, similar to the developed markets, the operation of granting and settling the options could have been registered as any other capital increase, only in balance sheet accounts (not in the income statements).

Additionally, the "Bittnet" trademark/brand is supposed to have no value over 15 years (which is obviously contradicted by any analysis of Bittnet's history but also of the global economy. Even in case of insolvent or liquidated companies, the brand was often the only asset that could be sold!). This has another negative effect on the profitability. of about 386,000 lei.

We now continue to present the evolution of the two business lines. The IT training activity is carried out by the company Bittnet Systems SA, the listed company ("mother" of the Group). Thus, the financial results of Bittnet Systems SA are made up of results of the operational IT training activity, and the results generated by the holding activity. The below table presents the results of the operational activity for training, obtained by adjusting the individual results of the company in the sense of eliminating the transactions related to the group activity (attraction of financing, distribution to subsidiaries, dividends received, adjustments according to IFRS2, adjustments regarding receivables, etc.).

Segment Reporting (Business Divisions)

Segment / year (RON)	Education		Technology	
	2019	2018	2019	2018
Revenue form customers	12,830,590	7,408,425	86,919,239	40,482,620
COGS	5,618,785	-3,239,216	- 76,875,891	-35,774,128
Gross Margin	7,211,805	4,169,209	10,043,348	4,708,492
Sales Costs	-1,909,224	-568,275	-4,508,306	-1,917,360
Business Expenses	- 2,367,178	-2,136,895	-6,001,497	-3,786,027
Operational Profit	3,439,218	1,464,039	- 466,454	-812,646
Amortization	-1,105,193	- 74,361	- 1,183,277	-83,980
EBIT	2,334,025	1,389,689	-1,649,731	-896,625
Financial Expenses			-1,948,328	-297,271
Gross Profit	2,334,025	1,957,373	- 3,598,059	-1,193,896

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

Revenue percentage between business lines proves 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 13% of turnover comes from this activity, with the press and investors overlooking 87% of revenue when they describe Bittnet as "just" a training company.

At the same time, although we will continue to follow the accelerated growth in the training business, the market where Dendrio is active has a value of almost \$ 6 billion annually in Romania (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 bigger scale is easily observed from the following evolutions:



Education Division:

- The +70% in revenues is accompanied by an increase of only 37% of the direct costs, which therefore generates a doubling of the gross margin generated.
- In addition, 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, i.e. a 7-fold increase in operating profit!

Technology Division:

- The +114% in revenues and +115% of the direct costs generates almost a 3x increase in 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 demonstrates again that a certain level of the business is needed to generate enough gross margin to overcome the fixed costs. Only then does the very accelerated increase in profitability begin. In 2019, the technology division, (especially through Dendrio in H1) had fixed costs not accompanied by sufficient gross margin, generating an operating loss of 380,000 ron versus a profit of 1.05 million ron in the previous year. Significant influence is given by the 'acquisition of fixed costs' with the Crescendo investment.

Obviously, if we had two half years as H2, Dendrio's annual profit should be 1 million dollars, which is why we are confident in the long-term evolution.

Financial position

Significant developments between 2018 and 2019 for the following elements:

	2019	2018
Goodwill	17,701,643	12,241,308
Tangibles	6,742,571	2,003,818
Deferred income tax	562,443	-

As we explained in the chapter regarding the acquisition of fixed assets, the positive evolution of the goodwill is caused by the registration of the final tranche from the transaction with Crescendo, and the positive evolution of the tangible fixed assets in application of the standard IFRS16, which has generated the reconsideration as assets of all the objects of the lease agreements longer than one year (office space, furniture, IT equipment, etc.).

In case of current assets, the evolutions in the table below are explained as follows:

1. The increase in inventory at the end of the reporting period was generated by the need to acquire, during the year 2019, some part-numbers that were about to expire, which are delivered to customers on a monthly basis. In this way, Dendrio was able to make 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 inventory as a business principle, but in this case, we have estimated that the potential profit outweighs the counterparty risk (these clients are well-known clients of the company).
2. The increase of receivables by 42% while the turnover increased by over 100% is the result of carefully monitoring the cash flows of the projects to each client. It has also had effect on the positive evolution of the cash position.



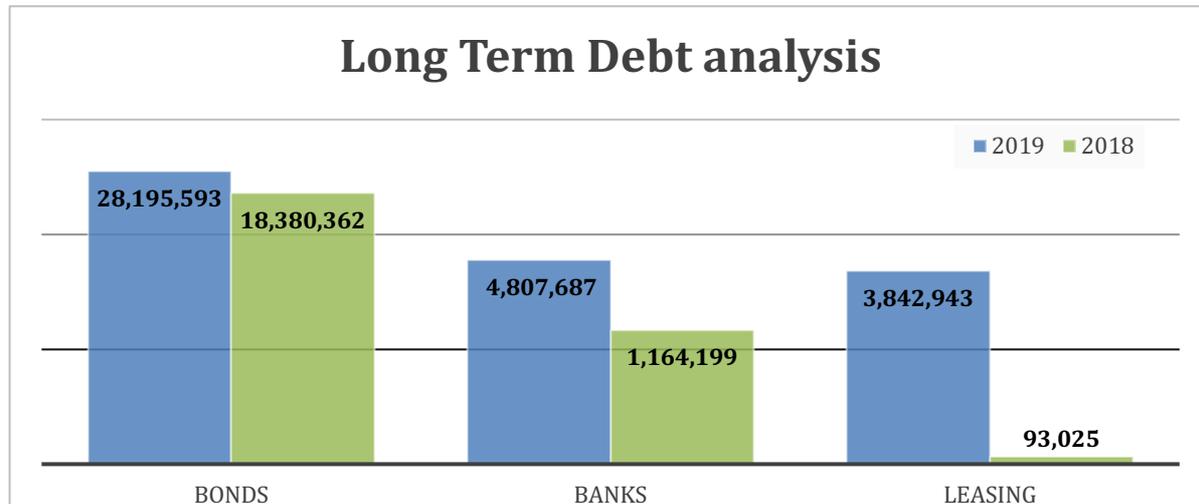
	2019	2018
Inventories	1,997,289	618,060
Trade receivables	32,300,201	22,771,507
Cash and cash equivalents	20,824,117	13,047,882

The evolution in equity was positively influenced by the increase of the share capital as a result of the capital increase operations registered during 2019, and was negatively influenced by the current result (consolidated loss in 2019).

	2019	2018
Share capital	11,620,321	5,175,524
Total Equity and reserves	12,371,577	14,000,54

In the case of long-term debts, they increased from RON 19.6 million to RON 32.4 million, due to two factors:

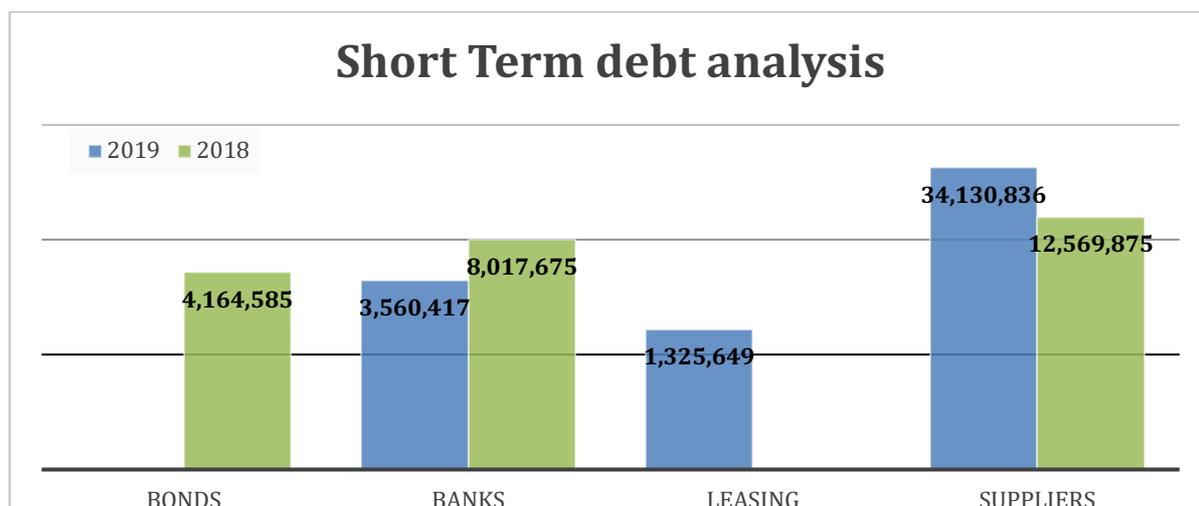
1. BNET23C bond issue from the beginning of fiscal year 2019 – RON 9.7 million
2. The IFRS16 standard, starting with 01.01.2019, which requires the Issuer to register as a depreciable asset the right to use the rented property for a duration of more than 12 months (the working space in Timisoara Boulevard no. 26 - the working point), in counterpart with the recognition of a leasing debt with interest related to future payment obligations. Also, IFRS16 applies the same treatment for operational leasing contracts (Grenke and Autonom) - it evaluates all the commitments that confer the right of use on all the leased goods as "Leasing debt".



Short-term liabilities increased from RON 25.4 million in 2018 to RON 43.7 million in 2019 due to the following factors:

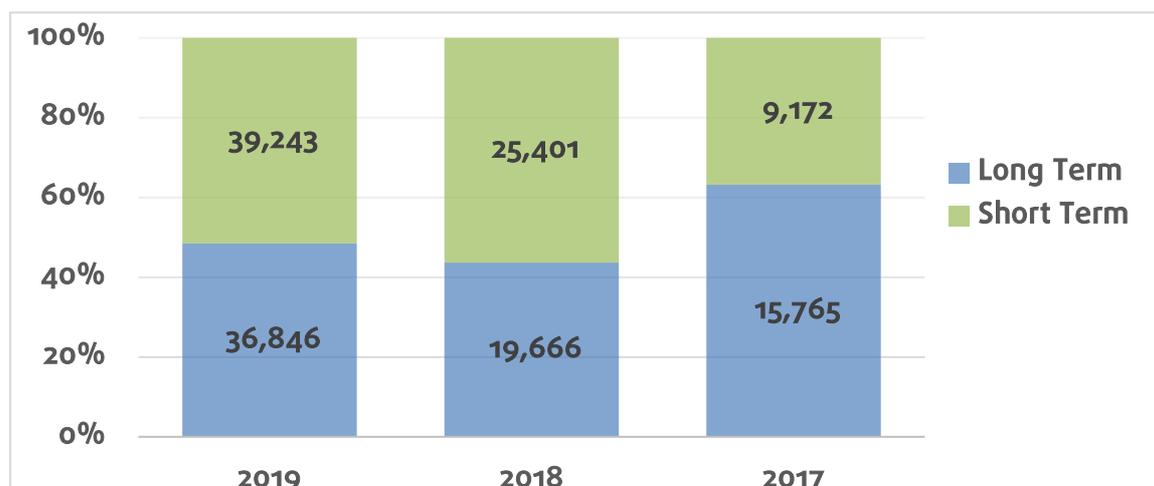
1. registration of payment rents in 2020 as short-term debts of 2019 – RON 1.3 million
2. the increase in commercial debts from RON 9.8 million in 2018 to RON 24.8 million in 2019 (in line with the increase in turnover)
3. registration of the debt regarding 2nd tranche of the transaction with Crescendo – RON 5.4 million





About the financial leverage

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



The long-term debts are due mainly in 2023 (RON 4.7 million in 2022 and the rest in 2023), and the short-term debts are mainly composed of debts to suppliers (24,792,468 lei for payments to suppliers and 5.4 million lei – 2nd tranche of Crescendo Investment transfer). 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):

- 24,792,468 lei for payment to suppliers at the end of 2019, covered by commercial receivables of 30,505,476 lei
- 9,790,245 lei for payment to suppliers at the end of 2018, covered by 21,327,745 lei commercial receivables

The decrease in the difference between receivables and commercial debts can be found in the “cash” position in balance sheet.



Analyzing the degree of indebtedness as "percentage of assets financed by credit", as of December 31st, 2019, the Bittnet group recorded a value of 86%. We have shown in our previous years our opinion that this indicator does not offer the best understanding of the situation of companies, regardless of the component of assets (how much of assets are cash) or the maturity of debts.

If we analyze the ratio between long-term net debt and equity, it is 0.75: 1, showing a financial leverage of 1.75 - about which we can say that it is "too conservative" for a company with an average growth rate of income (and assets and equity) of 70% annually.

Equity

During 2019, the company's equity decreased by RON 1.6 million, (from 14 million in 2018 to 12.4 million in 2019) as a result of the consolidated loss recorded (2.7 million ron), which was partially offset by the capital increases registered during the year. The management's intention remains nonetheless to capitalize on earnings by distributing free shares, to strengthen the company's capital base and improve financial stability.

At the time of writing this report, the company is carrying out a capital increase operation with new contributions in cash, which will be completed in April 2020. The maximum amount that can be rise in this operation is about RON 9 million.

Market share

Bittnet Group 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:

- Being active in the most training market segments;
- Not competing with the same competitors in more than 2-3 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 ± 85%. On the other hand, in terms of Microsoft training, the company has a market share of ± 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), served by Dendrio, the very diversified range of services of the Company makes it impossible to determine percentages of market share. According a study of ANIS – Employers' Association of the Software and Services Industry, the Romanian IT market had a value of 6 billion euro in 2019. Considering this estimate of the total IT industry, the market share of the Company in the area of integration of IT solutions (hardware, software and services) is insignificant, registering a value of less than 1% of the total market.

Also looking at ANIS estimates on the number of IT employees in Romania (200,000 in 2019, with a target of 300,000 growth in the next few years), Bittnet has trained in 2019 (the best year) under 2% of the total IT employees.



Both analyzes show us that the situation in which we are is actually a very happy one, because maintaining a growth rate similar to the one previously registered - 70% annualized - does not depend on the growth of the market, does not depend on the displacement of some players, etc., but only because of our efforts to be with clients and to offer them solutions relevant to them.

1.2. Evaluation of company's technical expertise

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

The main outlet in 2019 for Bittnet's products and services has been, similar to previous years, Romania, with a share of 94% of revenues coming from clients who are based within the country's borders. The evolution compared to 2018 is due to the significant growth of Dendrio's revenues, through the business transfer from Crescendo, an increase made entirely with Romanian customers. On the other case, Bittnet exports reached RON 5.27 million - about 40% of the turnover, and an increase of 40% compared to the previous year. In the case of Dendrio the rate of increase of the export revenues was similar: 37%, but here it is applied on a smaller basis (from 844,000 lei to 1.164 million lei).

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.

Description of key products and services provided

Bittnet 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 services provide a complete training service that starts 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. The elaboration of the training plans and their prioritization are meant to optimize the training budgets, to optimally manage the development of the employees and the evaluation of the post training, having at the disposal clearly defined methods of measuring the improvement of the performance, thus justifying the investment made in the training.

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.

Equatorial Gaming

Equatorial develops adult learning and softskills games. The clients are entirely Romanian companies.

Vrunners is an evolution of the Equatorial Marathon, which allows companies to achieve remarkable results in the area of softskills, personal development and departmental development or interdepartmental collaboration, applying the concept of real-life play with rewards on the virtual platform. Thus, companies can launch with the help of the game actions to improve the working environment, which follows the parable of a game of the marathon. Employees become "runners" in a virtual marathon, gaining points (in meters) and consuming calories as they perform real-life tasks set by Equatorial consultants and HR departments of customers, tasks designed to achieve desirable results for the employer, like:

- Increasing interaction, engagement and collaboration between departments;
- Increasing sales team performance;
- Developing the managers and leaders of the organization;
- Increasing the number of individual study hours of topics relevant to the industry.

In 2019 Equatorial has prepared 3 new games:

- **Oligopoly** business simulation - in the second part of the year we launched this complex simulation within a training project for clients of a bank in Romania. 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 1, which is planned for launch in Q2 2020, have an impact.
- **White Hat** - is the first learning game for the IT industry that helps students increase their retention rate for 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 vendors and aims to integrate most of the technologies we teach in the classroom or virtual.
- **Bona Fides Agency** - 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, the feedback obtained helping us to discover new applications in the areas of teambuilding, engagement and customer experience.



Dendrio Solutions

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.

Dendrio 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.

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

Throughout 2018, we have increased the number of Cloud projects to over 180, 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. Therefore 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.

Dendrio 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.

Dendrio 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 2019 we will follow an expansion of the customer base in this area.

IT Services

Consultancy services

Dendrio 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. Dendrio is outlining the network architecture and, if required, will run a demonstration to test its functionality. Also, Dendrio 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, Dendrio 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

Dendrio'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, Dendrio offers a support and maintenance option – which means that Dendrio 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 Dendrio 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.



Eliau Solutions

Eliau Solutions is an ERP solution provider. ERP solutions enable buyers to know the exact situation of inventories, receivables and debts, forecast the cash flow, track the production, cost centers, and much more. The company's management can thus have a correct and complete picture of the business.

Microsoft Dynamics Nav (Navision) is an ERP system created for growing companies that need an information system capable of growing in the same time with them, having multiple modules folded into the functional structures of a company. Below are briefly mentioned the main functionalities of each module.

- a) The Financial Management Module in Dynamics NAV (Navision) allows for the finance and accounting management of the company. It is the "heart" of the system, since any transaction in another module will eventually have consequences also on the financial level. The module contains information about accounting records, fixed assets, bank accounts, customers and suppliers. Among the module's functionalities we can mention:

- Parameterizing the accounting accounts in the chart of accounts. For each account there is information about the real and budgeted balance;
- Viewing balance sheets for a certain period;
- Accounting records in any currency;
- Defining the fiscal year having as start date any desired date by the user and dividing it into tax periods;
- Define budgets in matrix windows for one day, one week, one month, one quarter, one year, or any tax period;
- Defining budgets by cost centers or business unit;
- Bank Account Management - allows management of bank accounts of the organization and various bank account operations;
- Traceability - Tracking is created for each transaction so that complex business streams become transparent. There is a change log that contains changes made by users to the data. A chronological list of changes over a field in a table shows what changes were made and by whom;
- Inter-company registration - Records are created between companies within a group controlled by the same legal entity;
- Value Added Tax and other taxes used - Recording groups are used so that all these taxes are calculated automatically. In the case of VAT, the correctness of the tax registration number by country and the uniqueness of this number for customers and suppliers is verified;
- Fixed assets - Defines information about fixed assets and fixed asset groups. An unlimited number of damping registers can be defined for each fixed asset and one of the damping methods: linear, degressive or accelerated.

- b) The Sales and Marketing module allows to manage your sales processes, from issuing the sales offer to issuing the final invoice. This allows managing the leads (potential customers) from the first contact with the lead to the generation of the first sales order. Among the module's functionalities we can mention:

- Multiple delivery and multiple billing capabilities of the sales order;
- Flexible revenue processing by choosing how customers pay their bills;



- Establishing complex discount and pricing policies at a client or item level, or combination of them;
 - The ability to set quantitative-value targets for customer volume, item, and tracking sales;
 - Contact Management - allows definition and maintenance of general information about companies and contact persons;
 - Management of sales opportunities and sales team;
 - Document management through the interaction log, where interactions such as phone calls, appointments, letters, or emails can be recorded. If an interaction contains a document, it can be saved at the contact level and can be accessed later;
 - Defining marketing segments and campaigns
 - Integration with Microsoft Office Outlook (contacts, tasks, appointments, etc.).
- c) The Purchasing and Debt Module allows to manage relationship with the vendors, starting with the purchase bid registration, until reception and final invoice registration. At the same time, it provides tools for optimizing inventories in conjunction with production and sales activities. Among the module's functionalities we can mention:
- Possibility of multiple receptions and multiple billing in the purchase order;
 - Establishing complex discount and pricing policy at a supplier or item level, or a combination of these;
 - Facilitates the establishment of article-based supply policies on a variety of criteria (minimum stock, minimum quantity, order resume, maximum stock, etc.), also taking into account the supply times specific to each supplier;
 - Allows cataloging of articles on each vendor with supplier-specific article coding;
 - It may suggest payments to suppliers according to different criteria (priority, due date, possible discounts, etc.);
 - A flow of approvals can be established in the system, so purchases that exceed a certain threshold value cannot be operated without prior approval;
 - Allows quantitative-value tracking of acquisitions from a period at an article and vendor level, correlated with a previous budget.
- d) The Storage Module allows for optimized inventory management, also based on the physical features of items, in accordance with user-defined storage policies. It is ideal for handling a large volume of items. Among the module's functionalities we can mention:
- Possibility of organizing the deposit on reception, delivery and storage areas;
 - Areas can be divided into compartments (rows, shelves, etc.);
 - Can be determined the physical parameters of each compartment (accepted weight, volume, etc.) as well as compartment typology restrictions (eg temperature, minimum and maximum article-by-item);
 - Various storage rules can be parameterized and based on those rules the system suggests optimal storage compartments;
 - Proposes the pick-list based on which items are picked up for delivery;
 - Allows reorganization of items in the warehouse to optimize space and picking time.
 - Allows refilling the compartments based on predefined maximum and minimum quantities;
 - Allows integration with scanning devices via ADCS (Automated Data Capturing System) technology.

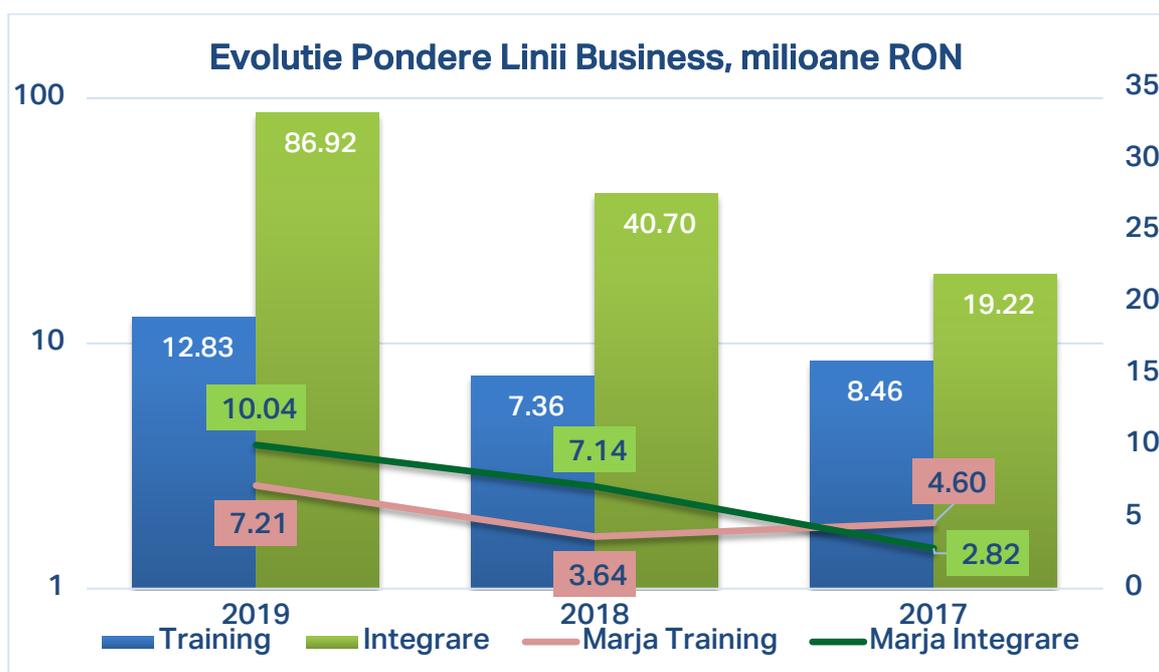


- e) The Module of Production provides a complete solution for defining, tracking and controlling production processes. It works in close correlation with other modules (supply and sales), ensuring an integrated approach to the production process. Among the module's functionalities we can mention:
- Allows to define and manage production recipes and their versions, technology sheets and production capacities;
 - Allows creation and management of production orders on different production states:
 1. Simulated - for the research-development department;
 2. Scheduled or firmly planned - for efficient planning of material needs and production capacities;
 3. Released - to operate the stock changes resulting from the production process;
 4. Completed - for history and further analysis;
 - Allows the creation of automated production orders, based on planning, directly from sales orders or manually;
 - Allows serialization or lot-ification of both raw materials and finished products;
 - Allows an analysis of a pre-calculation of production based on components, production times and parameterization times estimated on production lots;
 - The cost of the finished product will be determined automatically based on the actual consumption of raw materials and the cost of production time; indirect costs of production of fixed or percentage value may also be defined;
 - Some indirect costs may be redistributed later to the production process, according to user-defined allocation keys;
 - Provides the ability to plan production on stock, custom or combined.
- f) The Resource Planning Module allows you to define and track profitability associated with company resources (employees, equipment, etc.). It is particularly useful for those processes that have high added value and where the human factor is determinant - the services area. Among the module's functionalities we can mention:
- The ability to define resources (employees, equipment) and associate costs and prices;
 - Managing availability of resources on days, weeks, months;
 - Allocating the resources of the works (projects) and the service orders;
 - Production and project planning based on the availability and capacity of resources.
- g) The Human Resources Module provides evidence of key information about company employees. Among the module's functionalities we can mention:
- Managing information about company employees;
 - Associating resources and employees;
 - Evidence of employee absences;
 - Obtaining specific reports.
- h) The Work Module supports the planning, tracking and control of project management activities. Among the module's functionalities we can mention:
- Defining projects by phases and items to be consumed in the project, according to the quantities and prices agreed with the customer;
 - Quantitative follow-up of deviations between what was budgeted / agreed and actual consumption;



- Possibility to invoice different phases of projects, with flexible price structure, either with those agreed in the contract or with those known only at the moment of invoicing;
 - Allows the usage of 5 methods of recognition and recording of unfinished production in accordance with International Accounting Standards (I.A.S.);
 - Provides ability to track projects in different currencies.
- i) The Service Management Module allows the management of services for items under warranty and for service operations in general. It provides management support through resource planning tools for service operations. Among the module's functionalities we can mention:
- Service items management - it is realized by registering service items with all the related information: serial number, component list, contract information, response times, start and end date of the warranty. For the components of an item you can know how many times they have been replaced and when;
 - Service tariff management - is achieved by parameterizing, maintaining and tracking service prices, allocating fixed, minimum and maximum prices, and defining price groups for a limited time for a specific customer;
 - Service Order Management - helps recording the interventions that occurred after the sale of service items, revisions and repairs that are made so that a record of interventions can be obtained for an item. For terminated contracts, orders are automatically generated in accordance with the terms of the contract;
 - Service contracts management - allows to create bids or contracts based on predefined standard models;
 - Order planning - involves assigning employees to work orders in accordance with the personal availability and abilities.

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

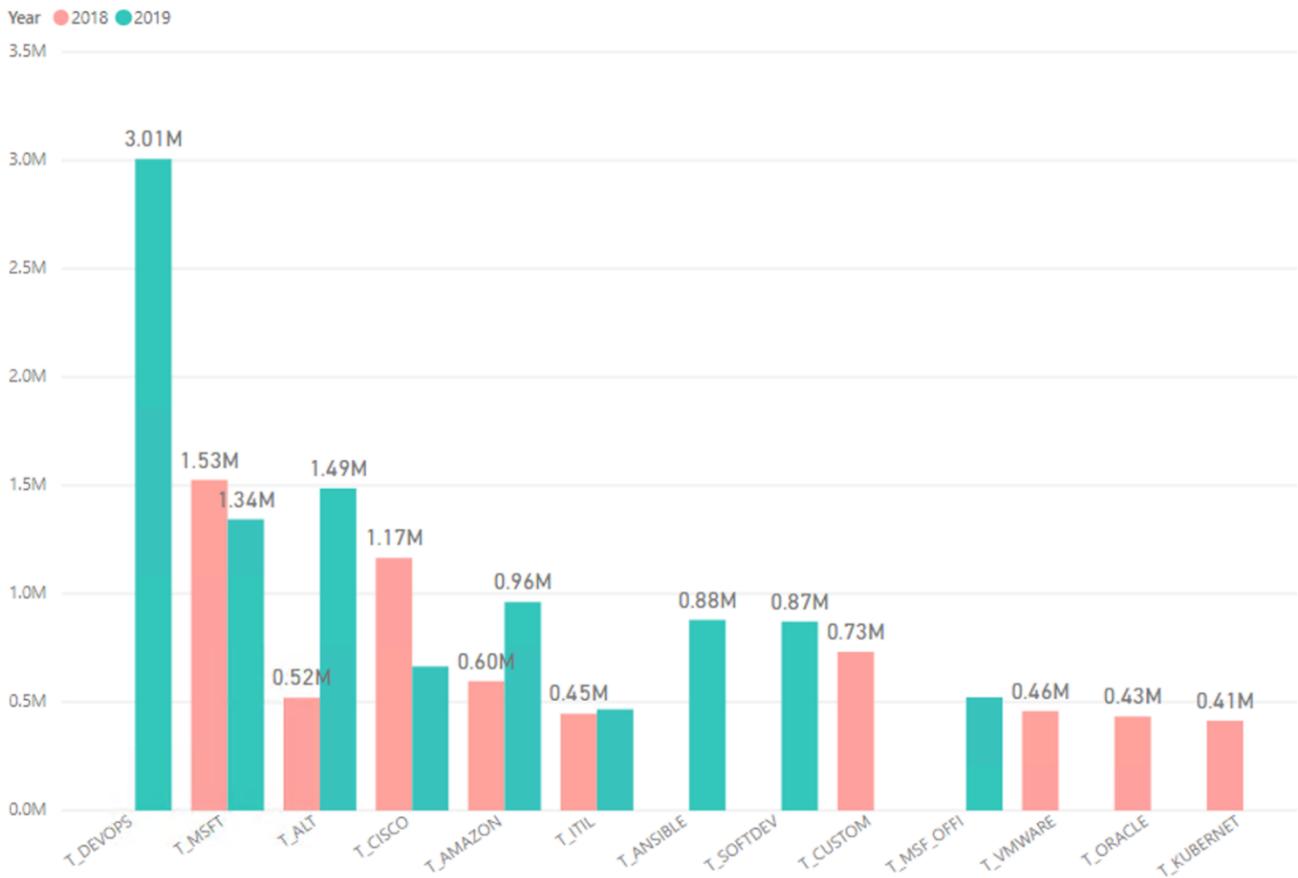


It is easy to imagine that the business line of "IT solutions integration" will register higher weights in total turnover, due to its specificity, which includes the delivery of goods (large turnover, small gross margin).

Considering this line of business includes revenue from cloud solutions, it is likely to continue to grow at an accelerated rate. On the other hand, the privileged position of leader of the IT training market, as well as the continuous focus of the company on expanding the portfolio of training products, gives us hope to 'capture' more value from the IT training business.

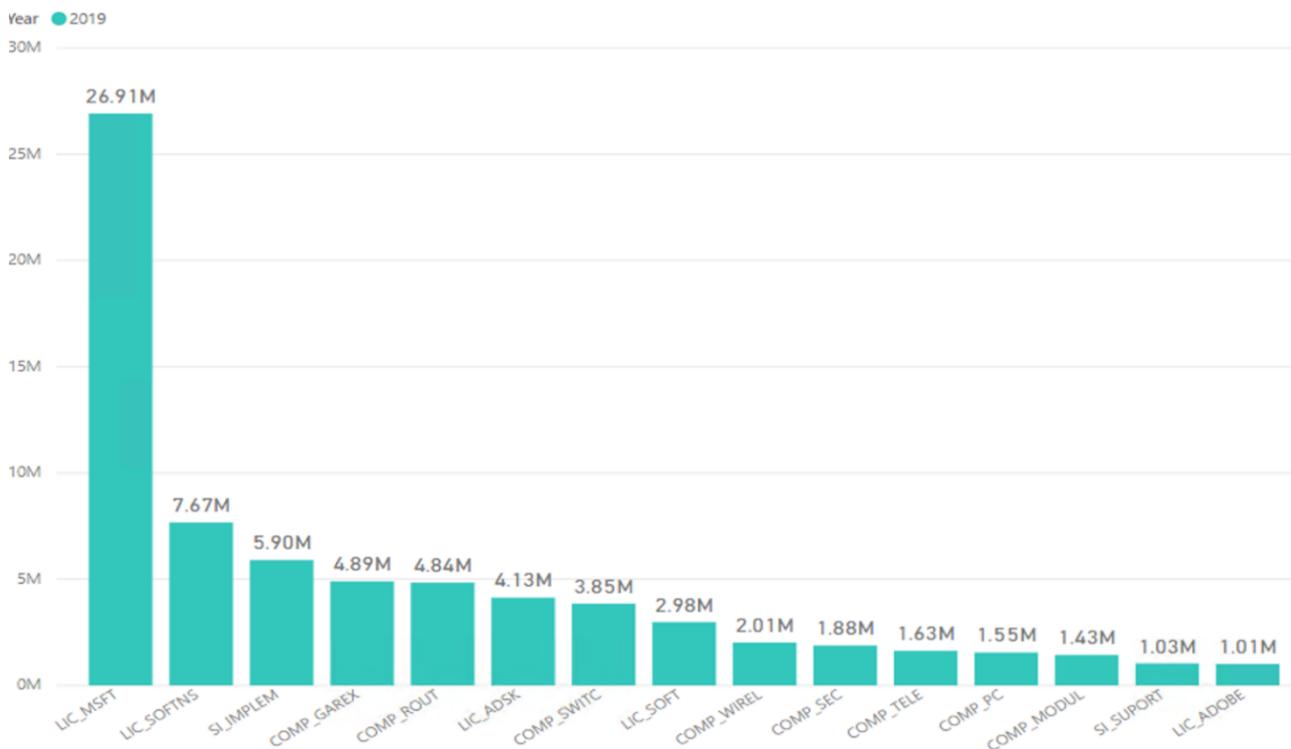
The main factors of revenue growth in the training activity

Developing own DevOps curriculum and alternatives (software development, etc.), while the classical trainings (Microsoft, Cisco) have registered a slight decrease compared to 2018, mainly due to the decrease in the number of students in each of these curricula.

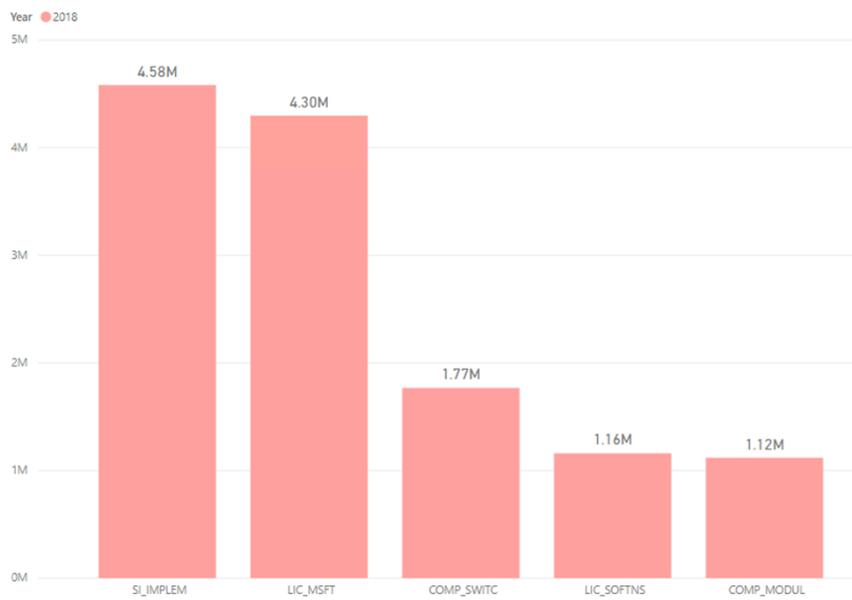


The main factors of revenue growth in IT integration activity

Significant growth of all product lines delivered, due to the business transfer from Crescendo International. For 2019, the component of integration sales for product lines with sales in excess of 1 million lei is:



For comparison, in 2018 the graphic looked like that:



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

The company's development 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.

A special step in Bittnet Training in 2019 was the start of the development of the UXI platform - a *Learning Management System* that 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. In 2019 we have allocated a little over 400,000 lei to the development of this platform, and we estimate that in 2020 we will bring it to an end and launch in full effect, allocating a maximum amount of another 400,000 lei.

In case of Equatorial, for 2020 we intend to allocate resources towards the completion and launch in the market of the 3 new games: Oligopoly, Bona Fides and White Hat. **All these 4 platforms are in beta release stage.**

Depending on the economic situation, we intend to allocate time and resources for the migration of selected services and products by the Technology Division through online platforms. In this sense, we launched the Dendrio online shop, and we will continue to allocate resources for its development - maximum 500,000 lei in 2020.

At the same time, the "uberization" of services in all fields pushes us slowly to build an online platform for providing IT services in the form of "commodity" (pay what you consume). We estimate an investment of maximum 2,000,000 lei in 2020.

Particularly for 2020, we believe that an important part of the business growth will continue to come from the resale and implementation of solutions based on "Cloud", "IT Security" and "Managed Services" technologies. We intend to position the solutions of the group, based on the constantly developing competencies of the team. IT security is an area where the group has always excelled, our skills being certified by multiple relevant vendors in the IT security industry such as Cisco, Checkpoint, Bitdefender, etc. The "cloud", "mobility" or "IoT" solutions that are the technological trends of the year 2019 cannot be conceived without a serious IT security component, and the Bittnet group is ready to support the clients from this point of view



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.

For the “IT solutions 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.

For the “education” business line, the Group “stocks up” on course manuals and official virtual labs from several worldwide external partners or directly from manufacturers as well as 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 above-mentioned 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.

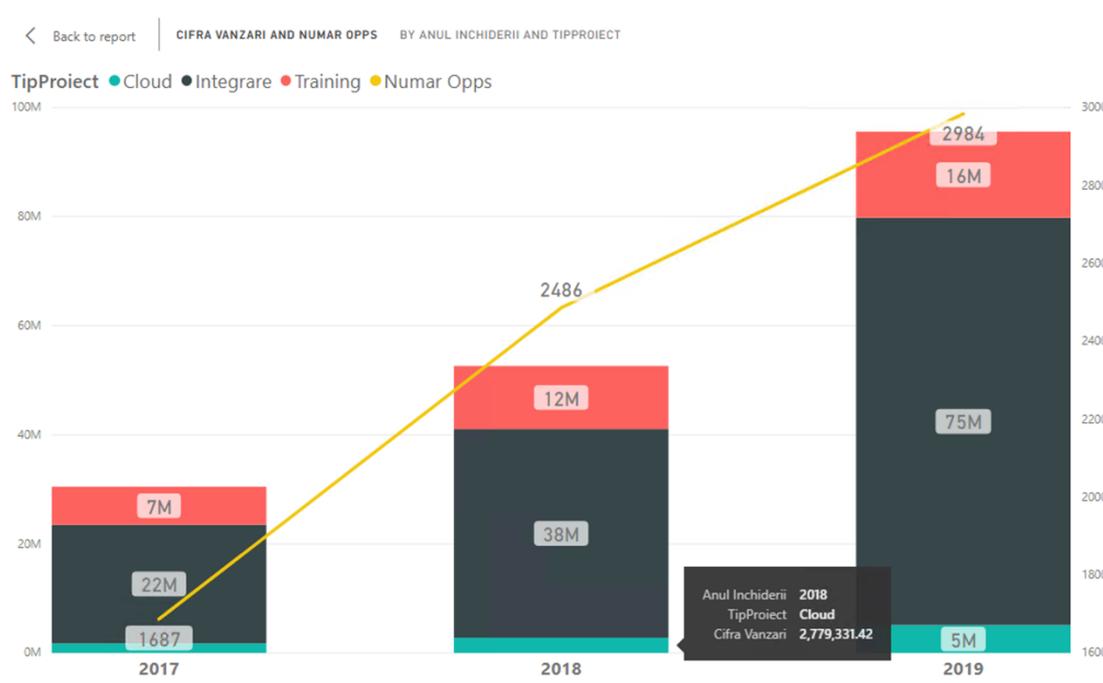


1.1.4. Evaluation of the sales activity

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

We have continued to implement actions to increase the technical skills of the sales team to support the role of trusted advisor for infrastructure and cloud solutions. Thus between 5-10% of the salespeople were allocated for various training sessions conducted internally or by representatives of technology partners and vendors. This will continue in 2020.

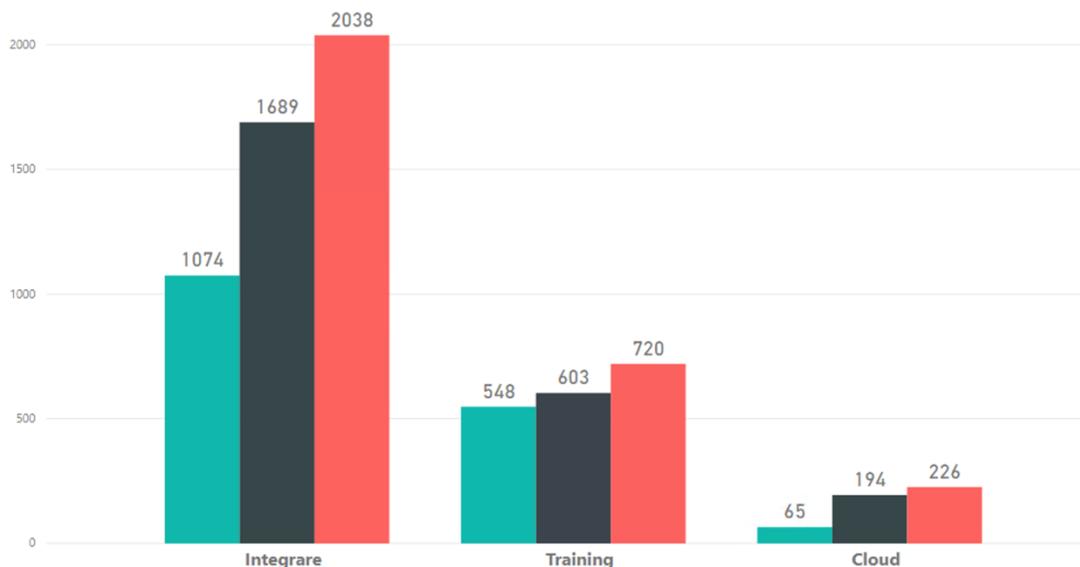
The sales activity continued according to the same principles: identifying projects, building solutions, bidding, negotiating and closing (signing) projects. The increases came from both the total number of projects identified and their value. The realized sales figures (CRM system) are always higher for the fiscal period than those recorded in the accounting, because the sale process ends at the signing of the contract, while the invoicing takes place after delivery. Naturally, contracts are signed before delivery (the more time the better for business predictability, both for us and for customers).



Although the largest increase in the number of successful projects has taken place in the integration business, the attention given to cloud business should continue to be mentioned. Thus, the increase with only 14% of the number of general projects almost doubled the revenues in the case of cloud projects (from RON 2.8 million in 2018 to 5.1 million in 2019), due to the average value increase (ARPU) from 14,000 to 22,000 lei:



Anul Inchiderii ● 2017 ● 2018 ● 2019



The increase to more than RON 24 million in revenues from recurring projects within the business line "integration" gives us particular confidence in 2020. In other words, in 2020 "we steal the start" with about RON 25 million in turnover already signed (depending only on the non-disappearance of client companies).

In the case of Bittnet, exports reached RON 5.27 million - about 40% of in turnover, and an increase of 40% compared to the previous year.

In the case of Dendrio the rate of increase of the export revenues was similar: 37%, but here it is applied on a smaller basis (from 844,000 lei to 1,164,000 lei).

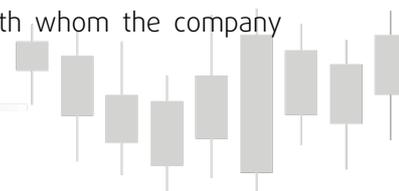
Description of the competition within the company's field of activity, of the market share, of the company's products or services and of its main competitors:

The analysis of the company's main competitors should be broken down into two sections, because of the two business lines, which differ significantly. Bittnet sees itself as the IT training market leader and justifies it by:

- Operating in the 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, EtazU, 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 Dendrio'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:



Competitor	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. In 2018, Brinel was sold to French group SNEF.
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.
EtazU	EtazU is an important provider of IT products and services, leading system integrator and IT solutions in western Romania. EtazU is an active player since 1992. The big part of the business is on distribution, not on reselling IT products. EtazU is also a training center focused on Microsoft, Cisco, Oracle, Java, Linux, ITIL, VMware, RedHat courses. EtazU 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



Competitor	Description
	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.

With the acquisition of GECAD NET, Bittnet has become the first provider of multi-cloud solutions in Romania (integrating both Amazon Web Services and Microsoft Azure and Google Apps) - a very advantageous competitive position to pursue the same 'value proposition' for clients as well as the one highly valued in the training business: "one stop shop" for the cloud infrastructure needs.



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 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 800 clients in 2018, the first 20 clients generated 49% of the turnover. The situation is more favorable than in 2015, when it was the first 5 clients that generated 60% of the turnover. In 2017, first 19 clients generated 60% of the turnover. In 2018 the first 20 customers represented 54%.

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 companies from the IT sector, which are the resellers of our solutions:

Name	% of revenues
Telecom Operator	7.50%
IT&C Integrator	6.60%
Telecom Operator	4.82%
Global IT Vendor	3.44%
Telecom Operator	3.37%
IT&C Integrator	2.41%
Bank	2.38%
Global IT Vendor	2.16%
IT&C Integrator	1.84%
Energy Company	1.82%
Transport Company	1.59%
Energy Distribution Company	1.54%
IT Support Company	1.37%
Ministry of Defense	1.37%
Telecom Operator	1.31%



Name	% of revenues
Energy Distribution Company	1.30%
Delivery Company	1.17%
Energy Company	1.08%
University	1.06%
Oil Transport Company	1.04%
Railway Company	0.99%
Energy Company	0.98%
Global IT Vendor	0.97%
Electricity Company	0.84%
Water Company	0.80%

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.

1.5. Evaluation of aspects related to the company’s employees / staff

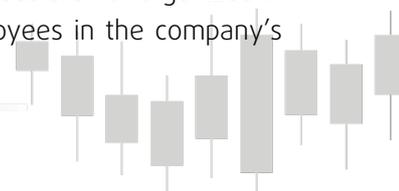
Clarifying the number and the level of preparation of the Company's employees and the degree of unionization of the workforce; Description of the relationships between managers and employees and also any conflicting elements that characterize these relationships.

In 2019, the average number of employees was 50. The table below shows the partition by functional departments at the end of the fiscal years:

Departament	2017	2018	2019
Vanzari	4	5	14
Tehnic	4	5	23
Marketing	2	1	2
Administrativ	1	3	8
Management	4	4	3

The company externalizes a series of activities to independent subcontractors. At the end of 2019, Bittnet was cooperating with over 100 contractors.

All 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

Synthesis 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.

We begin this chapter with a quote from "Warren Buffett's Letter to Shareholders regarding the financial year 2015" (50 years since he took over the business):



We, like all public companies, are required by the SEC to annually catalog “risk factors” in our 10-K. I can’t remember, however, an instance when reading a 10-K’s “risk” section has helped me in evaluating a business. That’s not because the identified risks aren’t real. The truly important risks, however, are usually well known. Beyond that, a 10-K’s catalog of risks is seldom of aid in assessing: (1) the probability of the threatening event actually occurring; (2) the range of costs if it does occur; and (3) the timing of the possible loss. A threat that will only surface 50 years from now may be a problem for society, but it is not a financial problem for today’s investor. [...]

*None of these problems, however, is crucial to Berkshire’s long-term well-being. When we took over the company in 1965, its risks could have been encapsulated in a single sentence: “**The northern textile business in which all of our capital resides is destined for recurring losses and will eventually disappear.**” That development, however, was no death knell. We simply adapted. And we will continue to do so.*

The company is exposed to a series of general and specific risks associated with its size and domain of activity. The management knows them and makes efforts not to allow the scenarios in which the materialization of one of these risks to affect the ability of the company to survive. On the other hand, the management ability is limited to process and effort, it cannot guarantee the results, some events and risks being outside the control of the company.

But more than that, in line with what Warren Buffett said, we also reproduce a quote from former US Defense Minister Donald Rumsfeld:

„There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know.”

The example of the ongoing coronavirus pandemic at the time of writing this report is a very relevant one, for both types of problems. In the daily running of an education and technology business in Romania, we do not think about what happens in the Chinese animal markets, and what effects it can have on our activity, if any negative scenario materializes. Certainly, there are a myriad of other scenarios that we are not aware of, which can be reached through a series of events that have negative effects on the economic activity in general or only the activity of the Issuer.

In one simple phrase, the real risk that investors take is to lose the capital invested in our business, regardless of the type of investment and regardless of the reasons for reaching a disastrous end.

We present below a number of risks, according to the requirements of the ASF regulations.

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 put offers for such types of clients. In case of a demand for such a contract the company adds a “limit of price variation” clause.

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

The price risk is given in the case of the Issuer almost entirely from the risk of fluctuating exchange rates. During 2019, the Issuer opened several forward contracts for the purchase of currency (EUR) in order to 'block' the exchange rate when the project was offered to the client (in particular for contracts with semi-annual or multi-annual deliveries). The positions were hedged / closed at maturity, and the amounts purchased were transferred to external suppliers. Thus, we managed to protect ourselves from fluctuations in the FX market and at the same time we can offer competitively at an advantageous exchange rate. The total volume of currency purchased through this mechanism amounted to EUR 1.8 million.

For fiscal year 2020, it is envisaged to increase the necessity of contracting such financial products to insure a fixed price for the purchase of currency, considering that many requests received from clients require the offer in a different currency than the one of purchase. But also because of the high volatility in the foreign exchange market during the first 3 months of the year. Thus, the company will continue to analyze various financial solutions in this regard, made available by the banking financial institutions as well as other companies authorized to offer FX solutions.

The activities carried out in this regard are:

- 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 demand, 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.

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). Especially with the acquisition of Dendrio, the earnings from Bittnet clients are more relevant for Dendrio's payments to external suppliers (Dendrio 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 fixed assets and transforming them into liquid assets. Starting from 2018, Bittnet has a structure of assets in which financial assets (holdings of daughter companies and other goodwill or brands and patents) have a significant weight, as we have shown in the chapter on asset analysis. Bittnet intends to continue to operate these assets, these investments, and therefore the liquidity risk is not significant - not intending to look for the counterpart, to sell these assets to ensure current business.

Tangible assets of the company (technological equipment) are used in the current activity (provision of services). We believe that for Bittnet, the most important risks are cash flow and credit risk.

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.
- 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 2020, the company intends to increase the volume of support services, which bring a constant monthly revenue, which in turn reduces the seasonal risk.

Counterparty risk

The non-execution by third parties of the obligations they have assumed towards the Issuer, including in connection with the implementation of certain investment projects envisaged by the Issuer or the risk of insolvency in connection with them, may affect the realization of the Issuer's business objectives, activity or financial situation and, implicitly, its ability to fulfill its obligations in respect of the Obligations. The issuer is affected by this risk, especially due to the working model with many subcontractors (freelancers) specific to the IT industry. Our companies are responsible in front of clients for the provision of services, and our companies are more solvable than our individually analyzed providers, so a 'delivery rate' from a subcontractor leaves us exposed to our clients. This risk is not necessarily a legal / contractual one as much more important a reputational one.

Risk of withholding of the Issuer's accounts

Withholding of accounts is a common measure of forced execution that can also be applied to the Issuer. Thus, the Issuer's accounts may be blocked as a result of the withholding if the Issuer's creditors require this measure to be taken to meet the claims, they have against it. Withholding of the Issuer's accounts results in blocking the amounts in the withheld accounts and may cause the Issuer to fail to meet its payment obligations, which may have a negative effect on the Issuer's business, financial situation or prospects.

Operational risks

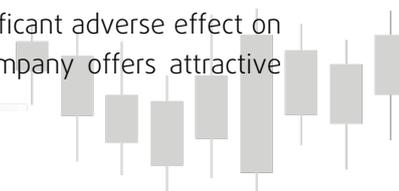
IT systems are vulnerable to several issues, such as computer viruses, illicit malicious access to information systems, physical damage to vital IT centers, and software or hardware malfunctions. In addition, other operational risks may arise from inappropriate or unsuccessful internal processes due to certain people and systems or due to external events.

Operational risks can be classified into: (i) internal risk factors (eg unauthorized actions, theft, fraud, procedural errors, business interruptions or system failures); and (ii) external risk factors, including property damage, defaults of suppliers or counterparties of the Issuer.

The occurrence of such events, in particular any disruption of activity or non-fulfillment of the contractual partners' obligations, could influence the services provided to the clients. Thus, the impossibility of managing these operational risks could affect the Issuer's financial situation.

Risk associated with the labor market and 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.

In 2019, 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:

- 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:
 - continuing recruitment - identifying new talented professionals to include in our technical team;
 - 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.
- 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.

In addition to the previous points, the move to the new headquarters in 2017 (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, 2017, 2018 and 2019 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 2020-2022 period. 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 "Millennials" 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).

Perhaps the greatest risk in this regard is given by the shareholders of the company, whose continued vote is needed to continue the existence of Stock Option Plans. Although the stock-option plan is built in such a way as to reward employees only and only if the shareholders have earned money during the analyzed period, at the moment when the debt towards the key persons is settled, messages of dissatisfaction from shareholders appear, claiming the fact that 'employees receive cheaper shares', or that 'this gives them a chance to sell in the market and make a profit'.

In our opinion, this approach represents the greatest risk for society, in the field of human resources. If we can no longer continue to use methods of attraction and retention based on what makes us special - listing on the stock exchange, and the mechanisms to share the value thus generated, the only alternative will be to join us in a global fight for human resources, having nothing to offer other than money. We believe that this scenario is a very unfortunate one, which will greatly affect the profitability of the company, but unfortunately we feel that it is much more likely to materialize, taking into account recent discussions but also as the number of shareholders increases (now we have over 1400 shareholders), it is much harder to obtain the legal quorum of 85% required for the implementation of the SOPs in the current legislation.



Risk associated with realization of the business plan development

The strategic objective of the Company is to continuously develop relationships with clients. The possibility that Bittnet may not be able to expand its current customer base or the possibility of deteriorating existing customer relationships cannot be ruled out. There is also the risk that the Company will not be able to fulfill other elements of the strategy that it has defined, ie: expanding the sales force, establishing local offices in the main cities of the country, consolidating the leadership position on the IT Training market, the expansion of the customer base and the provision of trainings for a larger number of potential customers, and the development and creation of strategic partnerships with companies with similar or complementary profiles will not prove successful. To reduce this risk, the Company intends to continue to expand its product and service offerings and improve its marketing activities.

Risk associated with the 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.

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, having contracted credits and loans. 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 as possible in order to ensure an 'arbitration' between the offerings.

In 2017, 2018 and 2019, the Company has carried out placements of corporate bonds, with maturity in 2022 and 2023, through which it obtained from the capital market an "engaged" financing of over 30 million lei. All the bonds are listed on the Bucharest Stock Exchange. All the issuances have a fixed interest rates in lei, so they do not generate interest rate risk.

At the time of preparing this report, Bittnet Group operates with the following bank credit products regarding the financing of working capital and current activity:

- Bittnet: 2,790,000 lei 'overdraft ceiling' credit contract with Procredit Bank, due on February 20, 2020. Repayments are made monthly for a 36-month period. ROBOR3M + 2.5% interest per year;
- Bittnet: 697,000 lei loan contracted in February 2018 with Procredit Bank. Repayments are made through monthly installments. ROBOR6M interest + 1.5% per year and a remaining balance of 200,000 lei;
- Dendrio - a 4.5 million overdraft lending product with an interest rate of ROBOR3M + 2.4% and a maturity of 24 months.
- Dendrio: loan for financing working capital with monthly repayments of principal + interest amounting to 1.8 million lei, contracted in May 2018 with Procredit Bank. With variable interest ROBOR3M + 2.5%. Due 36 months.
- Dendrio, in November 2019, 2 million lei revolving-overdraft financing line with ING Bank. ROBOR1M interest + 2.9% per year, maturity in November 2020 with extension possibilities.

All credit products accessed by the Company currently have FIXED annual interest. The weighted cost of borrowed capital is slightly below 7.6% per year. We believe that the next financial period (2020 - 2022) will be a time when the fact that we have fixed the price of the borrowed capital will be a competitive advantage.

The financial leverage risk (indebtedness ratio)

One of the discussions with potential investors is the rate of indebtedness. It can be calculated in several ways, of which we reproduce two: "the ratio of assets financed with credit" and "net borrowed capital versus own capital".

The "ration of assets financed with credit" approach has the advantage that it is easy to calculate, obtaining a simple and fast result. In the case of Bittnet, as of December 31, 2019, the indicator is 86%. We have shown in our previous years our opinion that this indicator does not offer the best understanding of the situation of companies, regardless of the component of assets (how much of assets are cash) or the maturity of debts. Unfortunately, this assessment does not capture several nuances and can often convey a wrong message. Thus, in our opinion, the fact that this formula ignores the durations of availability of the amounts (the maturity of the loans), not differentiating between the payment amounts at a bond issue of 10 million lei, realized on



December 27, 2018 due in December 2023 and the invoices of the providers due on January 15th, is a feature that makes it less useful for understanding the financial position of a company.

At the same time, this formula does not differentiate between the assets of type of “bank availabilities” or “shares of a daughter company”. Thus, a company with equity of 1 million lei and borrowed capital of 1 million lei, having all the amounts available entirely in accounts, appears with a degree of financing of assets by credit of 50%. On the other hand, a company with 1000 lei equity, debts of 1100 lei and zero cash appears with a debt level of zero.

Our opinion is that, as in any other mathematical or economic formula, the definition of terms, "what we include in each element of the formula", is very important, and significantly changes the interpretation.

At December 31, 2019, the Bittnet Group had the following debts (in RON):

Bonds	28,195,593
Long Term Bank Loans	4,807,687
Long Term Leasing Debt	
(Headquarters and associated rent for the period 2021-2024 according to IFRS 16)	3,842,943
Short Term Bank Loans	3,560,417
Short Term Leasing Debt	
(Headquarters and associates rent for 2020 according to IFRSIFRS 16)	1,325,649
Trade liabilities and other debts	34,130,836

Trade liabilities (the amounts to pay to the suppliers) were covered in a ratio of 1.5:1 by the receivable amounts from the customers. This ratio between the amounts receivable from customers and those due to suppliers also illustrates the rationale for existence and the manner of using bank financing by the company - we pay on time or in advance to suppliers to have a good reputation, and we offer payment terms to our customers to win projects.

From the point of view of the duration of the availability of the borrowed amounts, the bank financing is mainly meant to cover the working capital requirement. Instead, the bonds issues BNET22, BNET23, BNET23A and BNET23C are available in the long term (4 or 5 years), meaning a total of 33 million lei long-term loans.

If we analyze the degree of indebtedness taking into account the equity, the company having no significant tangible assets so that such an analysis is relevant, the degree of commercial debt coverage is 1.5:1 (clients versus suppliers), and the ratio between the borrowed capital per long-term versus equity is 2.75: 1, taking into account long-term borrowed amounts and equity of 12 million lei.

Important to remember! The reports above do not take into account the 'net loans', that is in the previous calculations the position of cash availability, amounting to 20 million lei as of year-end, is ignored. If we reduce this amount to zero, we could reimburse in advance (so 2-3 years earlier!) 3 out of 4 bond issues (and reduce to 1: 1 the ratio between borrowed capital and equity). However, we consider that for a rapidly developing



company, the existence of a solid cash position is essential to ensure a stable base from which to continue to build the growth story.

We will continue to propose to the shareholders to follow the model patented by Banca Transilvania, with the full capitalization of the profits (and the granting of free shares), but also the development of capital increases with new contributions every year, for the continuous strengthening of the equity position. On the other hand, we consider that in the case of a fast-growing company (70% annual growth over the last 5 years), the leverage effect is a tool that should be used "more" and not "less".

Risk of losing the technological relevance of the solutions

The IT market is a constantly evolving market, with a very fast rate of change. The business development plan is about identifying the technological trends and being at the forefront of the adoption curve - the so-called 'first mover' position. There is a risk that management will not correctly identify trends and time investments and financial resources will be misdirected. Such a possibility would affect the company both from a financial point of view (non-recoverable investment) and because it would make the company's offer irrelevant to the clients - thus increasing the risk of losing some sources of income.

Risk associated with the dependence on patents and licenses, industrial, commercial or financial contracts or on new manufacturing processes

The issuer provides official IT training, which means that it delivers official curricula developed and authorized by major global manufacturers such as CISCO, Microsoft, etc. The issuer delivers IT&C solutions from major global technology producers based on channel agreement partnerships. Certifications from major IT producers (vendors) are obtained by the Issuer based on the fulfillment of technical conditions (the existence of qualified human resources, which are identified through exams), by demonstrating sales procedures and standards, and by observing the representation conditions imposed by each manufacturer separately.

If the Issuer does not meet the conditions imposed by each producer, it risks losing the status of "certified partner" in relation to any of them. The impact on the business of the loss of status would be significant: the elimination of a considerable part of the revenues, related to the partnership with the respective producer.

Risk of Business commoditization

A special case related to the rapid evolution of the IT industry is the trend where every technology will become 'commodity' (very widespread, very widely adopted) and will 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 "commodities". 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 Dendrio 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.

The Issuer is in constant competition with other participants on the IT market and competition is expected to intensify. High competition can encourage both current and potential customers to use the services and products of the Issuer's competitors and thereby adversely affect the Issuer's revenue and profitability.

Strong competition may lead to increased pressure on the Issuer in relation to the prices of products and services offered to customers, which may have a significant impact on the Issuer's ability to increase or maintain profitability. The Competitiveness of the Issuer in the current competitive environment largely depends on its ability to adapt quickly to new developments and market trends, to the extent that the Issuer cannot effectively compete with its competitors, whether it is a local or international group, this may have a negative effect on the Issuer's business, financial situation, results and prospects.

Cybersecurity and Other Technological Risks

The Issuer's activity is subject to a high risk of evolving cyber-attacks. The Issuer's systems, software, and networks have been and will continue to be vulnerable to unauthorized access, loss or destruction of data (including personal data and confidential information about customers), unavailability of the service, computer viruses, or other hostile codes, cyber-attacks and other similar events. These threats can be caused by human errors, fraud or ill-will of the employees or third parties or by accidental technological failures.

The occurrence of one or more of such events could lead to the disclosure of confidential information of the customers, to the deterioration of the Issuer's reputation in front of the customers and the market, additional costs for the Issuer (such as those for system repair or for supplementing staff or protection technologies), fines from competent authorities and financial loss to the Issuer. Such events could also cause interruptions or inappropriate operation of the Issuer's operations as well as the operations of its clients or other third parties. Disaster recovery, security, and business continuity recovery measures that the Issuer has undertaken or might undertake in the future may prove insufficient to prevent losses. In addition, certain errors or actions may be repeated or aggravated before they are discovered and corrected, which would increase these costs and worsen the consequences.

In addition, third parties with which the Issuer has a business relationship based on strict contractual arrangements may also generate cybersecurity or other technological risks. Even if the Issuer takes a number of actions to eliminate these risks, such as prohibiting third party access to systems and operating a strictly controlled IT environment, unauthorized access, loss or destruction of data or other cyber incidents may arise, which may generate costs and consequences for the Issuer, as mentioned above.



Risk related to the protection of personal data

In its activity, the Issuer collects, stores and uses data that is protected by personal data protection laws. Although the Issuer takes precautions to protect customer data in accordance with legal requirements for privacy protection, data leaks may occur in the future. Moreover, the Issuer works with third-party vendors or third parties who may not fully comply with the relevant contractual terms and the data protection obligations imposed on them.

Unspecified IT problems, system failures, unauthorized access to the Issuer's computer networks or other deficiencies may result in the inability to maintain and protect customer data in accordance with applicable regulations and requirements and may affect the quality of the Issuer's services and compromise the confidentiality of its customer data or cause interruption of service, resulting in fines and other penalties. Also, with the entry into force of the General Data Protection (EU) Regulation 2016/679 (GDPR) on May 25th, 2018, the Issuer is subject to respecting requirements regarding the processing of personal data, the non-observance of which may attract several types sanctions, including fines of up to 4% of global turnover, or up to EUR 20 million (whichever is the greater); in addition, if they have suffered damage, the persons concerned may obtain compensation to cover the amount of such damage and their rights may also be represented by collective bodies.

Acquisition risk

The Issuer has made and may directly or indirectly make additional purchases in the future, depending on opportunities, within its existing lines of activity or complementary activities to them (in order to integrate those lines of activity into its activity).

However, it is possible that estimating the financial effects of any such transaction on the Issuer's business may not be successful, especially since the entities acquired may find it difficult to integrate. In addition, M&A activity may distract management's attention or divert financial or other resources from the Issuer's existing business or may require additional expenses. Such developments could have a significant negative effect on the Issuer's business, results and operations.

Acquisition of new companies or assets or the take-over of companies may be limited by many factors, including the availability of funding, the prevalence of complex ownership structures of potential targets, government regulations, and competition from other potential buyers. If purchases are made, there is no guarantee that the Issuer will be able to maintain the customer base of the companies it acquired, generate the expected margins or cash flows or realize the anticipated benefits of these acquisitions, including expected growth or synergies. Analyzes of potential acquisition targets are subject to a number of assumptions about profitability, growth, interest rates and valuations. There is no guarantee that the Issuer's valuations and assumptions about the acquisition targets will prove to be correct, and actual developments may differ significantly from the Issuer's expectations.

Even if the Issuer (directly or indirectly) successfully acquires new companies, their integration may be difficult for a variety of reasons, including due to the diversity of styles and management systems, inadequate infrastructure and poor records or weak internal controls. Additionally, the integration of any potential acquisitions may require significant initial investment and ongoing costs that may result in tax liabilities or fines imposed by regulators. The process of integrating activities may disrupt the Issuer's operations and cause interruption, loss of pace, or a decrease in the results of operations due to costs, challenges, difficulties or risks, including:



- making economies of scale; eliminating repetitive general expenses;
- staff integration (and maintenance), financial and operational systems;
- unforeseen legal, regulatory or contractual issues and other issues;
- unforeseen challenges resulting from operating in new geographical areas (ie outside the territory of Romania);
- distracting management's attention from day to day work as a result of the need to address the challenges, disturbances and difficulties mentioned above.

Moreover, even if the Issuer succeeds in successfully integrating its activities with new ones, the expected synergies and cost savings may not materialize as expected or not materialize at all, generating profit margins lower than expected. There is no guarantee that the Issuer will successfully acquire new business or will accomplish any of the anticipated benefits from the companies it will purchase in the future.

As noted above, acquisitions made by the Issuer could adversely affect the Issuer's activity, financial condition, results and prospects and could affect the Issuer's ability to meet its financial obligations.

Risk associated with listing the Issuer's shares on the alternative trading system administered by the Bucharest Stock Exchange

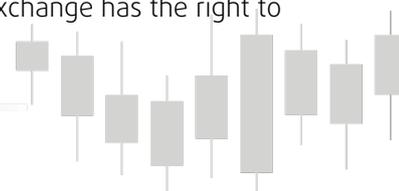
The alternative trading system administered by the Bucharest Stock Exchange was created from the need to provide entrepreneurs with an alternative for financing development. Potential investors in securities listed on this market (including Bonds) should consider that an alternative trading system is a market primarily for companies of smaller size and start-ups, for which there is a tendency for a higher investment risk than for securities admitted to trading on a regulated market.

The alternative trading system is not a regulated market within the European directives and Romanian capital market legislation but is regulated by the rules and requirements established by the Bucharest Stock Exchange. The alternative system was set up by the Bucharest Stock Exchange in order to offer a market with fewer reporting requirements from issuers, but at the same time with enough level of transparency for investors to motivate them to trade.

Post-listing requirements for listed companies under the Alternative Trading System administered by the Bucharest Stock Exchange are less stringent than the regulated market. The Bucharest Stock Exchange has specific characteristics in terms of liquidity and market volatility and the value of quoted securities. These factors can have a significant impact on the trading price of the Issuer's Bonds or Shares.

The trading on the Bucharest Stock Exchange can be suspended

The Financial Supervisory Authority ("ASF") is authorized to suspend trading of securities or to request the Bucharest Stock Exchange to suspend from trading the securities traded on the Bucharest Stock Exchange if the continuation of the trading would adversely affect the interests of the investors, taking into consideration measures against market manipulation and transactions based on inside information. The Bucharest Stock Exchange must suspend the trading of securities that do not meet the requirements of the alternative trading system administered by the Bucharest Stock Exchange, unless such action could adversely affect investors' interests or the smooth functioning of the market. If the Bucharest Stock Exchange does not undertake such actions, the ASF may request the suspension of trading in securities if this serves the proper functioning of the market and does not affect the interests of the investors. Also, the Bucharest Stock Exchange has the right to



suspend Shares or Bonds from trading in other circumstances, in accordance with its regulations. Any suspension could affect the trading price of the Shares or the Bonds and also could affect their transfer.

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.

Bondholders are exposed to the risk that the Bond price will decrease as a result of the change in the interest rate on the market

While the nominal interest rate of the Bonds is fixed during the respective Bonds period, the current market interest rate for issuers with the same maturity (**the "market interest rate"**) is usually changing on a daily basis. As the market interest rate changes, the Bond price changes in the opposite direction. If market interest rate increases, the fixed interest rate Bonds typically decrease until their return is approximately equal to market interest. If market interest rate decreases, the price of Fixed Interest Bonds typically increases until their return is approximately equal to market interest. However, if the Fixed Interest Bond Holder keeps these Bonds until maturity, the changes in market interest are not relevant to such a holder because the Bonds will be redeemed at their nominal value.

Inflation may reduce the value of the future principals and interest payments

The value of future principal and interest payments may decrease as a result of inflation as the real interest rate on investment in bonds will be reduced to an increase in the inflation rate and may become negative if the inflation rate exceeds the nominal value of the Bond interest rate.

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.

Considering however that the legislation leaves more and more of interpretation of the applicable fiscal measures to the fiscal body, corroborated with the lack of funds in the state budget and potential attempts by any means of bringing these funds, we consider this risk a major one for the company because it cannot be addressed in any way in a preventive way.

Risk associated with lawsuits

In the context of day-to-day operations, the Issuer can be a subject to a litigation risk, inter alia, as a result of changes and developments in the law. In addition, the Issuer may be affected by other contractual claims, complaints and litigation, including from counterparties with which it has contractual relations, customers, competitors or regulatory authorities, as well as any negative publicity it would attract.



1.9. Estimates of the company's future activity

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

- **consolidating 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 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. This is why the company continues to use the “accelerated development” model.

II. The company’s tangible assets

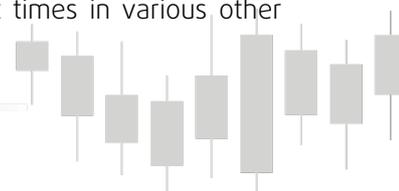
2.1. The location and main features of the production equipment owned by the company.

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.

All the assets are located at the working point of the company, located at Timisoara Boulevard, no. 26, “Plaza Romania Offices” building, first floor, district 6, Bucharest.

Dendrio Solutions SRL - a company fully owned by the Issuer - has at the end of 2018 completed a "business transfer" from Crescendo International. According to the evaluation report made by an independent evaluator, the company transferred tangible assets (IT equipment and cars), used, with a low usage tear, in the value of RON 1.53 million. All the assets are located at the working point in Bd Timisoara nr 26, 1st floor, Plaza Offices, sector 6, Bucharest.

Starting with 2019, by applying IFRS 16 standards, the financial statements of the issuer include in the tangible assets positions both the working point (the actual rented space from the mall) as well as the office furniture and IT equipment (rented from Grenke) that equip this space. All the tangible fixed assets recognized in the financial statements are at the working point in Bd Timisoara 26, sector 6 Bucharest. By exception, the fixed assets that are by their nature non-fixed (cars, laptops), can be found at different times in various other geographical locations.



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, which is small. From the point of view of moral depreciation, most of the equipment is 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. These assets are new, with a low degree of wear, and are now recognized as fixed assets in accordance with IFRS 16.

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.

Fixed assets recognized in accordance with IFRS 16 are not the property of the Issuer but are rented.

2.4 Intangible assets of the Issuer

Although this chapter is not formally required in the annual report, taking into consideration the company's specificity and the events that took place in 2019, we consider it appropriate to describe the significant intangible assets of Bittnet Group.

Goodwill following the transaction with Crescendo International: RON 14.8 million

For the business transfer of Crescendo International, Dendrio Solutions has paid in 2018 RON 10.9 million. According to the valuation report by the independent certified assessor Sturza Eugen, the market value of the transferred assets (IT equipment, plus office equipment and cars) was RON 1.53 million. In other words, the goodwill for this transaction is worth RON 9.37 million. The goodwill represents the value attributed to the business itself - the ability of the team to generate continuous revenue, in the new formula.

In addition to the amount paid in 2018, Dendrio Solutions has committed to pay a difference in relation to the "adjusted average EBITDA realized by the IT&C integration activity before its transfer to the Beneficiary", in which the top management team will ensure the retention of human resources and of the commercial relations with the existing clients and the key suppliers related to the transferred activity, in order to conserve the value of the IT&C integration activity taken over from Crescendo International SRL. Based on the final financial results as of 31.12.2019, the value of the additional remuneration was 1 X Adjusted average EBITDA realized by the IT&C integration activity before its transfer to the Beneficiary, respectively 5.45 million lei. As a result, goodwill for this transaction increased from 9.37 million lei to 14.82 million lei."



“Bittnet” brand: RON 5.87 million

In 2018 the company and the founding shareholders managed to identify the technical solution to transfer the Bittnet brand from its holder to the company, without generating costs for minority shareholders. Thus, the company has finally acquired the trademark from its holder for RON 5.87 million, the value established in an assessment report prepared by an independent certified assessor Sturza Eugen. In June 2019, the founders settled this debt by transferring shares from their personal assets to the former owner of the brand. For the company, and therefore for the minority shareholders, this transaction did not generate costs but, in fact, brought revenues, because the company acquired a valuable asset without having to pay for it.

Goodwill from previous M&A activity

Similar to the goodwill resulting from the Crescendo transactions, in issuer’s books figure the following amounts related to the previous (smaller) transactions:

- a. Gecad Net: 2.5 million lei;
- b. Elian Solutions: 348,000 lei.

III. The market for the securities issued by the company

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 - SMT market, premium category, symbol BNET, ISIN code ROBNETACNOR1.

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.





* evolution of BNET shares in 2019

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 years²



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 free shares for each 10 shares owned, according to the AGEA call notice.**

BNET22, BNET23, BNET23A, BNET23C bond issues in 2019

Bittnet bonds were, in the course of 2019, among the most traded fixed income instruments on the AeRO-Bonds market, totaling 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.

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 (13.02.20219), 344 BNET19 bonds in a total value of 346,353.69 lei, approximately 8.21% of the total issue, were traded.

Segment Bursa **Moneda**

Segment Principal **SMT** RASDAQ **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



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 operates 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.

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, 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.

In line with the dividend policy, in 2016, 2017, 2018 and 2019, the GSM has decided to reward shareholders by capitalizing the company's profits and giving free shares - one operation each year. The management also proposed for the General Meeting of April 29, 2020 the same approach, with the distribution of free shares in proportion of 7:10 to the shares held (7 new shares for each 10 shares held).

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

Not applicable – the issuer did not carry out any of such operations in the last 3 years.

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 wholly owns company Dendrio Solutions SRL ("daughter company" or "subsidiary") and has estimated 51% in company Elian Solutions SRL. None of these companies holds any shares or bonds issued by Bittnet.



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.

The company is up to date with the payment of coupons to the bond holders, for all the bond issues, carried out through the Central Depository system.

IV. Company's management

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 the 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.

During 2019 the issuer had a unique administrator in the person of Mr. Mihai Logofatu. On January 29, 2020, the General Assembly approved the modification of the Constitutive Act of the company, with the company being managed by a Board of Directors consisting of 3 members. The composition of the Board of Directors is in line with the results of the elections:

Ivylon Management SRL through **Mihai Alexandru Constantin Logofatu**.

Mihai Logofatu holds 17,468,502 shares, which represents 15.03% of the share capital and voting rights. Mihai Logofatu is the co-founder of Bittnet Systems.

Education:

- 2012 PhD in Management - University of Craiova
- 2009 Master's degree in Computer Sciences – University of Bucharest
- 2007 Bachelor's degree in Management – Academy of Economic Studies Bucharest

Professional experience:

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

Additional Regulatory Disclosure Info

- Mihai is currently also performing professionally as Business Development Consultant for the Credis NGO.
- Within the last five years, Mihai was not a member of Board of Directors or Supervisory Board in other companies.
- Within the last five years, Mihai has not been prohibited by the court to act as a member of Board of Directors or Supervisory Board in other companies.
- Within the last five years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of companies where Mihai sat on the Board of Directors or Supervisory Board.
- Mihai does not perform activities competitive to the activities of the issuer.

Cristian Ion Logofatu – non-executive administrator

From 2007 (when Bittnet was founded) until January 2020 - so throughout the financial year that is the subject of this report, Cristian Logofatu has acted as financial director of the Issuer.

Cristian owns 16,290,580 shares, which represents 14.01% of the share capital and voting rights. Cristian Logofatu is the co-founder of Bittnet Systems.



Education:

- 2006 Master's degree in Computer Sciences – University of Bucharest
- 2003 Bachelor's 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

Additional Regulatory Disclosure Info

- Cristian is currently also performing professionally as Executive Director for the Credis NGO.
- Within the last five years, Cristian was not a member of Board of Directors or Supervisory Board in other companies. Starting from 2019, Cristian is a Member of the Board of Directors of Norofert SA.
- Within the last five years, Cristian has not been prohibited by the court to act as a member of Board of Directors or Supervisory Board in other companies.
- Within the last five years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of companies where Cristian sat on the Board of Directors or Supervisory Board.
- Cristian does not perform activities competitive to the activities of the issuer.

Mihai and Cristian Logofatu are brothers, being the co-founders of the Issuer since 2007.

Anghel Lucian Claudiu – independent administrator

Lucian owns 795,076 shares of the Issuer, which represents a 0.68% share of the voting rights.

Education:

- 2006, HEC Montreal: Business Administration and Management, General
- 2003, Georgetown University: Postgraduates Program, Field Of Study: Bank Risk Management
- 2003, Bucharest Academy of Economic Studies: Doctor of Philosophy - PhD, Managerial Economics
- 1997, Bucharest Academy of Economic Studies: Master's degree, Information Technology
- 1996, Bucharest Academy of Economic Studies: Bachelor's Degree Information Sciences and Support Services

Professional experience:

- 2012 - 2019: President of the Bucharest Stock Exchange
- 2015 - 2019: Acting CEO BCR Banca pentru Locuinte
- 2012 - Present: University Professor at the Faculty of Management, ASE Bucharest
- 2012 - 2015: Acting CEO, BCR Pensii
- 1996 - 2012: BCR, various positions, including Chief Economist

Additional Information

- Lucian was proposed as General Manager of Banca Romaneasca in December 2020



- Within the last five years, Lucian has not been prohibited by the court to act as a member of Board of Directors or Supervisory Board in other companies.
- Within the last five years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of companies where Lucian sat on the Board of Directors or Supervisory Board.
- Lucian does not perform activities competitive to the activities of the issuer.

Executive Management

In March 2020, the Board of Directors appointed Mr. Mihai Logofatu as General Manager of the Issuer and Mr. Adrian Stănescu as Financial Director of the Issuer. The CV of Mr. Mihai Logofatu is described above, being also the Chairman of the Board of Directors.

Adrian Stănescu – CFO

Education

- 2013 - Chartered Financial Analyst CFA Program - CFA Level III.
- 2008 - Bachelor's degree - Faculty of Finance, Insurance, Banks and Stock Exchanges, Academy of Economic Studies, Bucharest.
- 2008 - Bachelor's degree - Faculty of Electronics, Telecommunications and Information Technology, Polytechnic University, Bucharest.

Professional experience

- 2020 - CFO, Bittnet Group
- 2018 - Deputy CFO, Bittnet Group
- 2017 - Non-Executive Director, Neticity Telecom S.A. (part of the UTI group of companies)
- 2016 - Non-Executive Director, Certsign S.A. (part of the UTI group of companies)
- 2015 - Executive Administrator, UTI Grup S.A.
- 2014 - Economic Director / CFO, UTI Grup SA
- 2014 - Deputy Economic Director Treasury & Finance, UTI Grup SA
- 2013 - Treasury Manager, UTI Grup SA
- 2012 - Customer Relations Manager, BCR

Additional information, according to the legal regulations

- Within the last five years, Adrian has not been prohibited by the court to act as a member of Board of Directors or Supervisory Board in other companies.
- Within the last five years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of companies where Adrian sat on the Board of Directors or Supervisory Board.
- Adrian does not perform activities competitive to the activities of the issuer.



Operational Management

The two divisions ("education" and "technology") are headed by 2 vice presidents: Dan Berceanu and Cristian Herghelegiu

Dan Berceanu - VP Technology

LinkedIn Profile

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

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:

- December 2017 – Present – Member of Board at VITAS IFN SA
- 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 owns 4,200,000 shares of the Issuer, representing 3.61% of the share capital and 3.61% of the voting rights.

Additional Regulatory Disclosure Info

- Guest Professor at the Polytechnic University
- Board Member at Romanian Business Leader
- Mentor for different business accelerators and student associations
- Currently active partner in: Equatorial Training SRL and Equatorial Gaming SRL
- Within the last five years, Dan has not been prohibited by the court to act as a member of Board of Directors or Supervisory Board in other companies.
 - Within the last five years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of companies where Dan sat on the Board of Directors or Supervisory Board.
 - Dan does not perform activities competitive to the activities of the issuer.



Cristian Herghelegiu – VP Technology

Profil LinkedIn

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

Education

- 2006 – 2008 Asebus - partner of Kennesaw State University - Finance for Managers
- 1991 – 1996 Military Technical Academy – BS in Aeronautics

Professional Experience

- 2018 – Present: Administrative Representative at Gecad (Dendrio)
- 2013 – 2018 General Manager GECAD NET
- 2013 – General Manager elefant.ro
- 2011 – 2013 Gecad ePayment/PayU Romania Country manager
- 2008 – 2010 Central Europe On-Demand Country manager, Romania
- 2004 – 2008 Microsoft Business Solutions Lead

Percent of shares held in the Company

Dan holds 1.825.706 of the Company's shares which account for 1,57% in share capital and 1,57% of voting rights.

Additional Regulatory Disclosure Info

- Currently active partner in: Byte Consult SRL, Analytics On-Demand SRL
- Within the last five years, Cristian has not been prohibited by the court to act as a member of Board of Directors or Supervisory Board in other companies.
 - Within the last five years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of companies where Cristian sat on the Board of Directors or Supervisory Board.
 - Cristian does not perform activities competitive to the activities of the issuer.

Advisory Board

Starting with 2012, after attracting the capital infusion from Razvan Capatina, Bittnet has built an Advisory Board, composed of people with a special reputation due to their rich entrepreneurial and managerial experiences: Sergiu NEGUT, Andrei PITIS and Dan STEFAN. Since 2015, Dan BERTEANU has joined the advisory board of Bittnet. With the acquisition of Gecad Net by the Issuer, Mr. HERGHELEGIU Cristian joined the executive team. Starting with 2019, Mr. Herghelegiu is VP for Technologies and Mr. Berteanu is VP for Education.

The advisory board meets at least 4 times a year, internal management reports are presented to it, and board members assist and guide the management of the Company in strategic decisions. The experience of the members of the advisory board has been a real support in the development of the Company during the last 8 years and Bittnet continues to rely on their support in the face of new challenges.

Sergiu Neaguț – Member of Advisory Board



LinkedIn Profile

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:

- 2017 – Present FintechOS - co-founder, board member
- 2017 – Present RBL Foundation – board member
- 2015 – Present Euro IT group Ltd. UK – Partner, Board Member
- 2014 – Present Softelligence – Partner, Board Member
- 2014 – 2014 Mindit Consulting - Partner
- 2013 – Present Maastricht School of Management România, Associated Dean Entrepreneurial Growth
- 2012 – Present SVP Consult, Shareholder
- 2013 – Present zPerformant SA, Shareholder Partner
- 2011 – Present Good People SA (frufu) Shareholder Partne
- 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 1.470.162 of the Company’s shares which account for 1,26% in share capital and 1,26% 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 is an Active partner in: zPerformant network SA, Good People SA, Softelligence, Fintech OS, Euro IT Grup LTD.
 - Within the last five years, Sergiu has not been prohibited by the court to act as a member of Board of Directors or Supervisory Board in other companies.
 - Within the last five years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of companies where Sergiu sat on the Board of Directors or Supervisory Board.
 - Sergiu does not perform activities competitive to the activities of the issuer.



Andrei Pitiş – Member of Advisory Board

Profil LinkedIn

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 – 2016 Vector Watch, Founder & CTO
- 2012 – 2016 ANIS, President
- 2016 – 2018 ANIS, VicePresident
- 2011 – 2016 Clevertaxi, Board Member
- 2017 – Present. Fitbit, VP Engineering & head of Bucharest Office
- 2017 – Present AmCham, Vice-Chair IT&C Committee

Percent of shares held in the Company

Andrei holds 1.394.310 of the Company’s shares which account for 1,19% in share capital and 1,19% of voting rights

Additional Regulatory Disclosure Info

- Member of the following NGOs: ANIS – the National Association of Software Producers, Founding Member of TechAngels and Member of Tech Lounge - Innovation Labs.
- Currently Active partner in: TechMind (Simple Systems) si PenTest Tools. Inpast was active in: I-rewind, Vector Watch, Clevertaxi
- Within the last five years, Andrei has not been prohibited by the court to act as a member of Board of Directors or Supervisory Board in other companies.
- Within the last five years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of companies where Andrei sat on the Board of Directors or Supervisory Board.

Dan Ştefan – Member of Advisory Board

LinkedIn Profile

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



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 861.682 of the Company's shares which account for 0,74% in share capital and 0,74% of voting rights.

Additional Regulatory Disclosure Info

- Currently Dan is partner in Autonom Rent a Car and Autonom Lease.
- Within the last five years, Dan has not been prohibited by the court to act as a member of Board of Directors or Supervisory Board in other companies.
- Within the last five years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of companies where Dan sat on the Board of Directors or Supervisory Board.
- Dan does not perform activities competitive to the activities of the issuer.



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.



Profit and Loss Account - Consolidated

	2019	2018	2017
Revenues form customers	99,749,829	47,891,044	27,681,996
COGS	-82,494,676	-39,013,343	-20,263,782
Gross Margin	17,255,153	8,877,701	7,418,214
Other Revenues	657,734	5,968,250	163,002
Sellign Expenses	-6,417,530	-2,485,635	-1,633,463
G&A expennses	-11,658,788	-6,006,901	-3,604,948
Investment gains	6,411	180,328	-
Interest Revenues	371,828	72,889	1,601
Financial Expenses	-2,805,234	-1,317,020	-884,771
Gross Profit	-2,962,255	5,289,611	1,459,636
Incom Tax	331,642	-881,666	-254,026
Net profit, of which	-2,630,613	4,407,945	1,205,609
Mother company	-122,885	4,371,202	1,205,609
Contolling interests	-2,753,499	36,743	-
Per Share reporting			
basic	-0.0237	0.0401	0.0404
diluted	-0.0214	0.0367	0.0362
Net Profit	-2,630,613	4,407,945	1,205,609
Other Elements	-	-	-
Total global results	-2,630,613	4,407,945	1,205,609
Mother Company	-122,885	4,371,202	1,205,609
Contorlling interests	-2,753,499	36,743	-



Balance sheet - Consolidated

	31/Dec/19	31/Dec/18	31/Dec/17
Goodwil	17,701,643	12,241,308	2,536,315
Other intangibles	6,039,991	6,099,112	163,040
Tangibles	6,742,571	2,003,818	475,751
Investments	1,236,738	1,230,328	(0)
Financial Assets	1,056,588	1,056,588	768,821
Deferred tax	562,443	-	88,009
Total Fixed Assets	33,339,974	22,631,153	4,031,935
Inventory	1,997,289	618,060	395,856
Receivables	32,300,201	22,771,507	15,409,713
Cash and equivalents	20,824,117	13,047,882	11,060,150
Current Assets	55,121,607	36,437,449	26,865,719
Total Assets	88,461,581	59,068,602	30,897,655
Subscribed capital	11,620,321	5,175,524	3,044,426
Premiums	0	2,594,889	680,248
Other elements	1,118,923	1,038,755	471,070
Legal reserves	352,151	266,124	164,559
Retained Earnings	1,708,978	352,234	394,597
Current results	(2,753,499)	4,371,203	1,205,609
Total equity	12,046,873	13,798,728	5,960,508
Investments	324,703	201,818	-
Total shareholder equity	12,371,577	14,000,546	5,960,508
Bonds	28,195,593	18,380,362	8,472,806
Bank loans	4,807,687	1,164,199	-



Leasing	3,842,943	93,025	-
Payables	-	-	698,955
Deferred tax liabilities	-	28,852	-
Total Long Term Debt	36,846,223	19,666,438	9,171,761
Bonds	-	4,164,585	-
Bank loans	3,560,417	8,017,675	6,000,000
Leasing	1,325,649	78,555	-
Dividends	-	-	-
Income Tax	226,880	570,928	320,568
Payables	34,130,836	12,569,875	9,444,817
Short Term Debt	39,243,781	25,401,618	15,765,385
Total debt	76,090,004	45,068,055	24,937,146
Total equity and debt	88,461,581	59,068,602	30,897,654



Cash-flow - Consolidated

	2019	2018	2017
Gross Profit	-2,962,255	5,289,611	1,459,636
Adjustments:			
Amortization	2,283,370	179,283	97,844
Stock Option Plan	1,001,644	567,685	301,865
Receivables provisioning	84,551	127,770	158,463
Financial Expenses	2,864,523	1,329,611	691,817
Leasing Interest	427,980		
Interest revenues	-371,828	-72,889	-1,601
Investments	-6,411	-180,328	-
Operational Profit before working capital changes	3,321,574	7,240,743	2,708,023
Receivables change	-9,646,903	-6,123,581	-2,541,421
Inventory change	-1,379,229	-219,330	303,108
Payables change	16,810,546	3,014,280	150,858
Operational cashflow	9,105,989	3,912,111	579,620
Paid income tax	-603,701	-514,751	-206,474
Net Operational Cashflow	8,502,288	3,397,360	373,146
Investment activities			
Payments for acquiring subsidiaries	-709,920	-1,392,067	163,516
Payments for no-controlling interests	-	-1,050,000	-
Loans to subsidiaries	-	-1,050,000	-
Goodwill acquisitions	-	-9,366,943	-
Fixed Assets acquisitions	-893,873	-7,413,586	-515,245
Interest revenue	405,485	39,232	1,601
Net cashflow from investment activities	-1,198,308	-20,233,364	-350,128



Financing			
Equity raising	-	2,899,332	1,602,763
Bank loans accessed	-	5,197,000	4,500,000
Bank loans reimbursed	-813,770	-2,015,126	-1,122,689
Bonds Issuance	9,600,000	14,072,141	4,393,880
Bonds repayment	-4,186,000		
Leasing payments	1,500,098		
Paid interest	-2,627,877	-1,329,611	-691,817
Net cashflow from financing	472,255	18,823,735	8,682,138
Cash increase	7,776,235	1,987,731	8,705,157
Cash at the beginning of the year	13,047,882	11,060,150	2,354,993
Cash at the end of the year	20,824,117	13,047,882	11,060,150



STATEMENT OF CHANGES IN EQUITY

	Consolidated	Equity	Premiums	Other	Reserves	Retained earnings	Total equity	Non-control interests	Total equity
31/Dec/17		3,044,426	680,248	471,070	164,559	1,600,206	5,960,508	-	5,960,508
Net profit	-	-	-	-	-	4,371,202	4,371,202	36,743	4,407,945
Other elements	-	-	-	-	-	-	-	-	-
Total global result	-	-	-	-	-	4,371,202	4,371,202	36,743	4,407,945
Capital Increase	2,131,098	1,914,641	-	-	-	(1,146,408)	2,899,332	-	2,899,332
Stock Option Plan	-	-	567,685	-	-	-	567,685	-	567,685
Shareholder contributions	-	-	-	-	-	-	-	-	-
Acquired noncontrolling interests	-	-	-	-	-	-	-	165,075	165,075
Legal reserves	-	-	-	-	101,565	(101,565)	-	-	-
31/Dec/18		5,175,524	2,594,889	1,038,755	266,124	4,723,437	13,798,728	201,818	14,000,546
Net profit	-	-	-	-	-	(2,753,499)	(2,753,499)	122,885	(2,630,613)
Other elements	-	-	-	-	-	-	-	-	-
Total global result	-	-	-	-	-	(2,753,499)	(2,753,499)	122,885	(2,630,613)
Capital Increase	-	-	-	-	-	-	-	-	-
Stock Option Plan	5,523,321	(2,594,889)	-	-	-	(2,928,432)	-	-	-
Acquired noncontrolling interests	921,476	-	80,168	-	-	-	1,001,644	-	1,001,644
Legal reserves	-	-	-	-	-	-	-	-	-
Acquired noncontrolling interests	-	-	-	-	86,027	(86,027)	-	-	-
31/Dec/19		11,620,321	0	1,118,923	352,151	(1,044,521)	12,046,873	324,703	12,371,577



VI. Auditors report

BITTNET SYSTEMS - RAPORTUL AUDITORULUI INDEPENDENT

ACE – CONSULT SRL

Sibiu, Calea Dumbravii nr.143

Jud. Sibiu

Catre actionarii Societatii BITTNET SYSTEMS S.A. Bucuresti

Opinie

Am auditat situatiile financiare consolidate anexate ale societatii Bittnet Systems S.A. (Societate) si ale filialelor sale (impreuna denumite Grupul) care cuprinde situatia consolidata a pozitiei financiare la 31 decembrie 2019, situatia consolidata a rezultatului global, situatia consolidata a modificarii capitalului propriu si situatia consolidata a fluxurilor de trezorerie pentru exercitiu incheiat la aceasta data si un sumar al politicilor contabile semnificative si alte note explicative.

In opinia noastra, situatiile financiare consolidate anexate ofera o imagine fidela a pozitiei financiare consolidate a Grupului la data de 31 decembrie 2019 precum si a rezultatului consolidate a operatiunilor sale si a fluxului de trezorerie consolidate pentru exercitiu financiar incheiat la aceasta data, in conformitate cu Ordinul Ministerului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara.

Baza pentru opinie

Am desfasurat auditul nostru in conformitate cu standardele de audit adaptate de Camera Auditorilor Financiari din Romania care sunt bazate pe Standardele Internationale de Audit (ISA)

Responsabilitatile noastra in baza acestor standarde sunt descrise detaliat in sectiunea Responsabilitatea auditorului intr-un audit a situatiilor financiare din raportul nostru.

Suntem independenti fata de Grup, conform cerintelor de etica profesionala relevante pentru auditul situatiilor financiare consolidate din Romania si ne-am indeplinit celelalte responsabilitati de etica profesionala conform acestor cerinte. Credem ca probele de audit pe care le-am obtinut sunt suficiente si adecvate pentru a furniza o baza pentru opinia noastra.

Aspecte cheie de audit

Aspectele cheie de audit sunt acele aspect care, in baza rationamentului profesional, au avut cea mai mare importanta in efectuarea auditului situatiilor financiare consolidate in perioada curenta. Aceste aspect au fost abordate in contextul auditului situatiilor financiare consolidate in ansamblul lor si in formarea opiniei noastre asupra acestor situatii financiare.

Nu oferim o opinie separate cu privire la aceste aspect cheie de audit.



Recunoasterea veniturilor – Valoarea 99.749.829 lei

Aspecte cheie de audit	Modul de abordare in cadrul misiunii de audit
<p>Veniturile cuprind in principal conform Notei nr.7 venituri din prestarii de servicii in valoare de 27.120.736 lei si venituri din vanzari de marfuri de 72.629.092 lei. Conducerea societatii acorda o atentie sporita cresterii veniturilor. In anul 2019 fata de 2018 cresterea a fost de 2,08 ori.</p> <p>Am identificat recunoasterea veniturilor ca aspect cheie de audit, deoarece veniturile reprezinta unul din indicatorii cheie de performanta al Grupului si prin urmare, exista un risc inerent in legatura cu recunoasterea lor de catre conducere pentru indeplinirea unor obiective sau asteptari specifice.</p>	<p>Procedurile noastre de audit pentru evaluarea recunoasterii veniturilor din vanzari au inclus urmatoarele:</p> <p>evaluarea eficacitatii principalelor controale ale societatii intru a prevenii si detecta frauda si erorile in recunoasterea veniturilor . Aceasta procedura a inclus evaluarea controalelor pentru recunoasterea veniturilor pe baza a livrarilor efectuate si serviciile prestate.</p> <p>evaluarea contractelor cu clientii, pe baza de de esantion, pentru a intelege termeni tranzactiilor de vanzare si serviciile prestate inclusiv reducerile acordate.</p> <p>evaluarea pe baza de esantion a recunoasterii veniturilor inregistrate aproape de sfarsitul exercitiului financiar , in perioada financiara corespunzatoare, prin comparare tranzactiilor selectate cu documentatia de suport, incluzand avize de expeditie si procesul verbal de receptie.</p> <p>realizarea de confirmari ale soldurilor clientilor la sfarsitul exercitiului pe baza de esantion.</p> <p>verificarea registrului de vanzari dupa incheierea exercitiului financiar pentru a indentifica note de credit semnificative inregistrate si verificarea documentatiei suportante pentru a evalua daca veniturile aferente au fost stabilizate in perioada financiara corespunzatoare.</p> <p>verificarea registrului de vanzari pentru a identifica tranzactii neobisnuite.</p>

Alte informatii – Raportul Consolidat al Administratorilor – nu face parte din situatiile financiare consolidate

Alte informatii includ Raportul Concolidat al Administratorilor. Administratorii sunt responsabili pentru intocmitre si prezentarea Raportului consolidat al Administratorilor in conformitare cu Ordinul Ministrtrului Finantelor Publice nr.2844/2016 puncele 15-19 din Reglementarile Contabile conform Standardelor Internationala de Raportare Financiara si pentru acel control intern pe care administratorii il considera necesar pentru a permite intocmirea si prezentarea Raportului Consolidat al Administratorilor care sa nu contina denaturari semnificative datorate fraudei sau erorii.



Opinia noastra cu privire la situatiile financiare consolidate nu acopera Raportul Consolidat al Administratorilor.

In legatura cu auditul situatiilor financiare consolidate pentru exercitiul financiar incheiat la 31 decembrie 2019, responsabilitatea noastra este sa citim Raportul Consolidat al Administratorilor si in acest demers sa apreciem daca exista neconcordante semnificative intre Raportul Consolidat al Administratorilor si situatiile financiare consolidate daca Raportul include in toate aspectele semnificative, informatiile cerute de OMFP 2844/2016 punctele 15-19 din Reglementarile Contabile conform Standardelor Internationale de Raportare Financiara si daca in baza cunostintelor si intelegurilor noastre dobandite in cursul auditului situatiilor financiare consolidate cu privire la Grup si la mediul acestuia, informatiile incluse in Raportul Consolidat al Administratorilor sunt erori semnificative. Ni se solicita sa raportam cu privire la aceste aspecte.

In baza activitatii desfasurate raportam:

- a) In Raportul Consolidat al Administratorilor nu am identificat informatii care sa nu fie in concordanta, in toate aspectele semnificative, cu informatii prezentate in situatiile financiare consolidate anexate;
- b) Raportul Consolidat al Administratorilor indentificat mai sus include, in toate aspectele semnificative informatii cerute de OMFP 2844/2016 Anexa 1 Capitolul 3 punctele13-19 din Reglementarile Contabile conforme cu Standardele Internationale de Raportare.

In plus, in baza cunostintelor si intelegurilor noastre dobandite in cursul auditului situatiilor financiare consolidate pentru exercitiu incheiat la 31 decembrie 2019 cu privire la Grup si la mediul acestuia, nu am identificat informatii incluse in Raportul Consolidat al Administratorilor care sa fie semnificative.

Responsabilitatea conducerii si ale persosnelor responsabile cu guvernanta pentru situatiile financiare consolidate.

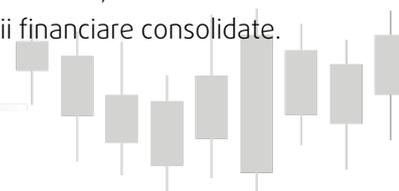
Conducerea Grupului raspunde pentru intocmirea si prezentarea fidela a acestor situatii financiare consolidate in conformitate ci OMFP 2844/2016 si cu Standardele Internationale de Raportare Financiara adaptate de Uniunea Europeana si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea situatiilor financiare consolidate lipsite de denaturari semnificative ,cauzate fie de frauda sau eroare.

In intocmirea situatiilor financiare consolidate conducerea este responsabila pentru evaluarea capacitatii Grupului pentru a-si continua activitatea, pentru a prezenta daca este cazul, a aspectelor referitoare la continuarea activitatii si pentru a utilizarea contabilitatii pe baza continuitatii activitatii, cu exceptia cazului in care conducerea fie intentioneaza sa lichideze entitatea sau sa opreasca operatiunile, fie nu are nici o alta alternativa realista in afacerea acestora.

Persoanele responsabile cu guvernanta corporative sunt responsabile pentru supravegherea procesului de raportare financiara a Grupului.

Responsabilitatea auditorului intr-un audit al situatiilor financiare consolidate.

Obiectivele noastre constau in obtinerea unei asigurari rezonabile privind masura in care situatiile financiare consolidate, in ansamblu, sunt lipsite de denaturari semnificative, cauzate fie de frauda, fie de eroare, precum si emiterea unui raport al auditorului care include opinia noastra. Asigurarea rezonabila reprezinta in nivel ridicat de asigurare, dar nu este o garantie a faptului ca un audit desfasurat in conformitate cu ISA va detecta intodeauna o denaturare semnificativa, daca aceasta exista. Denaturarile pot fi cauzate fie de frauda, fie de eroare si sunt considerate semnificative daca se pot preconiza, in mod rezonabil, ca acestea, individual sau cumulate vor influenta deciziile economice ale utilizatorilor, luate in baza acestor situatii financiare consolidate.



Ca parte a unui audit in conformitate cu ISA exercitam rationamentul profesional si mentinem scepticismul profesional pe parcursul auditului.

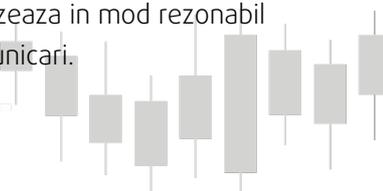
De asemenea:

- Identificam si evaluam riscurile de denaturare semnificativa a situatiilor financiare consolidate cauzate fie de frauda, fie de eroare, proiectam si executam procedure de audit ca raspuns la respectivele riscuri si obtinem probe de audit suficiente si adecvate pentru a furniza o baza pentru opinia noastra. Riscul de nedetectare a unei denaturari semnificative cauzate de frauda este mai ridicat decat cel de nedetectare a unei denaturari semnificative cauzate de eroare, deoarece frauda poate presupune intelegeri secrete, fals, omisiuni intentionate, declaratii false si evitarea controlului intern
- Intelegem controlul intern relevant pentru audit, in vederea proiectarii de proceduri de audit adecvate circumstantelor, dar fara a avea scopul de a exprima o opinie asupra eficacitatii controlului intern al Grupului.
- Evaluam gradul de adecvare a politicilor contabile utilizate si caracterul rezonabil al estimarilor contabile si prezentarilor aferente de informatii realizate de conducere.
- Formulam o concluzie cu privire la gradul de adecvare a utilizarii de conducere a contabilitatii pe baza continuitatii activitatii si determinam pe baza probelor de audit obtinute, daca exista o incertitudine semnificativa cu privire la evenimente sau conditii care ar putea genera indoiele semnificative privind capacitatea Grupului de a-si continua activitatea. In cazul in care concluzionam ca exista o incertitudine semnificativa, trebuie sa atragem atentia in raportul auditorului asupra prezentarilor aferente din situatiile financiare consolidate sau, in cazul in care aceste prezentari sunt neadecvate, sa ne modificam opinia. Concluziile noastre se bazeaza pe probe de audit obtinute pana la data raportului. Cu toate acestea, evenimente sau conditii viitoare pot determina Grupul sa nu isi mai desfasoare activitatea in baza principiului continuitatii activitatii.
- Evaluam in ansamblu prezentarea, structura si continutul situatiilor financiare consolidate, inclusiv al prezentarii de informatii, si masura in care situatiile financiare consolidate reflecta tranzactii si evenimente care stau la baza acestora intr-o maniera care sa rezulte intr-o prezentare fidela.
- Obtinem probe de audit suficiente si adecvate cu privire la informatiile financiare ale entitatilor sau activitatilor de afaceri in cadrul grupului pentru a exprima o opinie cu privire la situatiile financiare consolidate. Suntem responsabili pentru coordonarea, supravegherea si executarea auditului grupului. Suntem singurii responsabili pentru opinia de audit.

Comunicam persoanelor responsabile cu guvernanta, printre alte aspecte, aria planificata si programarea in timp a auditului, precum si principalele constatari ale auditului, inclusive orice deficient semnificative ale controlului intern pe care le identificam pe parcursul auditului.

De asemenea, furnizam persoanelor responsabile cu guvernanta o declaratie ca am respectat cerintele etice relevante privind independenta si ca le-am comunicat toate relatiile si alte aspecte despre care s-ar putea presupune, in mod rezonabil, ca ne afecteaza independenta si, acolo unde este cazul, masuri de protectie aferente.

Dintre aspectele comunicate persoanelor responsabile cu guvernanta, stabilim care sunt aspectele cele mai importante pentru auditul situatiilor financiare consolidate din perioada curenta si ca reprezinta, prin urmare, aspect cheie de audit. Descriem aceste aspecte ale raportului auditorului, cu exceptia cazului in care legile sau reglementarile interzic prezentarea publica a aspectului sau a cazului in care, in circumstante extreme de rare, consideram ca un aspect nu ar trebui comunicat in raportul nostru deoarece se preconizeaza in mod rezonabil ca beneficiile interesului public sa fi depasite de consecintele negative ale acestei comunicari.



Alte aspecte.

Acest raport al auditorului statutar este adresat exclusive actionarilor Societatii, in ansamblu.

Auditul nostru a fost efectuat pentru a putea raporta actionarilor Societatii acele aspect pe care trebuie sa le raportam intr-un raport de audit financiar, si nu in alte scopuri. In masura permisa de lege, nu acceptam si nu ne asumam responsabilitatea decat fata de Societate si de actionarii acesteia, in ansamblu, pentru auditul nostru , pentru acest raport sau pentru opinia formata.

ACE-CONSULT SRL, Prin Francu Constantin

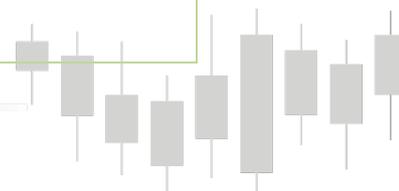
Auditor financiar statutar Registrul ASPAAS nr. AF 964.



VII. Corporate Governance Principles

The statement below refers to the financial year 2019. Currently (March 2020), the company is managed by a board of directors.

Board of Directors Responsibilities		
	Section A - mandatory provision	Section B - fulfillment model
A.	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.
A.1.	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.
A.2.	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 about Company Management in the Annual Report and on the company's website, (tab with CVs) are detailed all the interests of the administrator. The interests are detailed (in Annual Reports and on the website) and applied to all members of the Advisory Board.
A.3.	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 about Company Management in the Annual Report and on the company's website, (tab with CVs) are detailed all the interests of the administrator. The interests are detailed (in Annual Reports and on the website) and applied to all members of the Advisory Board.
A.4.	The annual report should inform on whether an evaluation of the Board has taken place under the leadership of the chairman. It	Not applied - The Company is managed by a single administrator.

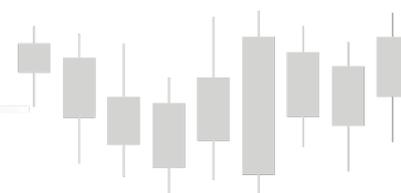


	should also include the number of the meetings of the Board.	
A.5.	The procedure regarding the cooperation with the Authorized Consultant for the period in which this cooperation is imposed by the Bucharest Stock Exchange, will contain at least the following:	The company has overpassed the mandatory maintenance period with an Authorized Consultant. During the duration of the contract, the provisions of this chapter have been met. This chapter is currently not applicable to the company.
A.5.1.	The contact person with the Authorized Consultant;	
A.5.2.	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;	
A.5.3.	The obligation to inform the Authorised Consultant with all reports and any information that reasonably require to fulfill his responsibilities;	
A.5.4.	The obligation to inform Bucharest Stock Exchange regarding any dysfunctions in cooperation with Authorized Consultant or changing of the Authorized Consultant.	

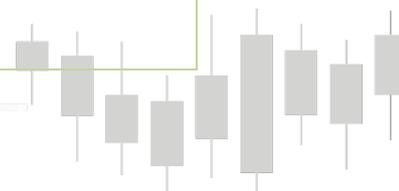


Section B - Internal Control System		
B.1.	The Board should adopt a policy ensuring that any transaction of the company with any of its subsidiaries that is equal to or more than 5% of the net assets of the company as stated in the latest financial report should be approved by the Board.	Starting with the fiscal year 2018, the company will inform the shareholders about the transactions with Dendrio Solutions SRL, starting from 2019, the company will also inform the shareholders about the transactions with Elian Solutions SRL.
B.2.	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 run by a single administrator, not a board of directors. During 2019, the Administrator was remunerated under the mandate contract approved in the General Shareholders' Meeting - the value of a gross average salary in the economy.</p> <p>During 2020 this value will be adjusted according to the law.</p> <p>During 2019, the administrator exercised the option to purchase shares at a preferential price, according to the mandate contract approved by the OGAS in April 2016. During 2019, the administrator received a number of 827,103 shares, within the increase operation capital decided and announced in February 2019.</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 communication, both through the reports and on the website, is 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 website.
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 meetings	Information about General Meeting of Shareholders are and will continue to be available on the website.
D.1.5.	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.
D.1.6.	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.
D.1.7.	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.	This type of information is published on the website.



D.2.	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.	This type of information is published on the website and in the Annual Report
D.3.	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.	<p>The company has a policy on forecasts, which is published on the site.</p> <p>The company will provide annual earnings forecasts, as well as operational, gross and net profit forecasts, in the annual report.</p>
D.4.	A company should set the date and place of a general meeting so as to enable the participation of the highest possible number of shareholders.	The Company will organize the General Meeting of Shareholders at the company's headquarters, during working days
D.5.	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
D.6.	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.	<p>During fiscal years 2016, 2017 and 2018, the Company organized a yearly meeting with analysts / investors, in partnership with BVB. The video recording from the meeting can be found on the website.</p> <p>For fiscal year 2020, the company will organize the "Investor's Day" completely online due to the coronavirus pandemic.</p>



VIII. 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:

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

CEO - MIHAI LOGOFĂTU

CFO - ADRIAN STĂNESCU

