22Q3

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Bittnet Group
BNET Report
3rd Quarter, 2022

bittnet
group

“There is something that is much scarce, something rarer than ability. It is the ability to recognise ability.”

—Robert Half

Bittnet Goup
—Company details

Quarter 3 report according to	ANNEX no. 13 to the ASF REGULATION no. 5/2018
For the financial year	01.01.2022 - 30.09.2022
Report date	11 November 2022
Name of the company	BITTNET SYSTEMS S.A.
Registered office	44 Sergent Ion Nuţu street, ONE COTROCENI PARK, Building A & B, 4th floor, District 5, Bucharest
Mail address/operating premises	44 Sergent Ion Nuţu street, ONE COTROCENI PARK, Building A & B, 4th floor, District 5, Bucharest
Telephone/fax	021.527.16.00 / 021.527.16.98
Unique registration code at the Trade Register Office	21181848
Trade Register registration number	J40/3752/2007
The regulated market on which the issued securities are traded	Regulated Market managed by Bucharest Stock Exchange, Standard Category
Paid-in and subscribed share capital	RON 52,848,059,50
The main characteristics of securities issued by the company	528,480,595 shares at the nominal value of RON 0.10 per share
Trading Symbol	BNET – shares, BNET23, BNET23A, BNET23C – bonds
Shares ISIN code	ROBNETACNOR1
Contact	investors@bittnet.ro

Cuprins raport

A message from the CEO

Over the 9-month period ended on September 30, 2022, our group recorded operational[1] revenues of RON 111 million, which represents **an increase of 35% compared to the same period of last year**.

Mihai Logofatu
Chief Executive Officer

According to the model already known of operational leverage, it generated an increase of 47% of the gross margin, RON 24.6 million (as compared to RON 17.8 million last year). The operating profit reached the amount of RON 3.5 million, an increase by 9% from RON 3.2 million last year.

The financial result is a loss of RON 6,2 million, vs RON 4,6 million profit last year. From this financial loss of RON 6.2 million, RON 2.8 million are non-cash "mark-to-market" due to revaluation of our holdings in two companies: Softbinator Technologies (BSE ticker: CODE) and Arctic Stream (BSE ticker: AST) which resulted in a negative gross profit of RON 3,26 million. For comparison, last year, the value of this indicator amounted to RON 10.8 million, of which RON 5.8 million represented value increases of our investments and RON 3,3 million "one-off profit".

From the "trailing twelve months" perspective, total revenue and gross margin show significant increases (25% for revenue and 34% for gross margin). The fact that TTM revenues are almost equal to budgeted revenues for the full year reconfirms the year-end targets. **Therefore, even if we have an increase of 36% for this period and continuing the trend for the current year, in Q4 it is enough to register the same operating income as last year in order to reach the budgeted values.** On the other hand, the significant increase (+70%) of indirect expenses generates a decrease in TTM operational profit by 1.5 million lei (-27%). TTM gross profit is RON 11 million lower than in the comparable period, due to the decrease in financial income by approximately RON 7 million.

Looking how the results of the period are composed, the Education Division had a significant increase in revenues and decreased the operational loss in Q3 by 18% (from RON 1.42 million last year to RON 1.1 million this year), while the Technology Division produced a operational profit of RON 4.7 million, in line with last year's value. Within this division, extended delivery

[1] TopTech and 2Net, acquired in September, are not included in any way in the consolidated results

terms at Dendrio affect the gross margin (dendrio is the only company in the technology division that records a decrease in margin). Considering the mentioned delays, the gross profit is also affected – RON 2.5 million of the total gross loss of 3.3 million of the group comes from Dendrio).

From our estimates, supply chain delays will continue next 18-24 months. Based on these estimates, we decided to revaluate our portfolio of services and products to diversify the solutions we provide, paying more attention to software solutions – where there are no delays in delivery.

This diversification of solutions aims to complete the current portfolio with niche products and services, as well as recurring ones, which will be sold in the form of a monthly or annual subscription, similar to what is currently available on the market in the case of most software solutions. Through this offensive approach, we reconfirm our position as a supplier that responds instantly to customers' needs, offering innovative solutions specialized in the market verticals in which they operate.

We structured the acquisition of TopTech and 2Net companies 'under' Dendrio, so that Dendrio's consolidated results move away from the "June and December" cycle. The two transactions were completed in September, so they have no impact at the profit and loss account level in the financial statements at 9 months. Instead, this peculiarity of the consolidation process according to IFRS generates a blind spot for shareholders. In other words, Dendrio will start the year 2023 as a company with consolidated revenues of approximately RON 200 million lei, and an operational profit of RON 14 million. To address this blind spot, we publish in this report a presentation of the financial results - "Pro-Forma Consolidation".

Starting from these results, I would like to bring back the attention of investors to an important element for a better understanding of our activity: the team structure and the operational model of the group generate a leverage effect ("multiplier") for the gross margin compared to income. Thus, as can be seen even now, a 36% increase in revenues generates a 47% increase in gross margin, which is the essential element to generate operational profitability. **In other words, a company that registers lower revenues in a period, will also have a lower margin, and therefore a gross loss. However, a relatively small increase in income is needed for a greater increase in margin and a significant evolution of the operational (and gross) profit.**

At the **Technology Division** level the 3rd quarter represented a high level of complexity in the operation of the business, mainly due to logistical challenges (delays in deliveries, lower predictability, restriction of periods in which services can be delivered), but also due to the increase in interest rates on RON loans, which adversely influenced the financing cost of some projects.

Even under such market conditions, far from being ideal conditions, the Technology Division recorded a 29% increase in turnover to RON 95.5 million (vs 73,8 million as compared to Q3 2021) and the gross margin generated at division level was of RON 19.8 million (+45% vs Q3

2021) . The growth in turnover is reflected in an increase of activity at delivery team level with over 2000 projects implemented by the Engineering Division in the first 9 months.

The fact that the most recent acquisitions, TopTech and 2NET, have joined the Technology Division opens a complementary horizon of IT products& services and customers and enables business acceleration in a geographical area where, until now, the group had a low presence – central, South and South-East Transylvania.

The other pillars of the Technology Division - Business Applications, CyberSecurity and Managed Services register an extremely strong evolution in a positive sense, both from the point of view of business and profitability. Paradoxically, **the increase in the numbers of these companies is rather limited by the lack of human resources to deliver all the projects we have won, despite the massive recruitments this year.**

In the case of Fort (the brand that brings together the cyber security companies acquired last year - GRX and ISEC) we recorded a 35% increase in business (up to RON 10.6 million), an aspect that allowed us to cover the increase in costs both with the technical team, but also administrative, generating an operational and gross profit similar to that of the previous period – RON 2.2 million. Another extremely important and relevant aspect for the evolution of Fort is the start of a project with non-refundable funds, estimated to be completed in 2023, within we are developing our own product ("own-IP"). It is estimated to produce recurring income starting in 2024.

In the case of Optimizor (formerly IT Prepared), a 91% increase in revenues (up to RON 4.6 million) generated an accelerated evolution (+130%) of operational and gross profit - up to RON 2 million.

Last but not least, in the case of Elian we recorded a doubling of revenues (up to RON 8.5 million) and an improvement of RON 1.2 million in operational and gross profit - up to RON 1.1 million.

As for the **Education Division**, Q3 2022 maintained the positive trend we have had since the beginning of the year. Thus, even if in the summer months the contracting and implementation of trainings slows down compared to the other months of the year, we managed to secure a turnover value (projects won – delivered or in process of delivery as of 30.09 - CLOSED WON) of about RON 18 million, a significant increase from last year.

The actual turnover invoiced in the first 9 months of the year was RON 15.6 million, up by 92% as compared to the same period last year and the gross margin generated by the division reached RON 6.4 million, 55% higher as compared to the same period of 2021.

Financial Position and Cash-Flow

Shareholders' equity continued its significantly positive evolution, reaching a value of RON 54.6 million, while the cash position increased by RON 5 million (31%) as compared to the equivalent period of last year. Operating cash flow exceeded RON 7 million, which, combined with the sale of a minority stake in Dendrio, allowed us to make new acquisitions of companies worth RON 15 million. In the 9 months ended on September 30th, the cash position decreased by RON 3.1 million, **of which RON 2.6 million represents capital returned to shareholders in the form of buybacks**.

At the same time, in September we started the process of increasing the share capital through contributions and receivables (from M&A), through which we aim to attract an additional amount of RON 20 million as 'fresh-equity'. Thus, if we manage to complete all operational steps before 31.12.2022, the equity will exceed RON 100 million.

Between September 30th and the date of publication of this report, we also published a call for a general meeting of shareholders to renew the bond issuance ceilings, with the aim of refinancing issues maturing in 2023, plus extending the financing available to the group. We believe that, in times of uncertainty for investors, the existence of a bond issuer with a solid financial status, with significant cash flow year after year, and with an equity value of RON 100 million should be an interesting bond investment option.

About stock market performance

Bittnet's share price fell by 16% in the first 9 months of 2022. The total trading volume recorded in the first 9 months was of 77,063,824 shares, with a total value of transactions exceeding RON 45.6 million, values that confirm the membership of the BET-XT index or FTSE Russell indexes, based also on the liquidity of the shares. In September we were informed by the investment fund Agista Investments that it had exceeded the threshold of 5% shareholding, individually, and together with Impetum Investments and a number of persons from the management of the two investment vehicles, the threshold of 15%. We are delighted with the confidence shown by an institutional player in our development plans, and we thank them for this.

Development through M&A

In Q3 we completed 2 significant transactions: the acquisition of TopTech and 2Net. As a novelty, this is the first time we have financed the acquisition of other companies through a bank loan. In parallel, we advanced the negotiation processes for other transactions that are still in the pipeline. If only one of these transactions is successfully completed, we will start 2023 with a capacity of over RON 300 million to generate business. We are still looking for transactions that will allow us to strengthen our presence both in the classic IT&C integration business and in the managed services area.

Please read more about the structure of the group and the role of M&A activity in achieving the EUR 100 million turnover target in the Shareholder’s Manual.

If we reach the business target of EUR 100 million (RON 500 million) in 2024, and this is accompanied by an average profitability for the industry of 15%, the resulting net profit would be impossible to achieve from current turnover, given the attention to cost, ingenuity and operational mastery. On the other hand, such a company, valued even at only 10x profit, or only 1x revenue, values well below the historical average of these indicators, would still be worth 3-5 times more than today.

As always, we welcome your questions at investors@bittnet.ro.

Mihai Logofatu

Mihai Logofătu,
Founder & Chief Executive Officer,
Bittnet Group

“The only limits are, as always, those of vision.”

—James Broughton

bittnet group

Consolidated & minority* interests
*The E-Learning Company

Bittnet—Technology Division

Business applications

Elian Solutions

Bittnet Systems	51.02%
Iulian Motoi (CEO & Cofondator)	24.49%
Mihaela Ivancuta (CIO & Cofondator)	24.49%

Software development

Nenos Software

Bittnet Systems	60.97%
Toader Toporau, CEO & cofondator	39.03%

Nonlinear

Bittnet Systems	60%
Toader Toporau, CEO & cofondator	40%

Infrastructure & Cloud

Dendrio Solutions

Bittnet Systems	88.001%
Agista Investments	11.999%

TopTech

Bittnet Systems	40.00%
Dendrio Solutions	60.00%

2NET Computer

Bittnet Systems	0.00%
Dendrio Solutions	100%

Managed services

IT Prepared

Bittnet Systems	50.2%
Alexandru Ana, CEO & cofondator	24.9%
Valeriu Ghihanis, Sr. eng., cofondator	24.9%

Cybersecurity

ISEC Associates

Bittnet Systems	69.992%
Alexandru Andriescu, cofondator	30.008%

GRX

Bittnet Systems	60%
Fondatori	20%
Management	6%
Alti investitori financiari	14%

GRX Advisory

Bittnet Systems	0%
Global Resolution Experts (GRX)	100%

Bittnet—Education Division

Tech skills

Bittnet Training

Fara entitate juridica	N/A

Computer Learning Center

Bittnet Systems	100%

Soft skills

The E-Learning Company

Bittnet Systems	23%
Adrian Calin, CEO& cofondator	41%
Dimitros Baltas, cofondator	26%
Corneliu Fecioru, cofondator	10%

Equatorial Gaming

Bittnet Systems	98.99%
Dan Berteanu, cofondator	1.01%

Mark 2 Market

Softbinator Technologies $CODE

Bittnet Systems	19.00%
Daniel Ilinca, CEO & cofondator	45.06%
Alti investitori financiari	35.94%

Arctic STREAM $AST

Bittnet Systems	1.7800%
Dragos Octavian Diaconu, fondator	66.6129%
Alti investitori financiari	31.6071%

Technology Division

Presentation of the operational activity

For the Technology Division, the third half of 2022 brought continued business growth for all companies in the division. As we mentioned at the end of the first half year (Half Year Report 1) this growth remains significantly higher for companies with a high share of services such as Elian, Optimizor, Fort – companies achieving accelerated growth and even doubling of business compared to Q3 of the previous year, as is the case with Elian Solutions.

In the case of Dendrio the company remains on operational growth in Q3 as well, but this growth is slowed by the current global context – Dendrio has a significant component of operations related to hardware delivery. The economic environment marked by accelerated inflation, as well as the blast of USD/RON exchange rate has led to lower margins for certain contracts subsequent to multi-year framework agreements won in 2019-2020 by Dendrio.

Rising interest rates on RON loans negatively impacted the cost of financing some projects. In this context, dendrio – the company within the division with the greatest need for a project pre-financing component - explored the opportunity to borrow in foreign currency at a lower current cost than it would have done in local currency.

Logistical challenges (delays in deliveries, lower predictability, shortening the periods in which services can be delivered) lead to a higher level of complexity in the company's operations. Below we detail some of the actions we are taking to offset such situation.

Even in these 'not quite ideal' market conditions the Technology Division reports a 25% increase in turnover to RON 95.5 million (vs Q3 2021) and the gross margin generated at division level was of RON 19.8 million (+45% vs Q3 2021). The growth in turnover is reflected in an increase of activity at delivery team level with over 2,000 projects implemented by the Engineering Division in the first 9 months.

The fact that the most recent acquisitions, TopTech and 2NET, have joined the Technology Division opens a complementary horizon of IT products& services and customers and enables business acceleration in a geographical area where, until now, the group had a low presence – central, South and South-East Transylvania.

At the time of publication of this report, the integration of the two companies within the group is in full process. By the end of the year, ERP and other 'tools' used at group level will be implemented, both in terms of sales process, operational flows, and financial-accounting consolidation. We will be able to consider the 2 companies fully integrated only at the beginning of 2023. Also, a number of processes that used to operate at company level will be coordinated from division level – so we will have integrated Marketing, Sales Development (SDR – market prospecting) or Customer Success functions at division level. In this way we aim to establish best practices across all companies but also to increase the efficiency of the whole team.

In Q3, the financial results of TopTech and 2NET are not consolidated, at a P&L level, in the financial results of Dendrio, or of the Group.

A. Complex IT infrastructures

Dendrio Solutions

In Q3 2022, Dendrio Solutions' business activity was influenced by the market context marked by disruptions in hardware supply chains, while even in such a context it reached a 4% increase in turnover compared to the same period of 2021 (at a constant value of gross margin generated). A number of significant projects (which were delivered throughout the year) will be completed in the last quarter which will generate an increase in the two values mentioned above.

Although some improvements can be noticed in the delivery of standardised products, in terms of projects with a high degree of customisation (turnkey projects configured to the requirements of a single client but which also allow a higher rate of profitability to be reached) – these projects continue to be significantly affected. We do not intend to go into an excessive detail of this phenomenon because it has been presented in several periodic reports in the last years. However, we believe it is important to note the impact on the company's business and the measures we are taking to counteract these effects:

Impact

- In Q3 2022, a number of projects that were due for completion in 2022 – amounting to over RON 9 million – were rescheduled to 2023 due to delivery delays.
- This volume may increase towards the end of the year – projects worth RON 11 million are considered to be at risk following successive changes in delivery dates.
- High opportunity cost: a significant amount of additional effort is required in dealing with affected customers, manufacturers, and the supply chain – effort that would normally have ensured the generation of new projects.
- However, we expect a significant advance in Dendrio revenues at the end of the year (maintaining a double-digit growth).

Directions for development

- Operationally, the measures taken previously have been maintained (breaking down large projects into sub-projects with partial deliveries, close monitoring of delivery deadlines, reallocation of orders where possible).
- Although we plan to increase the number of projects involving complex architectures, the Dendrio Solutions team will place particular emphasis on the area of solutions and services related to software products from existing and group portfolios (Cisco, Microsoft, cyber security).
- Increase the number of hybrid or cloud architectures sold.
- Extending the portfolio of solutions/manufacturers integrated in the solutions sold

- Strengthening the management and operational team; we currently have a new COO who will focus on maximising operational efficiency as well as new colleagues in key departments such as Presales and Delivery.

Other initiatives undertaken

- Throughout this quarter, several integration projects were initiated with group companies (Fort, Optimizor and Elian).
- SDR: the outbound process has been significantly improved, with currently over 70 Sales Qualified Leads generated (out of which 16 have already been won), in industries such as: manufacturing, retail/e-commerce, transport and logistics, HORECA, financial services.
- The profile of the targeted companies has been changed as well, currently having several qualified leads in the medium and large segment (including companies in the banking sector or in the large industrial area).

Optimizor (formerly ITPrepared)

In the last quarter, Optimizor's customer portfolio was expanded by 30%, also bringing a diversification of the service portfolio in the area of support on networking technologies, cloud-based automation, integrations with HR applications and CRM systems. The delivery team was also expanded by 66% in preparation for the launch of the IT support product for small businesses and startups. DevOps resources were brought within the team to support the development of complex integrations of solutions used by customers.

Last but not least, this quarter we exceeded the threshold of 10.000 solved support tickets (lifetime) with 99.4% undertaken in compliance with the SLA and a satisfaction level of 98.5%.

FORT (Global Resolution Experts, ISEC Associates)

The first 9 months of H2 2022 can be characterised by a single word: construction. The companies that make up Fort have started collaborating with 4 new colleagues, who have a main focus in various cybersecurity related activities, especially penetration testing and consulting. At the same time, in order to ensure an efficient training process for people who want to pursue a career in the field in which Fort operates, a specific course for Ethical Hacking has been set up in collaboration with CTRL+N. Graduates of this course will be able to obtain an internationally recognized certification as well as to get a specific position within the company.

The operational association between GRX and ISec has continued and is almost coming to an end, while the process is to be completed by early 2023.

From an operational point of view, the process of efficient provision of Fort services to the company's clients continued, and a load shift from the audit sphere to the security consulting sphere was observed. There have been started collaborations with 2 new customers, for which we will provide specific services.

We expect that in the last quarter Fort will complete the projects that are now in progress, with a view to achieving turnover and profitability targets.

A significant element is the fact that we have started a project with non-reimbursable funds - the first request for reimbursement of expenses already incurred will most likely be submitted at the end of 2022. We estimate that the project will be completed at the end of 2023 and will represent a FORT intellectual property product that will generate recurring revenue from users starting in 2024.

B. Business Applications, Software and Artificial Intelligence

Elian Solutions

Elian Solutions' accelerated business growth trend continued in Q3 achieving a turnover growth of over 100% compared to Q3 2021.

All 3 major components of Elian Solutions' business model delivered strong growth momentum:

- implementation services grew by 146% compared to Q3 2021,
- support services volume grew by 49%,
- the sale of licenses recorded a 131% increase compared to the previous year.

In terms of results, Elian solutions has budgeted for 2022 a double turnover compared to 2021 and the results at the end of Q3 give us confidence that this goal will be achieved!

The processes started in the first half of the year continued:

- continued strengthening of teams;
- delivery structure divided into 2 sub-teams, each with a dedicated team leader selected from among members with experience in the implementation activities;
- project delivery methodology (involving self-planning for each team member and validation of delivery deadlines with the team manager and the associated Project Manager) allows the management of a high volume of tasks, respectively the management of a significantly higher number of pipeline projects.

Nenos and Nonlinear

This quarter too, our clients have benefited from our experience of over ten years in the field of software development customized to their needs, with the support of our teams built for specific projects, capable of a detailed analysis of problems, but above all of their desire to live up to our motto: “professional software solutions”.

Innovative solutions

Last quarter we were delighted with the group-wide launch of our solution, Timekey – which can make administrative actions such as daily time clocking much easier and more efficient. The first feedback was positive, so we started integrating colleagues on a larger scale. We are proud of the development of our product, which has now gone from the pilot version – tested and used by just a few colleagues in the Bittnet group – to the beta version – tested and used by all our colleagues in Elian Solutions. We also succeeded to implement the options proposed last quarter, and Elian colleagues will be able to use, among other functionalities, the direct submission of the leave request in the application and its approval, also from the application, by the Team Lead, as well as the button that allows the automatic 8-hour daily time clocking.

We have added a new area of expertise to the Nenos Software & Nonlinear portfolio, in addition to the areas involving intelligent document processing, eCommerce, Agritech, Healthcare, Insurance, namely Tourism. We are excited about a new collaboration with a UK company focused on providing distribution, technology, and payment solutions to the travel industry worldwide. The project has taken shape with the aim of meeting people's constant need to travel and to make the whole process of booking holidays easier and more user-friendly. The main objective is to build a UI in the Cloud, which aims at two main aspects: translating the functionality of the current app to be used on phone/tablet as well and implementing new features to improve the user's experience.

A new generation of software developers

We are approaching the end of the current edition of Nenos Academy, which focused on the development and preparation of two categories of juniors: FullStack Web Developers and Python Developers. Our peer mentors prepare students to face the challenges of their first job in this area, using up-to-date theory and specially designed exercises to simulate real project tasks. We reward hard work and dedication, which is why we offer first scholarships to persons who have stood out in the learning groups. At the same time, we've kicked off registration for the third edition of the academy, and we're looking forward to meet the next generation of enthusiastic young people with a passion for programming!

Team

Because we are constantly striving to grow, we are continuing the process of expanding our portfolio and team by expanding our Sales and Marketing department, which was established last quarter. We are happy to have energetic colleagues on board, who are ready to help find the right projects for our team of capable programmers.

Financial Results – Technology Division

Operating leverage (multiplier) continues to generate accelerated gross margin growth in relation to revenue growth (1.5x). Thus, the gross margin generated by the technology division in the first 3 quarters is almost RON 20 million – slightly higher than the group's gross margin 3 years ago. Gross margin continued to improve significantly as a percentage of revenue, as a result of the significant increase in services (up 76% from the previous year).

Operating profit is RON 4.7 million, comparable to the same period last year, as a result of the significant increase in rental costs (with the start of the contract for the new premises, but also due to the expansion of the team).

Integration	30/09/2022 (lei)	30/09/2021 (lei)	Evolution
Income	**95,550,607**	**73,842,251**	**29.4%**
Provision of services	30,661,906	17,483,711	75.4%
Sale of goods	64,888,701	56,358,540	15.1%
Cost of sales	**75,698,342**	**60,123,789**	**25.9%**
Goods/materials	53,881,693	48,522,480	11.0%
Cloud services	3,997,495	4,199,042	-4.8%
Hours-Man	17,819,153	7,402,267	140.7%
Gross margin	**19,852,265**	**13,718,462**	**44.7%**
Other revenues	**399,180**	**2,588,870**	**-84.6%**
Sale/distribution expenses	**5,902,526**	**4,099,972**	**44.0%**
Hours-Man	4,950,927	3,554,610	39.3%
Advertisement	951,599	545,363	74.5%
Administrative expenses	**9,593,341**	**5,011,133**	**91.4%**
Hours-Man	4,225,604	2,556,326	65.3%
Amortization	1,409,339	894,255	57.6%
Other third-party services	1,773,500	773,015	129.4%
Other expenditures	760,237	294,613	158.0%
Operating profit	**4,723,146**	**4,692,919**	0.6%

“The whole purpose of education is to turn mirrors into windows.”

—James Broughton

The Education Division

Presentation of the operational activity

For the Education Division, Q3 2022 maintained the positive growth trend we have had since the beginning of the year. Thus, even if in the summer months the contracting and implementation of trainings slows down compared to the other months of the year, we managed to secure a turnover value (projects won – delivered or in process of delivery as of 30.09 - CLOSED WON) of about RON 18 million, a significant increase from last year.

Also during the quarter, we focused our efforts on filling vacant positions in the organisational structure of the division. Thus, we recruited and completed the on-boarding process for 3 positions of Head of Department, 2 positions of Business Development Manager (BDM), 2 positions of Customer Success Manager and 7 positions of collaboration Trainers.

You can find below the activities of each functional team and the results achieved.

A. Marketing

Tech skills

We focused on brand awareness campaigns and lead generation through content development. Through continuous work to keep the content on the website up to date, ongoing SEO and Pay-Per-Click promotion, dedicated product campaigns for the vendors in the portfolio, the team generated 117 MQL (Marketing Qualified Leads) of which 57 (48%) have been qualified and were transferred to the Business Development team.

We attracted over 23,100 visits to Bittnet Training project websites and over 986,000 paid online ad impressions.

We continued with the promotion of materials from the IT Evolve Toolkit and Security Learning Toolkit campaigns respectively which aimed to provide relevant and topical content to the IT Managers, IT specialists or HR Managers and Business Owners that our teams target. We also developed a series of extensive materials that shaped the AWS Game Changer campaign, dedicated to those who need to become familiar with the most popular Amazon Web Services. From a security perspective we ran an awareness campaign on the topic of Certified Ethical Hacker.

Human skills

In Q3, we focused on starting campaigns to increase Equatorial's brand visibility and to complete the leadership program brochure (the product based on the market research "Learner Persona of the Technology Team Leader") and the company's website.

PR efforts have been amplified due to two new press releases and an interview, activities picked up by over 30 online publications. We also continued our F5 Podcast discussion series with two new editions to stay in touch with the priorities and challenges of senior managers in technology organizations.

Product team tech skills

The team focused on awareness campaigns and lead generation through content development. The awareness campaigns run during this period (IT Security Toolkit, IT Evolve Toolkit and AWS Game Changer) generated a total of 2981 landing page visits and 238 downloads of educational resources.

The department has worked closely with the AWS vendor and thanks to the strengthening of our relationship with them we have been chosen to be part of the fully-funded pilot course programme. At the same time we are continuing co-funding programs with both AWS and Microsoft whereby vendors push cloud courses to various partners and customers.

Moreover, during this period, the department has been working on increasing the number of customers for Cisco courses by developing a custom course that can be delivered globally and which, in addition to the expanded reach in terms of customers, will place us in a select group of Cisco's authorized learning partners that can provide such courses.

The close collaboration with Cisco has also paid off with us being included again in the Cisco Learning Credits (CLC) program, whereby we can accept CLC vouchers as a payment method for courses, which we subsequently charge to the vendor. There is a limited number of partners globally that are included in this program.

In line with the strategy of strengthening and expanding the business model, the department has been working on setting up a video studio and setting up a relevant content plan, both of which are the building blocks for the video platform to be developed later.

Demand generation

In Q3 2022, the Demand Generation team actively complemented the marketing team's campaigns by managing inbound leads and generating outbound leads for the Education division. During this period, 84 SQL (Sales Qualified Leads) were generated and converted into business opportunities: 27 SQL were created by the Outbound team and the remaining 57 SQL by the Inbound team. If we refer to the similar period last year, in Q3 2022 almost double the number of opportunities were delivered in Outbound and 10% more than the same period last year in Inbound.

These results confirm the measures implemented at the beginning of the year to target the IT industry and in parallel thanks to the results from the Marketing campaigns implemented during the year.

For Q4 2022, the Demand Generation team will keep its focus in the established vertical (for the Outbound area) and will address the informational leads coming from the ongoing Marketing campaigns (for the Inbound area), with the main objective of reaching the target proposed for the year.

B. Business development

Bittnet Training team

At the end of Q3 we managed to secure contracts worth RON 16.5 mil. (CLOSED WON), which represents 77% of the target we undertaken for this year. This figure could be achieved by closing 521 opportunities and working with 81 active clients.

In terms of managing the projects carried out in Q3, we continued the delivery of EU funded projects and public sector education projects, the number of trainees in these projects alone exceeding 450.

The figure achieved this quarter was approximately 4 mil. RON, out of approximately 160 opportunities. By comparison, in the same period of 2021 a figure of 2.5 mil. RON out of 119 opportunities.

In the last quarter of the year we will focus on successfully completing the projects we have in progress, building the strategy we will address with clients in 2023 and building the action plans for the portfolios managed by each BDM individually.

Equatorial team

At the end of Q3, Equatorial won projects worth approximately RON 1.7M (CLOSED WON), and from the beginning of the year to 30 September, Equatorial's human & leadership skills training programmes have reached a total of 150 sessions and over 650 participants.

In addition, since September, we have a new Team Leader role for the sales team and a new member has joined us to support and strengthen our sales activities.

The e-Learning Company team

The third quarter of 2022 was a continuation of the trend of the first 6 months: a higher turnover than in the same period of 2021 and also an increasing profit, the margin being almost identical (slightly increasing).

Thus, in the first 9 months we won contracts worth RON 2.25 mil. and the profit went up to RON 510K. These results come in the context of the fact that, for some of the customers who decided to renew the contracts expiring in September, not all the invoices have been issued yet, as they will be issued by the end of the year.

We have moved forward with the plan to implement some courses at regional level in other languages, we have the first modules in Bulgarian and advanced discussions with customers in Bulgaria. In the marketing team, we have a new colleague and we anticipate that the new website and visual identity will be available as planned.

In the last 3 months of 2022:

– we will launch a pilot project with a public sector entity and address a significant number of learners;

– we are awaiting the completion of discussions for two important agreements in the corporate area;
– we will run a series of presentation activities for a client with a very important global business, at the end of which we expect a positive outcome in the first part of 2023;
– we have set up presentations for important partnerships both in Romania and in countries in the region;
– we are launching a promotional campaign to make our e-learning services known to many of the top 500 companies in Romania with which we have no contacts.

C. Training delivery

The third quarter of 2022 brought the Training Delivery team a number of satisfactory results through the implementation of large-scale projects. During this period, we have outlined the Trainers Academy program which aims to attract new professionals in the field of training delivery and to improve the skills of course delivery such as human skills of relating, communicating and explaining technical concepts, to be easily put into practice by the trainees. One of the essential goals of the Training Academy is to implement a uniform learning and development path for Bittnet trainers and therefore an increased success rate of the delivered courses.

We delivered 125 classes with 1380 learners, compared to 2021 when we delivered only 64 classes with a total of 581 learners which results in a doubling of the number of classes compared to the previous year and a 237% increase in the number of learners.

In parallel with these projects, the Training Delivery team, with the support of the technical teams, has been constantly working on the refurbishment of the classrooms which have been brought to the highest level of performance, they are now ready for blended training to create a unique adult learning experience. Microphones that pick up sound from any corner of the classroom, or smart boards that can be tracked in real time by the learner at home, are just a few of the ingenious ideas that are among the state-of-the-art equipment put in place by our teams.

D. Customer success

The Customer Success team has changed its management and has 2 part-time employees who joined the team to provide a better customer experience. The role of the new colleagues is to come back after the course as soon as possible with all the necessary documentation to close the projects won through tenders. We have completed our internal working procedures and use a standard on-boarding procedure for new clients.

We got feedback from over 150 participants in closed classes and have sent over 25 reports centralising this feedback to clients together with instructor recommendations. From the feedback we received, we understand that the participants appreciate the quality of the trainers and the hands-on trainings. These courses have increased their productivity by more than 10%.

Financial Results—The Education Division

From a financial point of view, the evolution of the Education Division for the 9 months ended 30.09.2021 reflects a doubling of revenues generated from current activity (but also an increase in costs, especially those with the team). The gross margin increased during this period by 55% compared to the same period last year, from RON 4 million to 6.4 million.

As in the past, the operating profit remains negative (at the level of Q3), even if the situation is 18% better than the previous year, mostly due to the increase in administrative costs (with the start of the lease contract for the new headquarters from ONE Controceni, during 2022).

The increase in costs both in the area of sales, training deliveries and administration is due to both the increase in business and the increase in the cost with people.

Training	30/09/2022 (lei)	30/09/2021 (lei)	Evolution
Income	**15,436,018**	**8,104,806**	**90.5%**
Cost of sales	**8,987,942**	**3,957,394**	**127.1%**
Cost of sale of goods	394,447	124,540	216.7%
Hours-Man	8,593,495	3,832,855	124.2%
Gross margin	**6,448,075**	**4,147,412**	**55.5%**
Other revenues	**848,740**	**876,551**	**-3.2%**
Sale/distribution expenses	**3,205,542**	**2,438,852**	**31.4%**
Staff expenditure	2,548,773	1,671,182	52.5%
Advertisement	656,768	767,669	-14.4%
Administrative expenses	**5,237,857**	**3,596,438**	**45.6%**
Staff expenditure	1,539,655	1,225,208	25.7%
Amortization	1,359,640	1,052,616	29.2%
Other third-party services	1,226,185	788,733	55.5%
Other expenditures	863,849	193,726	345.9%
Operating profit	**(1,197,833)**	**(1,466,493)**	+18.3%

Financial result and gross profit

The 9-month operating profit is slightly up compared to last year and the year before , taking into account the income generated by current activity (without one-off transactions). Thus, the evolution of this indicator, at the group level, corrected for non-repeatable transactions, is: 9 months 2021: RON 3.2 million; 9 months 2022: RON 3.5 million.

Apart from the two business lines (Divisions), the company also registers activities of coordinating the group of companies, ensuring financing through stock exchange mechanisms, and certain expenses estimated according to IFRS standards, but also revenues or expenses related to "mark to market" investments (companies where we do not have 20% of the voting rights). Thus, during the first 9 months of the current year:

- IFRS adjustments regarding stock option plans (SOP) register values similar to this period the year before (715 thousand RON vs 734 thousand RON in 3Q 2021), as well as interest (banking and bonds) – 2.44 million RON versus 2.34 million RON last year.
- The value of "mark to market" investments decreased by RON 2.86 million, while last year there was a profit of RON 5.76 million. This position in the P&L is non-cash, but only a revaluation (up or down) of the holdings in the companies listed on the BSE and which is revalued quarterly according to the evolution of the market quotation.

The financial result is, therefore, a loss of RON 6.27 million in the analyzed period, compared to a profit of RON 4.66 million last year. To this value is added the value of 118 thousand RON - the profit attributable to us from the profits of the companies in which we have minority interests, but over 20%. The reduction of this figure from the operating profit generates a gross loss of RON 3.26 million this year, versus a profit of RON 10.8 million last year.

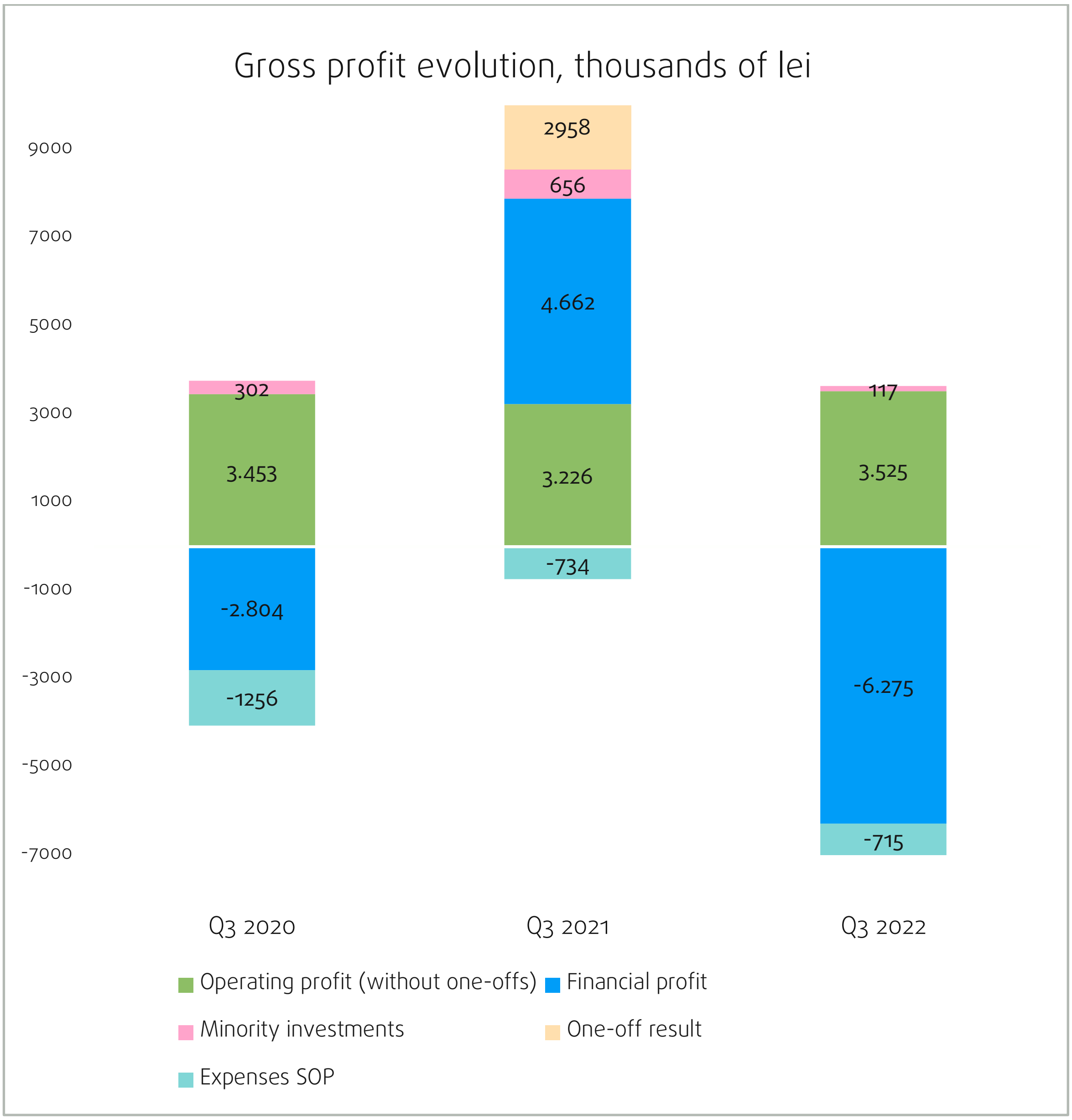

Fig 1 Gross profit evolution, calculated in thousands of lei

"It is not the employer who pays the wages. Employers only handle the money. It's always the customer who pays the wages."

—Henry Ford

Consolidated statement of financial position —key items

The following items are worth mentioning in the analysis of the dynamics of the Group's financial position compared to the previous year:

1. The increase of RON 26 million in goodwill is due to the registration of new investments (M&A): GRX, TopTech, 2Net.
2. The increase in tangible assets is due to the application of the IFRS16 standard – the rent for the entire duration of the contract with ONE being recorded as if we owned the office building.
3. The increase of RON 1.2 million in the "equity securities" position is due to the increase in the investment in E-learning Company, as a result of the update of the calculation of tranche 2 of the purchase contract following the financial statements on 2021.
4. The increase in stocks by 5 million RON (up to the value of 6.4 million RON) is due to the consolidation at the balance sheet level of the companies Top Tech and 2Net (impact 4.8 million RON)
5. The RON 13.6 million increase in trade receivables is due to the consolidation at the balance sheet level of Top Tech and 2Net companies (impact of RON 14.7 million).
6. The increase in long-term liabilities is due to the application of the IFRS16 standard regarding the rent contract for office space from ONE Cotroceni, combined with the reclassification of BNET23 and BNET23C bonds as 'short-term liabilities'
7. The item 'Trade and other payables' includes the amount of RON 10.8 million, M&A payables, which will be converted into equity, according to the decision of the Board of Directors to increase the capital with contributions and debts. The accounting registration will be made at the end of the increase operation – estimated for December 2022.
8. On the other hand, if we look only at the coverage of debts to suppliers by receivables from customers, this indicator records a subunit value – 96%, which is atypical for our group. This situation is produced in particular by TopTech and Dendrio, which also record high percentage 'deficits' but also high effective values of business and therefore of the two indicators.
9. On the other hand, we consider that we should not be worried about this evolution, because the cash position increased by RON 5 million compared to last year, while the debts to suppliers not covered by receivables from customers reached a consolidated value of RON 1.9 million. In other words, we have recorded a very prudent cash-flow management.
10. As a result, equity (net book assets) continues its significant positive evolution (from RON 49 million to RON 54.6 million).

Consolidated statement of cash flow —key items

During the period under review it can be seen that we have managed cash-flow from operations much more carefully – current activity generating RON 7 million. This cash was "exploited" through the acquisition of new companies.

The investment activity brought RON 7.4 million from the sale of a minority holding in Dendrio, an amount which, combined with the RON 7.3 million from the operational activity, allowed us to make acquisitions of companies worth RON 15 million during the analyzed period.

The financing activity was approximately neutral from the point of view of cash: a total disbursement of RON 558 thousand, the amount which includes RON 1.1 million as well as the dividend payments to minority shareholders in the companies of our group.

Overall, in the 9 months ended September 30, the cash position decreased by 3.1 million RON, of which 2.6 million RON represents the cash distribution, according to EGMS Decision no. 2, for the 17.5 million BNET shares transferred by shareholders to the company's treasury (own share buybacks). Compared to September 30, 2021, the cash position is 31% better (20.3 million RON versus 15.4 million the previous year).

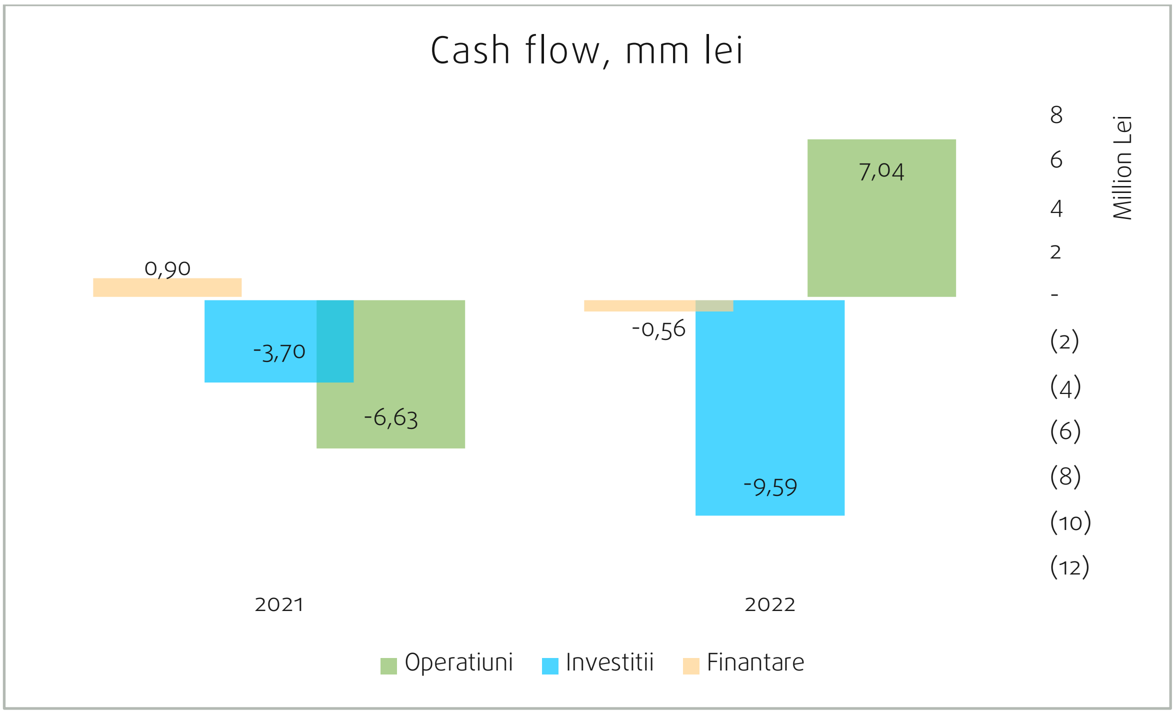

Fig 2 Cash flow, calculated in millions of lei

An annual overview of financial results

Taking into account the seasonality of revenues specific to the industry, but also the unavailability of this form of presentation of results in other financial data analysis systems for Romanian companies, we consider relevant to present the results in the 'last 12 months' format, a practice we have started with our first quarterly report.

We also add a column presenting the "pro-forma" results, which takes into account the acquisition of TopTech and 2Net as if they were part of the group starting from January 1, 2022.

	Trailing 12M Q3 2021	Trailing 12M Q3 2022		Pro-Forma results 9 months 2022
Revenues from contracts with clients	**113,621,356**	**141,615,894**	**24.6%**	**175,757,243**
Cost of sales	(89,170,522)	(108,787,363)	22.0%	(139,311,916)
Gross margin	**24,450,834**	**32,828,532**	**34.3%**	**36,445,327**
Other revenues	3,494,770	1,869,585	-46.5%	3,111,200
Sales/distribution costs	(8,861,836)	(12,116,523)	36.7%	(9,214,433)
Administrative expenses	(10,421,785)	(17,804,795)	70.8%	(26,258,035)
Profit/(loss) – Equivalent securities	**5,703,508**	**4,167,556**	**-26.9%**	**4,803,709**
One-Off result	2,958,475	609,243	-79.4%	(719,650)
SOP expense	(1,052,078)	(1,047,883)	-0.4%	(715,051)
Profit/Loss – equivalent titles	786,704	234,900	-70.1%	117,796
Financial income	8,323,069	1,507,562	-81.9%	(3,367,707)
Financial expenses	(3,555,663)	(3,350,138)	-5.8%	(3,117,163)
Gross Profit	**13,164,016**	**2,121,239**	**-83.9%**	**(2,998,067)**
Tax	(1,431,572)	(802,342)	-44.0%	(380,012)
Net Proft:	**11,732,444**	**1,318,897**	**-88.8%**	**(3,378,079)**
To the mother company	11,613,014	(1,623,209)	-114.0%	(5,741,539)
Minority interests	119,430	2,942,106	2363.4%	2,363,460

Indicators according to the Annex 13 to the Regulation ASF 5/2018

Indicator (formula)	30/09/2022	30/09/2021	30/09/2020
Current liquidity indicator (Current Assets/Current Liabilities)	1.01	2,11	1,6
Indebtedness indicator (Net TL liabilities / Equity) * 100	36%	66%	55%
Customer flow rotation speed (Average customer balance/turnover) x 270 days	105 zile	92 zile	100 zile
Turnover speed of fixed assets (Turnover/Fixed assets)	1.19	1,76	2,26

ICO transactions

In the natural course of operating the business, but also due to the group structure, there are various commercial transactions between the companies in the group. In general, we try to keep these transactions to a minimum, but we do not opposed from delivering to clients the solutions relevant to them if they generate intragroup transactions. In the first 3 quarters, the situation of intragroup transactions is as follows (obviously, the only relevant figures are generated by group activity / "holding"). The amounts are in RON (lei):

Company	Description	BNET	CLC	DND	ELIAN	EQG	EQT	GRX	GRX-A	ISEC	ITP	NENOS	NONL	ELC	Total
BITTNET SYSTEMS SA	Licente			85,354											**85,354**
	Refact alte cheltuieli administrative			506,777	49,969	19,797		21,691		1,411	6,547	14,053			**620,244**
	Refact cheltuieli M&A			693,440											**693,440**
	Refact cheltuieli sediu		36,751	405,752	105,158	39,166	4,999	46,457	35,336		38,672				**712,291**
	Servicii instruire		5,047	161,224							1,261				**167,532**
	Venituri Dividende							399,475			627,967	300,794	93,755	134,220	**1,556,211**
	Venituri Dobanda		119,550	1,021,910						33,177				7,825	**1,182,461**
COMPUTER LEARNING CENTER SRL	Servicii instruire	78,721													**78,721**
DENDRIO SOLUTIONS S.R.L.	Licente				36,957										**36,957**
	Refact alte cheltuieli administrative	101,012			26,309			5,181	0		4,920				**137,423**

	Refact cheltuieli M&A	6,952													**6,952**
	Refact cheltuieli sediu	13,606			13,606	4,948	742								**32,903**
	Servicii suport si dezvoltare IT					24,028					12,127				**36,155**
ELIAN SOLUTIONS SRL	Servicii suport si dezvoltare IT	128,228		215,628				8,528							352,385
EQUATORIAL GAMING S.A.	Refact alte cheltuieli administrative	13,576	1,346	4,743	2,846						593	197			23,302
	Servicii instruire	99,072		141,864	30,007			9,958		-0	10,385				291,287
GLOBAL RESOLUTION EXPERTS S.A.	Venituri Dividende								100,781						100,781
GRX ADVISORY S.R.L.	Servicii suport si dezvoltare IT			72,684											72,684
ISEC ASSOCIATES SRL	Servicii suport si dezvoltare IT							6,088	6,185						12,273
ITPREPARED SRL	Servicii suport si dezvoltare IT	7,423		896,681											904,104
	Venituri Dobanda	17,476													17,476
NENOS SOFTWARE SRL	Refact alte cheltuieli administrative												988		988
	Refact cheltuieli sediu												10,879		10,879
	Servicii suport si dezvoltare IT	11,569		23,139	21,982										56,690

NONLINEAR SRL	Servicii suport si dezvoltare IT											215,851			215,851
THE E-LEARNING COMPANY S.A.	Servicii instruire													332,000	332,000
Grand Total		477,637	162,694	4,229,196	286,835	87,939	5,741	497,379	142,302	34,587	702,473	530,895	105,622	474,044	7,737,343

On September 30, 2022, intragroup balances were:

Company	Type	2NET	BNET	CLC	DND	ELIAN	EQG	EQT	GRX	GRX-A	ISEC	ITP	NENOS	NONL	TT
BITTNET SYSTEMS SA	Creante Comerciale			5,445	1,189,367	859,687	512,506	189	21,986	1,414	1,679	19,876	13,549		
	Imprumuturi			1,153,358	15,882,058						641,844				
COMPUTER LEARNING CENTER SRL	Creante Comerciale		31,139												
DENDRIO SOLUTIONS S.R.L.	Creante Comerciale		78,780			10,432	28,969	177	311			17,341			
	Imprumuturi	700,000													
ELIAN SOLUTIONS SRL	Creante Comerciale		135,629		97,856										131,910
EQUATORIAL GAMING S.A.	Creante Comerciale		47,430		35,308	9,636			785						470
ISEC ASSOCIATES SRL	Creante Comerciale								7,245						
ITPREPARED SRL	Creante Comerciale		8,833		393,628										
	Imprumuturi		392,476												
NENOS SOFTWARE SRL	Creante Comerciale		13,768		27,535	26,158								3,663	
NONLINEAR SRL	Creante Comerciale												31,484		

Key events in Q3 2022

Share capital increase with bonus shares

Cash distribution option vs. bonus shares (1:10) | July 2022

Since the first year it proposed to investors a capital increase operation with an option between cash distribution vs allocation of free shares, Bittnet has provided investors with an electronic opt-in solution via the Evote platform.

In view of the implementation of the EGMS Decision no. 2/20.04.2022, as of the record date (21.07.2022), shareholders could choose between cash distribution – of RON 0.15 per 10 shares held – or to receive one free share per 10 shares held as of the record date, as per the EGMS Resolution and in accordance with the additional opt-in procedure for its implementation.

Thus, during the opt-in period, July 27-August 4, at 5:00 pm, the Issuer received 234 options, from 234 shareholders representing a total of 205,693,904 voting rights, i.e. 43.34% of the total voting rights of the Issuer. Of the options cast, 105 shareholders representing 175,297,189 voting rights, i.e. 36.93% of the total voting rights chose OPTION 1 – i.e. for the cash distribution of RON 0.15 per 10 shares held. The Company transferred to these shareholders the amount of RON 2,629,453.80 starting from September 12, 2022, through the Central Depository system, with Banca Transilvania as payment agent.

Shareholders who voted 'against' or 'abstain', as well as those who did not take any action, were allocated the free shares in Section 1 of the Central Depository after the issuer received from the ASF the new registration certificate for financial instruments. These shareholders did not benefit from the cash distribution.

As a result of this operation, the Issuer has been charged a total of 17,529,692 treasury shares resulting from the options cast, which will be used for the settlement of incentive plans for key persons in the following years.

Taking out an investment loan from Banca Transilvania

September 2022

In September, Dendrio Solutions contracted a ceiling – investment loan – from Banca Transilvania in the maximum amount of RON 11.000.000 for the financing of 75% of the purchase price of the shares for TopTech SRL and 2NET Computer SRL. The investment loan was contracted for a period of 7 years with monthly repayments of principal and interest. The annual interest rate is variable and consists of the 3-month ROBOR index plus the Bank's fixed margin of 2.50%. The guarantees constituted for this loan product are:

– chattel mortgage on Dendrio Solutions accounts opened with Banca Transilvania;

- chattel mortgage on the shares acquired in the two companies;
- guarantee from Bittnet Systems as co-debtor;
- guarantee issued by the European Investment Fund in the proportion of 60% of the loan amount, in favour of the Bank, based on the guarantee agreement signed between Banca Transilvania and the European Investment Fund.

Closing M&A —TopTech & 2NET Computer

Signing of the closing certificate for the M&A transactions with TopTech and 2NET Computer | September 2022

On 6 September 2022 the issuer informed the investors about the completion of the closing procedures (by signing the completion certificate and the supporting documents) for the acquisition of TopTech shares. After the registration of the changes in the Commercial Register, Dendrio Solutions holds 60% of TopTech share capital and voting rights, and Bittnet Systems SA holds the remaining 40%, considering that the transaction price includes the settlement by BNET shares to be assigned by the Issuer in the right of TopTech founder in a future capital increase with contributions and receivables, operation decided by the Board of Directors on 16.09.2022.

On September 21, 2022 the Issuer informed the Market about the completion of the closing procedures (by signing the completion certificate and the remaining supporting documents) for the acquisition of 2NET Computer SRL and the signing of the necessary documents for the registration of the new shareholder with the Trade Register Office. Part of the M&A transaction (75%) was financed by the investment loan contracted by Dendrio Solutions from Banca Transilvania, the remaining 25% was supported by own funds. After registration of the changes in ReCom, Dendrio holds 100% of the share capital and voting rights of 2NET Computer.

Share capital increase

Share capital increase new cash & debt M&A contributions | September 2022

The Issuer has informed investors about the Decision of the Board of Directors dated 16.09.2022 regarding the increase of the Issuer's share capital by issuing a maximum number of 105,696,119 common shares offered for subscription to shareholders as of the record date 13.10.2022. The subscription price will be RON 0.31 per newly issued share. For subscription of a new share 5 subscription rights are required, which were assigned on 14.10.2022 in the accounts of the shareholders on the registration date.

The offer period for subscriptions, under Phase 1, will run for 30 days. After the approval by the ASF of the Prospectus for the increase and after the 30-day public offering period, the remaining unsubscribed shares will be offered for subscription in a private placement, including to persons who have certified liquid and due certain claims on the Issuer, claims that resulted from the M&A

transactions and will be converted into BNET shares in this transaction (with the founding shareholders of The E-Learning Company, Nenos Software, IT Prepared and TopTech).

The price of these M&A transactions also included a component settled in BNET shares, according to the signed investment contracts. The total amount of these creditors' claims on the Company, which will be converted into BNET shares in Stage 2, amounts to RON 10,082,103. If the operation is 100% successful, the Company's equity will increase by the amount of RON 32,765,796, of which RON 22,683,693 are cash contributions.

Exceeding shareholding thresholds notification

Notification of the issuer by a group of shareholders of the exceeding of shareholding thresholds | September 2022

In September, the Issuer was notified (and in turn informed the Market) of the exceeding of the 5% individual and 15% concerted shareholding thresholds by the investment vehicles Impetum Investments SA and Agista Investments SA. Thus, Agista notified the Issuer that it had deposited 5% of the share capital of Bittnet, individually, and Impetum notified the Issuer that together (acting together) with Agista and a number of individuals in management it had exceeded the 15% threshold. The exceeding of the thresholds in the Bittnet shareholding, for the two funds, was achieved following the execution of two deal transactions with BNET share packages, carried out with Mr. Berteanu Daniel, who notified the Issuer and ASF in this regard.

"When people are
financially invested,
they want a return.
When people are
emotionally invested,
they want to contribute."

—Simon Sinek

Risk factors

We remind investors that investing in Bittnet shares or bonds involves certain risks, of which we list a part below.

Risks regarding the Issuer’s business and field of activity:

The risk associated with achieving the business development plan
The strategic objective of the company is to continuously develop the customer relationships. The possibility that Bittnet may not be able to expand its current customer base or the possibility that relationships with existing customers may deteriorate cannot be ruled out. There is also the risk that the company will not be able to meet other elements of the strategy it has defined, namely: expanding the sales force, establishing a local office in one of the main cities of the country, strengthening its leader position on the IT Training market in Romania, expanding the customer base in the country and abroad and providing trainings for a larger number of potential customers, as well as developing and creating strategic partnerships with companies with similar or complementary profiles will not prove successful. In order to reduce this risk, the company intends to expand the range of products and services and improve marketing activities.

Risk associated with holds no promise M&A transactions)
Most studies and articles dedicated to the topic of M&A (acquisition and merger processes of other companies/businesses) show a statistic that holds no promise for acquiring companies: overwhelmingly, M&A processes destroy value for both companies (especially for the purchasers). This element takes on an even more negative dimension when in acquisitions, companies pay with shares of the acquiring company, as it is the case with our group. There is a significant risk that the processes we run will have the same negative long-term consequences. Management seeks to build each investment with a high degree of safety ("margin of safety") and to align the interests of the participants through payment formulas and mechanisms. However, there is no guarantee that we will be able to continue to identify such solutions, and that future M&A processes will be profitable for our group.

The risk associated with making the financial forecasts
The Company's financial forecasts are based on the assumption of successfully implementing the growth strategy based on existing resources and business units. However, there is a risk associated with making the financial forecasts. The forecasts have been created with due diligence, but they are still forecasts. The current data reported in future periodic reports may differ from projected valuesas a result of certain factors that were not predicted in the Company's environment.

This chapter deserves a more detailed discussion. The company submits every year to the shareholders' approval a Revenue and Expenditure Budget. The management builds this BVC using a "bottom-up" approach - starting from evaluations of ongoing projects (sales pipeline available at the time of BVC production), sales statistics from previous years, marketing actions and sales already committed/planned and sales targets assumed by each member of the sales team. In other words, the BVC is built prudently.

On the other hand, what we pursue and measure in relation to the sales team and any partner is the GROSS commercial MARGIN and not the amount of sales. Therefore, every year, when the BVC is published, the management must answer the question "if we have a reasonable confidence that we will be able to generate 100 lei of gross margin, from how many lei of sales will we obtain this margin?". It should be taken into consideration that sales achievements are measured and estimated EXCLUSIVELY depending on the volume of the generated gross margin. In other words, the 100 Euro margin generated from sales of courses in the amount of 200 Euro is just as valuable to the company and is therefore rewarded in the same way with the 100 Euro margin generated from sales of communications solutions in the amount of 500 Euro.

In order to be able to answer the question "how many lei of sales is needed to produce the committed margin of 100 lei", we must, therefore, answer the question "what will the gross margin average percentage registered by the company be?". According to the principle of prudence, the management applies small reductions to the gross margin percentages already recorded, in order to find the answer to this question.

The unexpected result of these precautionary estimates is that if we apply a lower margin percentage, then we actually assume that we will have to "work" more for the same amount of lei of gross margin, so the forecasts (the BVC) related to the company's revenue are HIGHER.

Nevertheless, the company only monitors the gross margin and not the sales volume, so during the budget year it is much more likely that the revenue forecasts (the turnover) are erroneous and the company's profitability forecasts are more accurate. In other words, the management does not target, monitor or reward the achievement of any revenue target and, consequently, investors should not monitor and evaluate the company's achievement of revenue indicators (turnover), but the profitability index.

Personnel risk/delivery capacity

The Company's success depends to some extent on its ability to continue to attract, keep and motivate the qualified personnel. The Bittnet business is based on highly qualified and well-paid engineers, whose number is limited and can receive offers from the competition. If the Company fails to optimally manage the personnel needs, this may have a significant material adverse effect on the business, financial conditions, results of operations or prospects. The company offers attractive compensation packages and dynamic career development paths to attract, keep and motivate experienced staff with potential.

Bittnet has historically faced smaller staff fluctuations than the companies with which we do business with. However, two decisions we made in 2015 allowed us to resolve this issue in a "winning" way:

- adding to the organizational chart the role of internal HR and its employment by a new colleague with experience in recruitment and relationship with IT professionals. The HR role has two objectives:
    - continuous recruitment - identifying new talents to include in our technical team;

- creating and maintaining a pleasant, engaging and healthy work environment, focused on constantly promoting the company values on which the company culture is based: competence, performance, integrity, flexibility and fun.

– listing on the Bucharest Stock Exchange, which allowed us to obtain an appreciated employer profile and helped us differentiate ourselves as an open and transparent company - an image highly appreciated by all new and old employees.

This risk continues to be one of the most important risks that 'threaten' our company and, consequently, the management will continue to give particular importance to this issue. In 2016, 2017, 2018, 2019, 2020 and 2021, the General Assembly approved a plan to incentivise key persons based on actions, in order to better align their interests with the long-term interests of the Company.

Considering the overheating of the labour market and the inclusion of the "Millennials" generation in a greater proportion within the workforce, we consider that this risk - related to the ability to deliver the promises to customers - is a significant one for the company, accompanied by the continuous increase of the financial claims of the team members and collaborators (a continuous increase of fixed costs).

Perhaps the greatest risk in this respect is given by the shareholders of the company, whose continued vote is needed to continue the existence of the 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 in the analysed period, at the time when the debt is settled with the key persons, messages of dissatisfaction appear from some shareholders, claiming that "employees receive cheaper shares", or that "this gives them the chance to sell in the market and make profit".

This approach is, in our opinion, the greatest risk for the company 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 - stock exchange listing and the value sharing mechanisms thus generated, the only alternative will be to also enter a global fight for human resources, with nothing to offer but money. We believe that this scenario is a very unfortunate one, which will strongly affect the profitability of the company, but unfortunately we estimate that it has a much higher probability of materializing, taking into account the recent discussions but also the fact that, as the number of shareholders increases (now we have over 1400 shareholders), it is much harder to obtain the 85% legal quorum necessary for the implementation of SOPs in the current legislation.

Legislative/regulatory risk

Changes in the legal and fiscal regime in Romania may affect the economic activity of the Company. Changes related to the adjustments of the Romanian legislation with the regulations of the European Union may affect the legal environment of the Company's business and its financial results. The lack of stable rules, legislation and cumbersome procedures for obtaining administrative decisions may also restrict the future development of the Company.

Considering that the legislation increasingly leaves to the discretion of the fiscal body the interpretation of the application of the tax rules, in conjunction with the lack of funds to the state budget and the attempt by any means to bring these funds, we consider this risk a major one for the company, because it cannot be addressed in any way in a real and constructive preventive manner.

Currently, the company has 3 capital increase operations registered with the Trade Register, according to the approval of the shareholders and the decisions of the Board of Directors, operations that are not yet registered with FSA, despite the efforts made by the company. The unclearness regarding the company's capital, as well as the difficulty of registering operations to reduce the share capital are risks that may affect the percentages of free share allocation, dilution of some investors for the benefit of others, etc.

Business comoditization risk - loss of technological relevance of solutions
A special case related to the rapid evolution of the IT industry is the tendency of each technology to become "commodity" (very widespread, very widely adopted) and to be very well understood by customers. In such a business environment, the added value of the "resellers" companies is very low, so such a scenario leads to the decrease of the commercial margins for the business lines that are affected by commoditization. All technologies face this risk as their adoption increases. The most eloquent example is Microsoft's licensing business, where most projects are invoiced to customers with very low commercial margins: 0-2%. As other technologies acquire the same dissemination and adoption, their resale also becomes unprofitable.

The company aims to position itself as a value consultant, not as a "commodity" type "boxes" reseller. Tracking technological trends and positioning as a "first mover" helps the company to provide added value through the services provided (consultancy, building technical solutions, installation and simplification, optimization, maintenance).

Risk of unfair competition
Commoditized businesses with small margins are prone to unfair competition, in particular through dumping prices. In particular, in Dendrio's business this risk materialises when competitors often offer customers sales prices substantially below the purchase price of those licences. This type of business approach is very difficult and expensive to demonstrate, but it can cause damage to the Issuer by losing some contracts or reducing profitability. The issuer has not identified any solution to prevent this risk. The issuer aims to address new customer types, as well as customers for whom the added value of the solutions is not represented by price reductions, but by the functionality of the solutions offered. The more widespread and adopted the business line is, the added value that can be offered by an integration partner decreases.

The issuer is in constant competition with other participants on the IT market, competition that is expected to intensify. High competition can encourage current as well as potential customers to use the services and products of the Issuer's competitors and thus negatively affect the Issuer's revenues and profitability. Strong competition may result in 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 ability of the Issuer to increase or maintain its profitability. The Issuer's competitiveness in the current competitive environment depends to a large extent on its ability to adapt rapidly to new market developments and trends. To the extent that the Issuer will not be able to effectively compete with its competitors, regardless of whether it is a local or international group, this may have a negative effect on the business, financial situation, results of operations and prospects of the Issuer.

Risk of loss of reputation

The reputation risk is inherent in the economic activity of the Issuer. The ability to retain and attract new customers depends in part on the brand recognition of the Issuer and its reputation for the quality of its services. Negative public opinion about the Issuer could result from actual or perceived practices in the IT market in general, such as negligence during the provision of products or services or even from the way the Issuer carries out or is perceived to carry out its activity.

Although the Issuer makes every effort to comply with the regulations in force and to increase the positive perception of customers and potential customers regarding its services, the negative publicity and negative public opinion could affect the Issuer's ability to maintain and attract customers.

Litigation risk

Over the years, the companies of the Bittnet Group have fulfilled their contractual obligations and have therefore not been sued by their contractual partners. As the group expands, and more companies join the group, it is possible that their partners may consider that the new financial position of these group members has become more relevant to be sued.

During 2021, according to the mandate given by the GMS in November 2020, Bittnet requested Anchor Grup - the owner of the building at 26 Bd Timisoara to extend the office space, under the same contractual conditions, to accommodate with the new workspace regulations (distance between people), and with the team to be expanded as a result of the M&A transactions. Taking into account that the offer received from Anchor Group was considered as non-compliant, we notified them of the application of the "break-up" clause in the contract, and according to the mandate given by the GMS to the CEO during the meeting of 26.11.2020, Bittnet Group negotiated with the present suppliers in the market an optimal solution for the current development plans.

Following negotiations with various representatives, a new lease agreement was signed with the company ONE United Properties for a space in theONE Cotroceni Park (OCP) building, for a period of 5 years and having as starting date 1 February 2022. The previous lease agreement, concluded with Bucuresti Mall Development and Management Srl, was unilaterally terminated by Bittnet Systems starting with 31 May 2021.

At the date of publication of this report, the Company is aware of the existence in the Courts Portal of a lawsuit filed by Anchor Group having as object "claims". Given the early stage of the litigation (the plaintiff has not filed the claim), we could not assess the need for a provision. As the court file advances, there is a risk that BNET's profitability may be affected by the establishment of a provision for this dispute.

Credit risk

The credit risk is the risk that the debtors of the company will not be able to honour their obligations at maturity due to the deterioration of their financial situation. The company is less exposed to this risk due to the specificity of the products and services sold, which are addressed to companies of certain sizes with a special financial situation.

The company analyses new customers using specialized tools (sites with specific customer creditworthiness analysis) and has a strict procedure for documenting orders and provision of services or delivery of goods.

However, the company has not identified a solution that can completely eliminate credit risk, which is one of the most important risks for a company of our size.

The company also closely monitors the "soft-collection" processes and decides relatively quickly to switch to hard-collection procedures, which has brought us historic success in recovering receivables.

The automated IT systems alert both the sales team and managers to outstanding customers, which are "tracked" by the sales team for 1 month, so that we prioritize maintaining a good business relationship. Instead, after 1 month of unsuccessful efforts, it resorts to involving an experienced lawyer (and a positive "track record") in the recovery of claims.

Counterparty risk

Failure by third parties to perform their obligations towards the Issuer, including in connection with the implementation of certain investment projects envisaged by the Issuer or the risk of insolvency in relation thereto may affect the fulfilment of the Issuer's business objectives or its activity or financial situation and, implicitly, its ability to perform its obligations in relation to the Bonds.

A specific example is the situation in which companies from the Issuer's group participate in public procurement procedures, and suppliers do not fulfil their assumed obligations. This scenario may result in the issuance of a "negative certificate" on behalf of the company that participated in the public tender procedure, which would mean exclusion from other procedures in the future, thus eliminating a potential to generate revenues. Considering the global semiconductor crisis, which is affecting lead times from our suppliers to us, while we have contracts with fixed delivery dates (especially in public procurement) these delays significantly increase the risk that our group will be unable to meet the lead times agreed with our customers. In the case of public entity customers, the issuance of a "negative certificate" in the name of one of our group companies would affect that company's ability to generate sales.

Risk associated with interest rates

The company is exposed to the risk of increasing the interest rate, having contracted loans and loans. Any increase in the interest rate will be reflected in the increase in financial costs. The company regularly monitors the market situation to predict the risk associated with the interest rate and liaises with as many credit institutions as possible in order to ensure an "arbitrage" between their offers.

In previous years, the company has offered fixed interest bonds, and subsequently reimbursed some of them. At the end of 2021, more than 75% of the long-term debt had a fixed interest rate of 9%. Analysing the total interest-bearing debt, more than 70% of the total interest-bearing debt is fixed at 9% per annum. During 2023, all 3 currently existing bond issues come to maturity. During 2022 and 2023 the Issuer would have to refinance partially or fully these bond issues, and this exposes us to the risk of borrowing at higher interest rates, depending on the economic environment at the time of the transactions. The bank financing has fully variable interest rates, such as "ROBOR + a fixed margin", which additionally exposes us to the risk of interest fluctuation. The company is in constant contact with the banking financial institutions in order to improve the financing structure.

“We are what we
repeatedly do.
Excellence, then,
is not an act,
but a habit.”

—Aristotle

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Annex 1—"Alternative Performance Measurements"

Indicator (formula)	Definition/Calculation method	Why is it relevant?
Operating Profit	It is about the core business profit, i.e. the business of serving our clients. It takes into consideration all the incomes and expenses related to the current business and does not take into consideration the financial incomes and expenses, or those related to the holding-type business (of the group, i.e. us as a listed company). It is calculated by taking out of each business line results the income and expenses items (cash or non-cash) that are not related to the current business. The most significant adjustments (differences between gross profit and operating profit) are: – Financial result elimination (expenses addition to the gross profit, and financial-type incomes subtraction) – Non-cash IFRS adjustment elimination, related to the Stock Option Plan	Operational business (also known as 'current' or 'core') means the company businesses. This measures the performance and the business activity in relation to the competition, regardless of the taxation environment, the reporting accounting framework or the company financing method (the mix of equity and loans, the costs of maintaining the stock exchange rate, etc.). That is to say, this is the result the company (or each business line) would have if it operated as a company fully financed by its own resources (by 'equity' – shareholders' equity).
'Gross Margin', or 'gross margin', or 'GM', or 'margin'	The calculation formula for this indicator is the 'revenue MINUS COGS (cost of goods sold)'. Thus, the expenses directly related to those projects (obtaining those revenues) is subtracted from the invoices issued to clients. For the software license resale projects, we buy a license for RON 90 and resell it to the client for RON 100. The difference is the 'gross margin'. If we invoice a client for a cloud project implementation services, the gross margin is the difference between the revenues invoiced to the client and the man-hour cost required for implementation, regardless if the implementing engineer is our employee or a subcontractor.	This indicator is the company's 'GDP', it is the 'added value' that we generated for our partners. This indicator reflects not only the value we bring to our clients, but also, by inward looking at the company, it reflects the amounts of money we have at our disposal to cover the fixed expenses.

Financial Statements (unaudited)

Annex attached.

bittnet
group