2022 Pro-Forma results Bittnet Group

For the financial year	01.01.2022 - 31.12.2022
Report date	10 February 2023
Name of the company	BITTNET SYSTEMS S.A.
Registered office	Str. 44 Sergent Ion Nuțu street, ONE COTROCENI PARK, Building A & B, 4th floor, 5th District, Bucharest
Mail address/operating premises	Str. 44 Sergent Ion Nuțu street, ONE COTROCENI PARK, Building A & B, 4th floor, 5th District, 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	Bucharest Stock Exchange, Standard Segment
Paid-in and subscribed share capital	RON 52,848,059.50
The main characteristics of securities issued by the company	528,480,595 shares with a nominal value of 0.10 RON per share
Trading Symbol	BNET - shares BNET23, BNET23A, BNET26E – bonds
ISIN code	ROBNETACNOR1
Contact	investors@bittnet.ro

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Group size in 2022

The table below shows the cumulative results of all companies in the group at the reference date - "revenue generating capacity" of the group at the end of 2021 and at the end of 2022. In other words it is about 'how we start next year' and is a basis for the budget we will propose for 2023.

It is not about IFRS consolidation but about **pro-forma results** applying Romanian accounting standards – the aggregation of individual company results, as they are submitted to the Ministry of Finance. Column (3) groups in 2021 our group with TopTech and 2Net companies (which were also included in column 4), in order to be able to decelerate organic growth versus growth by acquisition.

RON (1)	BNET Group 2021 (2)	Group +TT &2Net 2021 (3)	BNET Group 2022 (4)	Organic Growth % (5)	Total Growth (6)
Total Revenue	**135,085,301**	**215,167,252**	**268,717,361**	**25%**	**99%**
Turnover	130,635,074	210,162,049	263,315,314	25%	102%
Cost of sales	-98,294,821	-163,944,881	-210,407,652	28%	114%
Gross margin	**32,340,253**	**46,217,168**	**52,907,662**	**14%**	**64%**
Sales/distribution costs	-9,588,054	-9,683,226	-13,441,381	39%	40%
Administrative expenses	-15,012,057	-25,695,911	-36,791,295	40%	145%
of which depreciation	-2,742,408	-3,579,183	-4,878,352	36%	78%
EBIT	12,190,370	15,843,234	8,077,034	-49%	-34%
One-off result	3,473,178	3,473,178	387,001	-111%	-111%
Operating profit (without one-offs)	**8,717,192**	**12,370,056**	**8,464,035**	**-32%**	**3%**
SOP expense	-1,066,911	-1,066,911	-890,381	-17%	-17%
Net financial result	10,131,640	9,880,337	1,558,838	-82%	-85%
Mark-to-market revaluations	9,736,569	9,736,569	-2,888,985	-130%	-130%
Gross profit	**21,255,099**	**24,656,660**	**8,745,491**	**-65%**	**-59%**
Income tax	-2,004,531	-2,533,737	-386,791	-85%	-81%
Net profit:	**19,250,568**	**22,122,923**	**8,358,700**	**-62%**	**-57%**
Operating Cashflow	3,778,747		17,696,434		368%
Investment CashFlow	(5,111,981)		(15,106,158)		165%
Financing CashFlow	(136.225)		14,773,204		10,944%
Net increase in cash	**(1,469,459)**		**18,903,895**		**1,386%**
Cash at year-end	**23,403,197**		**42,307,092**		**81%**

The pro-forma results presented in the table above represent a cumulation of the preliminary individual results of the companies in which the Issuer has control at 31.12.2022. These cumulative results do not take into account consolidation adjustments according to IFRS standards, such as, but not limited to: adjustments regarding intragroup transactions (ICO), adjustments regarding companies acquired during the financial year (TopTech and 2NET), adjustments related to the sale of minority stakes during the financial year (respectively 14% of TopTech and 11.99% of Dendrio); adjustments related to financial income related to intragroup dividend distribution.

Letter from Cristian Logofătu

In 2015, with the listing of the company on the AeRO market of the Bucharest Stock Exchange, we offered investors a growth story already validated– the company had just been included in the "Deloitte Fast 500 in Tech" and then in 2016 in the "Financial Times fastest growing 1000 Companies in Europe", but also with the promise to continue that accelerated growth. Thus, in almost every annual report published over the years, we have mentioned that the year was the best year in our history based on the increase in operating indicators, but also in revenues, assets, cash flow and equity.

From an operational point of view, 2022 was also an exceptional year:

- The combination of recruiting 90 new colleagues (approximately one every three working days) and a staff turnover of 15%, well below the industry average, helped us acquire over 400 team members across our 10 offices nationally.
- We completed two significant M&A deals (TopTech and 2Net - which joins the Cloud&Infrastructure pillar), and signed another deal for this business segment: Dataware - to be submitted to the Competition Council for approval. With Dataware within the group, the annual revenue generating capacity significantly exceeds RON 300 million.
- We have moved to a new location – at ONE Cotroceni Park – a development in the process of getting LEED PLATINUM and WELL certification, which focuses on employee experience, health and happiness levels of our employees and of our trainees.
- We completed 2 rebrandings for companies in our technology division: IT Prepared became Optimizer (managed services made simple) and GRX+ISEC became FORT (cybersecurity services).
- Optimizor colleagues took on 5,500 tickets, and of those, 99.99% were taken under SLA (Service Level Agreement), and saved over 5,000 hours of human intervention by automations implemented for customers.
- The colleagues from FORT have worked over 60,000 hours for the safety of our customers: +50% security audit projects, and +35% security consulting projects.
- The number of trainees trained by Bittnet Training colleagues reconfirms our status as the undisputed market leader: 6,000 trainees, 530 training sessions (12 training sessions per week, with an average of 12 trainees per training session!) - almost a doubling compared to 2021.
- Dendrio colleagues delivered 60% more Cisco projects with security components than in the previous year.
- Elian colleagues doubled their team to be able to deliver at least 1 go-live/month, the greatest number of projects delivered in one year.
- Colleagues at Nenos have been working on the Spell BOX project – the first IA diagnostic hardware for agricultural crops, launched by Chromosome Dynamics..

The above results were also presented on the various communication channels of the company, and the reaction from investors and those who follow our activity was that we should analyze whether a year is good or not for the group also in terms of profit or share price evolution on the stock exchange. Regarding the first point, the analysis from the profit perspective, I repeat the message conveyed both in the Shareholder's Handbook and in the chapter "Bittnet Vision", namely that in the case of Bittnet Group we think it is appropriate to follow first the growth of the entire size of the organization. Therefore, we have always focused on accelerating the Group's growth in healthy conditions – through increased attention to cash flow and operational profitability, but also by making decisions that can create long-term value, regardless of the short-term impact. As a result of this approach, gross profit has fluctuated from one year to another.

Regarding the second point, the evolution of the share price on the stock exchange, naturally the management of a listed company does not manage its share price, but the situation is analysed in the chapter "Buffett Test" - you can draw your own conclusions. We want to reassure all shareholders that the activity of each member of the top management team, we are focused minute by minute on generating substantial long-term shareholder value. In addition, the value of BNET shares represents the core part of this company's founders' wealth – we are fully aligned with the goal of increasing company value. Returning to the discussion on profitability, the table on page 3? contains several pieces of information, of which I highlight the ones I consider relevant to take into account:

1. The organic growth of the group was 25% at business level and 15% at gross margin level, and if we analyse at the total size we are talking about a growth of about 100% at business level and 64% at gross margin level.
2. Perhaps more relevant is that if we look at a 5 year period, we maintain the known growth rate of over 40% annualised! If we only analyse in comparison to 2019, the year prior to moving to the main market, we record

an ANNUALIZED growth of 39%. ("People overestimate what can be achieved in one year, while underestimating what can be achieved in 10 years" - generally consistency in following and implementing the right ideas in a business that can benefit from the compounding effect is not understood/appreciated correctly).

3. Growth of the team and indirect costs at a faster pace (partly due to inflation and partly due to investment in the team to support the next level of business size) has led to a decrease in operating profit margin. Total operating profit compared to last year was unchanged , helped by the acquisitions (organic evolution was down 32%). **This item will be addressed as a priority in 2023.**
4. If in 2021 we had non-cash items contributing positively to gross profit, in 2022 the actual cash generated by the business is more than 4 times higher, and also significantly higher than the profit for the year. This is because in 2022 non-cash items (mark to market revaluations and SOP) contribute negatively to profit. (hence one of the two explanations for this report - the need to understand the "real" business versus the accounting picture)
5. The different business lines have had different evolutions, with specific elements described in a dedicated chapter. But we signal the diversification of the net profit generation lines as a result of the Group's long-term acquisition and development strategy, with the cybersecurity division reaching around one third of the Group's net profit in 2022.
6. The diversity of the services and market niches we cover, but also the diversity of the type of companies within the group and their stages of development give us the advantage of a growth in conditions of balance and stability, which allows us to address calmly, in an orderly and intelligent manner, without panic, the various problems that arise in every business. It is a resilience that we have talked about before, a necessary step in the journey towards group anti-fragility.
7. The financial position at the end of 2022, is very good: RON 42 million in cash, and trade payables approximately equal to trade receivables. Combined with the capital increase that is currently underway and will be completed in February 2023, we will have a very favourable equity base (about RON 100 million) and cash position (about RON 60 million) to continue the expansion in the coming period according to a famous quote of Ayrton Senna: "You cannot overtake 15 cars in a sunny weather... but you can when is raining". A solid company, with a track record of generating very good returns on capital, and with a track record of healthy M&A transactions is a very good option for difficult times, for entrepreneurs who want to sell their companies, for employees, and for shareholders.

One thing that I believe is very important to keep in mind is that, given the current size of the group, and the M&A transactions that are almost completed plus pipeline transactions, we believe we have all the ingredients to reach the RON 500 million turnover target in 2024.

Thus, if this year we expanded the team and the working environment to support the estimated business level for 2023 and 2024, but this has "eaten up" almost all of the additional gross margin generated over the previous year, it makes us believe that operationally, the number one internal priority for 2023-2024 will be to draw more profitability from the current business. As a result, we aim to complete 2 or maximum 3 more significant M&A transactions, but operationally, internally, we focus mainly on generating positive cash flow and profitability.

We have learned a lot from the difficult and intense process of consolidation through acquisitions and organic growth of the Bittnet Group in a highly fragmented IT&C market and we are aware of the opportunity we now have by diversifying our geographic presence and the areas in which we operate while increasing our revenue generating power at group level and optimising costs. Doubling in a single year (2022) including through acquisitions the total annual revenue generating power at the size of our group is an answer to the strategic questions that are constantly challenging us. Our focus remains on generating consistent long-term added value for shareholders. It is important to stress that generating consistent positive results for any acquired company (in any field not only within our group) requires a period of around 18-24 months to integrate, optimise, leverage synergies and scale the business.

I invite you further to deepen some significant elements related to IFRS accounting – what are the differences between the results presented in this document and the preliminary ones that will be published on 24 February, but also to read about the analysis of each pillar of our group structure.

Cristian Logofătu

Co-Founder of Bittnet Group

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On accounting standards versus value creation

With the transition of Bittnet Group to the main market of the Bucharest Stock Exchange in 2020, we also took the step towards reporting under IFRS accounting standards. Thus, in view of various other IFRS standards that have come into force over time, the investments made by us through M&A transactions and a few other elements specific to our business have, in my opinion, made the consolidated financial statements of the Group deviate quite a bit from the essential objective of accounting – namely to give a true and fair view of the company's situation, both in terms of revenues and expenses, but also in terms of financial position.

The Group's consolidated financial statements will continue to bear the “stamp” given by the unqualified audit – we have always chosen to publish unqualified financial statements, rather than change the auditor or implement various other methods that would put us in a favourable light. However, it is important to note that the application of various IFRS standards leads to accounting statements that are not in any way similar to the understanding of any investor who analyses potential companies in which they want to invest. **Not even with the accounting statements of the same company, if it were listed on AeRO instead of the main market!**

To give a clearer picture of the differences I mentioned above, I give you some examples below:

- Recording the monthly rent of ONE premises as depreciation of an asset: according to IFRS16, ONE building is shown in our accounts as an asset of Bittnet, as opposed to, for example, the employer brand with the ability to attract educated and high performing people. Thus, to consider our premises in One Cotroceni Park as an asset is obviously irrelevant to us as we cannot sell this building (which IFRS standards consider essential to decide whether something is an asset in any other case than this one). In addition, clearly this building is no more valuable to shareholders than the ability to attract employees. Because this rule applies to all companies reporting under IFRS, some issuers, including those listed on the BVB and included in the BET index, particularly those with a significant proportion of leased assets, report results both with IFRS16 and without IFRS16, the latter of which is used by management as a benchmark.
- Recording as an expense (lost revenue) the notional premium for the issuance of CALL options on own shares, offered to key persons, regardless of whether the options expire or are exercised; as if the Company is a derivatives trader who has not received the amount from clients, regardless of whether the settlement of the options is made by capital increase! This is the only case where the discount offered in a capital increase is accounted for as an 'opportunity cost', following the principle: “maybe the company could get more money in the increase if it sold the shares more expensively”. This theoretical / hypothetical difference should be counted as a real LOSS".
- Revaluation by P&L of minority shares held in other companies, regardless of the intention to sell them or not, while the actual transactions made with the shares of companies where we are not minority are accounted for by equity. In other words, buying shares 5 years ago for RON 700 and selling them this year for RON 7000 in cash is not profit, while buying shares 2 years ago for RON 120 lei, which we still hold today, which are listed and worth RON 1200, is accounted for as a loss because at the beginning of the year the market value was RON 1600. In total, a natural person investor would have an income statement with *RON 630 profit*, and IFRS accounting shows the above situation for Bittnet as a loss of RON 300.
- Testing the goodwill from transactions according to the allocation of invoices between companies: if an investor buys two companies that together achieve revenues of RON 10 million for RON 40 and reorganizes the activity, integrates the teams, and after 3 years the two companies make revenues of RON 20 million, but focusing on only one of the companies, the accounting of this situation is not that “we have increased our business twice and the prospects are very good” but “we have lost part of the initial investment”.
- If a group of companies with revenues of RON 1 million acquires a company with revenues of RON 1 million in December of a year, that “extra” revenue amounting to RON 1 million cannot be added to the consolidated revenues. If, however, in the following year, the total revenues generated by the group and the new entity amount to RON 1.6 million (as opposed to RON 2 million which could not be consolidated), according to IFRS consolidation rules, the year-on-year evolution will be a 60% increase, even though there is actually a 40% loss of revenues for these entities.

Taking into account the above examples, in the next chapter we provide the accounting results of the group companies according to the Romanian Accounting Standard (RAS), based on the closing balances of the year, as submitted to NAFA on 25 January 2023. Through this entire report and the presentation of these accounting results (which are to be audited in view of the submission of the final annual statements to the Ministry of Finance) we intend to provide to investors a clearer picture of the size of our organization and our activity, as well as the profitability and value generated for shareholders.

Attention! The value referred to in the previous paragraph IS NOT the stock market price of the shares! Price is what you pay, value is what you get. Investors should always seek to buy present or future value of X (however calculated/estimated) at a price lower than X.

In terms of the investment thesis for our group, the principles remain the same: Bittnet Group is aimed at medium and long term investors who want exposure in the Romanian IT&C sector, which is characterized by a very accelerated growth, together with a management team that has achieved in over 15 years of activity results above the industry average, both at operational and equity management level. At the same time, investing in an entrepreneurial company where the founders are and will continue to be involved in its operational activity is an asset, because Mihai and I will always make decisions that will bring long-term value for all stakeholders, not only for the next quarter or the next report.

In the following pages, we provide a few areas where this approach can be seen, and where IFRS financial results generate a very different picture from the idea of "value creation":

- Minority investments in companies that have potential
- Use of leverage to finance activity and improve returns
- Potential 'goodwill impairment'
- Option plans implemented correctly and effectively

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Analysis of minority investments in listed companies

The most significant balance sheet position we have related to listed companies is our holding of Sofbinator Technologies (CODE) shares. The history of this investment starts in 2020, when we acquired 25% of a software development company – an IT area that was missing from our portfolio of services, having a track record and growth ambitions – we reproduce the facsimile of the investment case:

Despre evaluarea companiei

Evoluția financiară a companiei, inclusiv previziunile care stau la baza evaluării propuse sunt prezentate în continuare, în milioane lei. Aceste previziuni sunt primite de la companie și nu țin cont în niciun fel de sinergii de costuri sau de potențialul de upsell și cross-sell prezentat anterior:

*	2020e	2021e	2022e	2023e	2024e	2025e
Venituri	12.00	19.20	28.80	38.88	50.54	63.18
Profit	3.20	5.76	8.64	11.66	15.16	18.95
Dividende	2.88	5.18	7.78	10.50	13.65	17.06
Dividende BNET	0.72	1.30	1.94	2.62	3.41	4.26

*milioane RON

For this holding we paid the amount of RON 8 million, of which RON 4.5 million in BNET shares and RON 4 million in cash. During 2021, Daniel Ilinca, founder and CEO of Softbinator Technologies expressed his intention to have direct access to capital market instruments by listing the company separately, which is also in line with our ideas for further development. During 2021, related to the listing process, we received historical dividends and sold part of our holding, recovering RON 2.8 million of the RON 4 million in cash allocated 9 months earlier. In terms of cash, we have a total exposure of RON 1.2 million.

In terms of holding cost, any individual investor with the same investment history as us would have a holding cost of RON 1.2 million and a market value of RON 12.5 million in the broker statement. Considering the continuous evolution of Softbinator Technologies' business, beyond previous expectations, we consider that this investment is more correctly seen as “a very successful one” than “one that generated a loss of RON 3 million in 2022”. ***Small downside, infinite upside***.

In the case of Chromosome Dynamics, we invested RON 150 thousand in the company in August 2021 and sold shares worth almost RON 210 thousand a year later – a 45% return on investment. In the case of Safetech, we allocated in October 2020 almost RON 300 thousand in the company and sold between January 2021 and March 2022 the entire holding,obtaining over RON 3 million – a return of 1000%. ***Small downside, infinite upside.***

If we ignore returns, IRR, multipliers, and look simplistically at “cash on cash”, we have allocated in these 4 investments (CODE, CHRD, SAFE, AST) a total amount of RON 6.25 million, and we have recovered a total of RON 6.1 million ***Thus, we have a cash exposure of RON 140 thousand, which is worth on the stock exchange about RON 14 million***. Although in our opinion both CODE and AST shares are worth significantly more, IFRS provisions require us to publish a revaluation loss IN THE PROFIT ACCOUNT of about RON 3 million, while any investor would like to have a liquid asset amounting to RON 14 million for which he paid 0.14 million!

We believe that successful investment activity can significantly enhance both the group's growth plan and, more importantly, generate a state of anti-fragility. Accounting regulations strictly prescribe how investment results are accounted for, with the potential to sometimes generate significant “on paper” fluctuations in these values, in a very different way than how investors naturally expect this activity to be accounted for. But this should not be a reason to determine us to give up on making good investments!

We will continue to invest heavily in other companies, according to the M&A programmatic strategy, which will generate various fluctuations in financial profits in the future. These results never come linearly, and are not intended to replace operational activity – **we are not an investment fund**. It is instead the result of how we build every partnership, every investment, and how we position ourselves - small downside, infinite upside**.**

Using borrowed capital (“leverage”)

Over the years, we have received many questions from investors and other capital market players about the use of leverage and the potential risk of group leverage. The use of leverage is a natural, healthy and advisable element for any company of any size. The stronger the company, the more leverage it has access to, and the cheaper it is. Companies such as Apple or Berkshire Hathaway, which hold significant cash resources, have bond issues in all global financial markets.

Also, using leverage brings higher returns to shareholders, as long as the interest rate paid is lower than the return on money over a comparable period. For example, if a company borrows capital at an interest rate of 10% per annum, and uses it to buy goods and place them with customers at a mark-up of 5%, collect the invoice from the customer and then repeat the cycle 5 times in a year (a total rotation of 6 times), this generates a return on money of 30%, while the cost of money is only 10%. In this example we have illustrated how to correctly compare the cost of money (which is expressed as an annual cost) with the gross margin generated by placing money in a business (which must be brought to the common denominator – annualised by multiplying by the customer turnover rate).

This calculation should be done to compare relevant percentages. Our recommendation is not to compare the annualised interest rate with the operating return of a business – also expressed as a percentage, without taking into account the different sizes to which these percentages apply. Interest is applied to the amount borrowed, and a business's operating return is calculated as the ratio between the operating profit (or EBITDA or free cash flow) and the turnover. The only case in which the comparison of the two percentages (interest and EBITDA percentage) is relevant is if the amount borrowed equals the turnover. This case is, in our opinion, not encountered in practice.

Therefore, a company can borrow RON 10 million, over a 5-year period, at an interest rate of 10% per annum to buy a company that produces RON 3 million of EBITDA (or cash flow), at a turnover of RON 100 million (an EBITDA percentage of 3%). Such a scenario is also profitable for the creditors who lend the company, who receive an annual interest of RON 1 million and the RON 10 million back at maturity, but also for the debtor, who keeps in perpetuity an asset that "paid for itself" and has a market value at the end.

Please keep in mind that in this scenario the company made zero cash effort: considering that in the 5 years the purchased asset (the target company) produced RON 15 million in cash (5 years x 3 million), which is equal to the total amount paid to creditors. Although the company borrowed 10% to buy something that produces only 3%, the fact that the company did not cost an amount equal to the turnover means that the easy comparison (10% vs 3%) does not provide any useful information, but on the contrary, it conceals the fact that the whole project is fair and profitable.

In the above scenario we have assumed that the extra cash amounting to 2 million produced by the target company annually against the interest payable IS NOT INVESTED in any way and brings no other return to our group! This assumption is not rational and it is much more relevant to apply to these amounts the approximately 50% return on equity that I have already illustrated in the calculations, to understand that we actually gain cash, equity and assets when we acquire a 3% EBITDA company using 10% interest bonds.

At the same time, some investors have told us that for them it is net profit that counts, and using borrowed capital means that once interest is paid, net profit decreases or even becomes negative, starting from a positive operating profit and cash flow. In this regard, we present the example of Liberty Global (formerly TCI), a business managed by Jim Malone and one of the most successful investment stories ever. The strategy of this company was based on the continuous acquisition of companies using borrowed capital and generating enough EBITDA to cover debt service, in order to be able to continuously expand the borrowed capital. It is also important to bear in mind that, unlike retail investors, banks and investment funds use adjusted EBITDA or FCF as indicators they take into account when evaluating investment opportunities.

About Equatorial / integration into Bittnet Education

We acquired Equatorial in 2018, and in the years since, the team has been fully and effortlessly absorbed and integrated into our group's training division. In 2018, the two companies (Equatorial and Bittnet Training) generated education revenues of just under RON 10 million and a gross margin of almost RON 4 million. In 2022 the two companies generated revenues of just under RON 21 million and a gross margin of almost RON 12 million (exceeding the 2018 turnover!).

In the following, we present some examples where we have used the synergy generated by the two brands or the leverage of knowledge and skills that we have spread throughout the Group.

1. ANIS project – we managed to win and successfully implement in an extremely challenging period, i.e. 2020-2021, the "Talent in Tech" training project, with ANIS as beneficiary, worth about EUR 350K, just because we

combined Equatorial's experience and expertise in managing projects on EU funds with Bittnet Training's experience and knowledge in the IT market

2. Changing market conditions over the last 2 years have generated the need to reinvent and reposition Equatorial as a company that helps develop the soft skills of IT Team Leaders with up to 3 years experience. This took place in 2022 with the roll out of the Learner Persona study which focused on understanding how IT specialists learn. The results have not only benefited the entire Education Division but also give us the opportunity to be uniquely positioned in the market to deliver complex education projects that combine the technical skills of IT specialists/engineers and the interpersonal skills of their managers
3. Using Equatorial's over 20 years of experience in working with the Board and Senior Management Teams of large corporations in Romania we have managed to redesign and reinvent the entire Education Division, since the early months of the pandemic. Today's results and the re-enrollment on an upward trend are largely due to this new way of doing business, focusing on the process and getting predictable results with ordinary people, not with "superstars". Using the same Equatorial expertise and lessons learned from the transformation of the Education Division, we are today in the process of implementing part of the Technology Division and we are confident that we will see the same kind of success in the Technology Division, but with significantly greater magnitude and impact due to the scale of the business.
4. Successful projects with which Equatorial has won awards at HR or L&D community Galas have been replicated throughout the Group. This is how the "People & Culture" function was created, which since last year has been coordinating all recruitment and onboarding, personal development and well-being activities for all our colleagues!). Last year alone there were 3 internal Academies, one for all Middle Managers in the Group whom we consider the backbone of our organization, one dedicated to the sales force and one dedicated to support functions. The massive participation and the behavioural changes observed in the daily activity will produce visible results in the future, even if they are now intangible and difficult to communicate.

In such circumstances, the fact that Bittnet Training has a much wider access to customers, has one of the most modern work flow and process organization in the market, while marketing and sales processes have been integrated on the training division, makes that the overwhelming majority of the figures to be accounted for by Bittnet, while Equatorial has neither revenues nor significant costs.

Due to the integration of the Equatorial team, Bittnet Education grew from RON 10 million to 21 million between 2019-2022, in a context marked by pandemics, lockdowns, inflation and war. However, because we have not issued "enough" invoices from Equatorial, the auditors require us to treat Equatorial's investment accounting as loss-making one.

Option plans actually and correctly implemented

Over time we have written extensively about option plans, but we feel it is necessary to resume certain aspects to get a clearer picture on the matter:

- Plan construction
- Their settlement
- Their accounting

Throughout Bittnet's history we have sought to **build win-win partnerships** based on the idea that you can't build a manual of procedures and rules complex enough to eliminate undesirable behaviours, you should rather choose the right incentive systems, all parties involved will pursue the same goal without the need for controls (the "a policeman next to every citizen" approach cannot be applied because we don't have enough cops to guard the cops). Also, it is very easy to implement the "share what we have" approach, while neither party can 'take advantage' of the other.

This is also how incentive plans with options are built: key people included in a plan can BUY over 2 years a number of shares representing a maximum total of 5% of the Company's shares, at the price per share registered AT THE INCEPTION STAGE OF THE PLAN. Thus, **if (and only if!**) the activity of these key persons has generated an increase in the value of the shareholders' holdings, in two years' time, **a maximum of 1/20th of this increase** may be transferred to the key persons in the form of shares purchased from the company at a price equal to the historical price.

With one notable exception (Softbinator), the other listed companies have no real option plans, they offer key persons the "option" to receive a percentage of the company for free. Hence probably the confusion that "Bittnet plans are higher than the ones of other companies", considering that in our case it is about percentage of the DIFFERENCE in capitalization, or at the other companies it is about percentage of the company.

In our case, the way we treat the team, including sharing the goodwill by means of these option plans is working as expected: Over the years, Bittnet has experienced much lower staff turnover than the companies we do business with, or the industry average, and 40% of new colleagues join the group due to referrals from other colleagues.

The settlement of these incentive plans can be made only in two ways: by repurchasing the shares of the company from the capital market in order to transfer them to the holders of options or by increasing the share capital by issuing new shares. The second option obviously dilutes the shares - those who actually approve this operation. On the other hand, it is the buyback solution that **actually destroys the relevance of the SOP product by effectively decapitalising the company**, because in order buy shares in the market, the company needs to pay cash which leads to decapitalisation. Moreover, at the same time, this option marks a loss of equity as the company buys "expensive" shares from the market that are at a higher price today and sells them "cheaply" at a lower price from the past. Settlement through equity increases, at the average price over the last 6-12 months or the current market price, produces value for both non-participating shareholders and key individuals: as long as the price per share is higher than the net book assets per share, non-participating shareholders increase their assets per share held:

Data	Nr. initial	Nr. final	Factor Corectie	Actiuni Noi	Eq/Share Initial	Eq /Share Operatie	Eq / Share Rezultat	Accretive ?
23.08.2016	4,504,383	13,513,149	3	9,008,766.0	42.6	0	14.20838	Neutru
10.03.2017	13,513,149	14,514,123	1.074	1,000,974.0	22.9	78.0	26.7	TRUE
05.07.2017	14,514,123	29,028,246	2	14,514,123.0	26.7	0	13.36891	Neutru
04.01.2018	29,028,246	30,444,258	1.049	1,416,012.0	20.5	58.0	22.3	TRUE
02.07.2018	30,444,258	48,710,812	1.6	18,266,554.8	22.3	0	13.92358	Neutru
14.01.2019	48,710,912	51,755,238	1.062	3,044,326.0	28.7	95.0	32.6	TRUE
13.05.2019	51,755,238	55,233,205	1.067	3,477,967.0	32.6	113.1	37.7	TRUE
09.07.2019	55,233,205	110,466,410	2.0	55,233,205.0	37.7	0.0	18.9	Neutru
31.10.2019	110,466,410	116,203,206	1.052	5,736,796.0	18.9	71.1	21.4	TRUE
05.05.2020	116,203,206	127,249,847	1.095	11,046,641.0	10.6	83.0	16.9	TRUE
24.07.2020	127,249,847	216,324,740	1.7	89,074,893.0	16.9	0.0	10.0	Neutru
18.12.2020	216,324,740	229,049,725	1.059	12,724,985.0	10.0	62.2	12.9	TRUE
26.03.2021	229,049,725	247,228,275	1.079	18,178,550.0	12.9	59.0	16.3	TRUE
22.07.2021	247,228,275	395,565,240	1.6	148,336,965.0	16.3	0.0	10.2	Neutru

Accounting for stock option plans is another difference between Romanian accounting standards and IFRS. If companies listed on AeRO market do not have to record any cost with the option plan, and by the time they decapitalize the company's cash to offer free shares to employees, this is accounted for through equity and not by P&L. In other words, in RAS accounting, even if the company decapitalizes, there is no expense on the option plans.

By contrast, in IFRS accounting, even if the plans are settled through a capital increase (which in any other context is accounted for on the balance sheet and NOT in the income statement), IFRS2 requires Bittnet (and other companies in the regulated market that have or will have option plans) to account through the income statement as an expense the theoretical first issuance premium of CALL options similar to the plan approved by the General Meeting of Shareholders, REGARDLESS IF THAT PLAN EXPIRES WITHOUT BEING EXERCISED. This issue premium (calculated using the Black-Scholes formula) that the option issuer does not receive is considered 'lost revenue' and is written off to the P&L as a non-cash expense over the life of the plan. In other words, in the case of a properly implemented and shareholder value creating plan, although there is no cash outflow, IFRS accounting shows quarterly SOP expenses, always generating discussion among shareholders and non-shareholders, while for plans that decapitalize the company and are not real options but disguised bonuses, RAS accounting does not show any costs in the P&L at all.

We don't intend to argue what accounting standards should look like, but we believe it is important for investors who analyze companies to understand these differences.

Analysis of business segment activity and performance

The process of continuous evolution of the group, both through the launch of new products and services and through continuous acquisitions, has led to the current situation where the activity is organised in more independent centres ("cells"), in areas of interest ("development pillars") or ("business groups"), which represent sub-areas of activity in the IT&C Services area. Bittnet is today a conglomerate offering investors exposure to the entire IT&C industry in Romania. Each pillar (Business Group) will be able to have direct and independent financing from the capital market, cooperating with the other companies in the group to offer a higher added value to both our customers and our employees/partners.

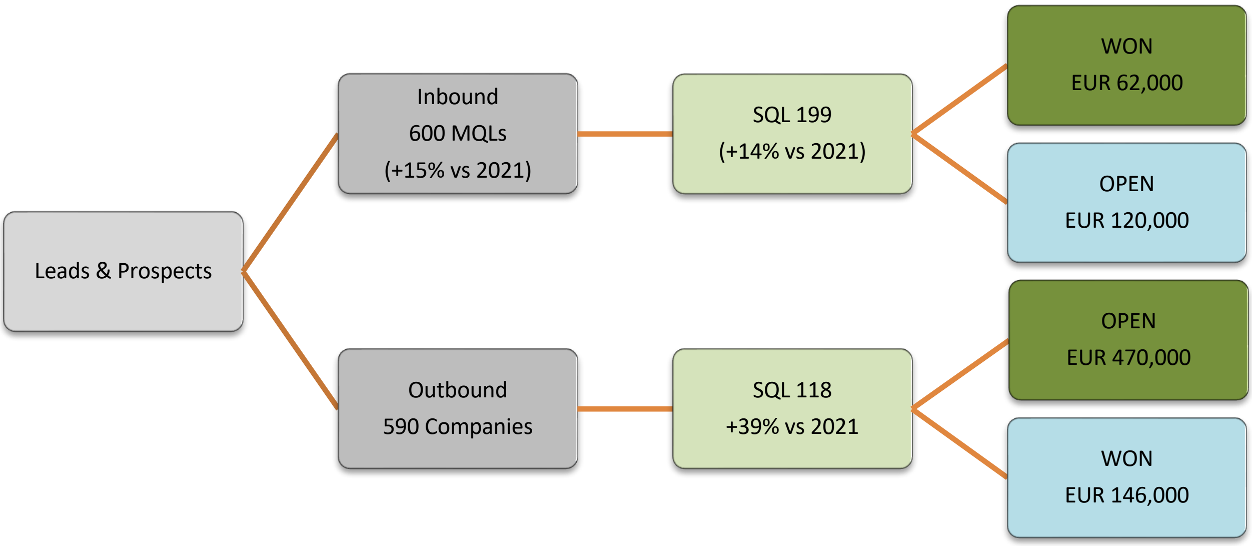
Bittnet Education

Under the leadership of Cristina Ratiu (Bittnet Education CEO), this business pillar contains 4 companies, offering training to adults in two areas: Technical Skills and Human Skills both in classic, face-to-face, Virtual Remote but instructor-led or eLearning format. These are:

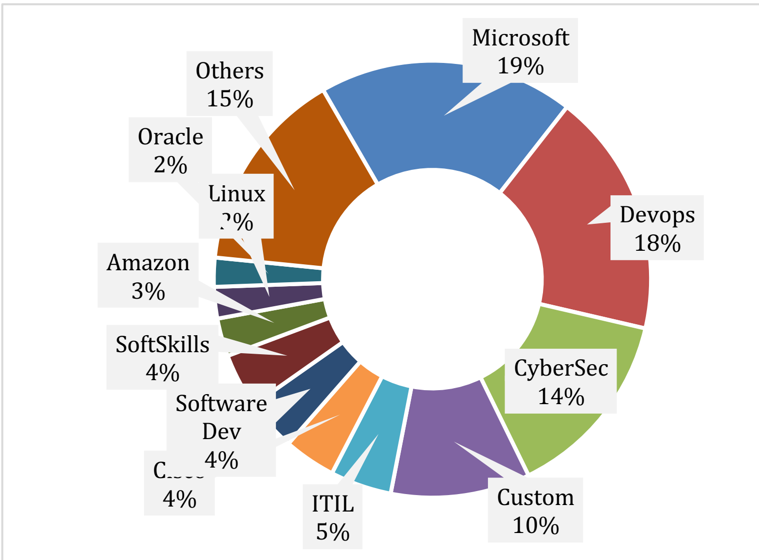
- **Bittnet Systems SA** (CUI 21181848): the parent company of the group, listed on BVB. It carries out the holding activity plus the IT Training activity, being the undoubted leader on this market in Romania.
- **Computer Learning Center SRL** (Tax registration number 26065887), owned entirely by Bittnet, is an IT training company which focuses on the cybersecurity area, founded in 2009, with a long history of serving clients in the corporate area.
- **Equatorial Gaming SA** (CUI 30582237) currently owned 99% by Bittnet is a game-based learning company that offers softskills training for the IT industry, both in classic and gamified form.
- **The eLearning company SA** (Tax registration number 30760571), 23% owned by Bittnet, is an entrepreneurial company offering courses in eLearning format for companies.

Bittnet Education (plus group activity)	2021	2022	FY22 vs FY21
Revenues from contracts with clients	**17,465,543**	**21,734,492**	**24%**
Cost of sales	-9,445,109	-12,650,780	34%
Gross margin	**8,020,434**	**9,083,712**	13%
Other revenues	1,326,544	2,378,064	79%
Sales/distribution costs	-3,920,537	-4,970,014	27%
Administrative expenses	-5,432,176	-7,635,900	41%
of which depreciation	-1,350,840	-1,896,154	40%
One-off result	900.057	1,196,728	33%
Operating profit (without one-offs)	**-905.792**	**-2,340,866**	158%
SOP expense	-1,066,911	-890,381	-17%
Financial result	12,110,505	3,418,675	
Mark-to-market revaluations	9,736,569	-2,888,985	-130%
Gross profit	**11,037,858**	**1,384,155**	-87%
Net profit	**9,978,592**	**1,662,358**	-83%

In addition to management and functional team development sessions, finding the right delivery resources (trainers) continues to be the division's biggest challenge. Therefore, towards the end of the year, we have built a coherent strategy to increase this pool of resources and become a centre of excellence in delivering IT training and human skills to people in the IT industry. We expect the results of this new approach to take effect in the first half of 2023.



The year 2022 was also the time when we were able to integrate all brands in the Education Division into the same operational flow – Buyer's Journey – and develop the entire technology infrastructure to monitor activity and allow us to measure and improve both process and performance in each functional team.



The year 2022 brought Bittnet teams the success of an accelerated increase in training sessions volume. Thus, at the end of the year we counted over 550 sessions both private and public, with over 5900 trained participants in total, representing almost a doubling of the learners attending our trainings in 2021. This volume has simultaneously led to an increase in the number of trainers to 47 active trainers, including 10 new collaborations.

In parallel with these projects, we have been working steadily on the refurbishment of the dedicated classrooms and reception for learners, which have been brought to the highest level of performance, they are now ready for courses in hybrid format creating 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 innovative ideas that are among the state-of-the-art equipment put in place by our teams and adopted by trainers during delivery. The new facility accommodated over 110 physical courses during 2022.

Cloud and Infrastructure

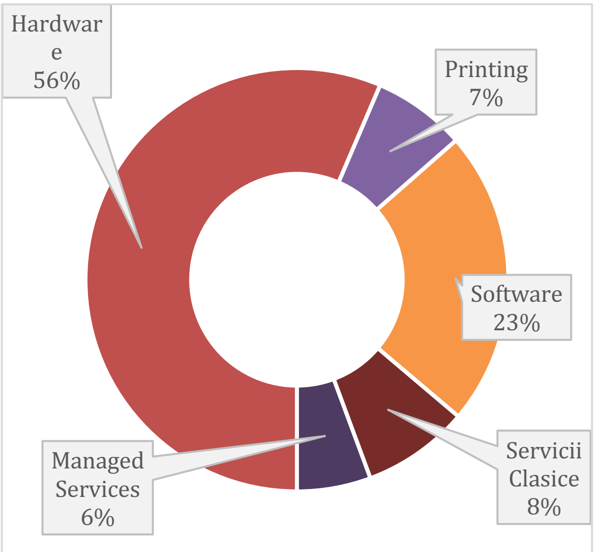
Under the leadership of Cristian Herghelegiu (CEO Cloud and Infrastructure), this business pillar contains 4 companies, providing complex IT solutions to corporate, large corporate, enterprise and public sector clients across the country.

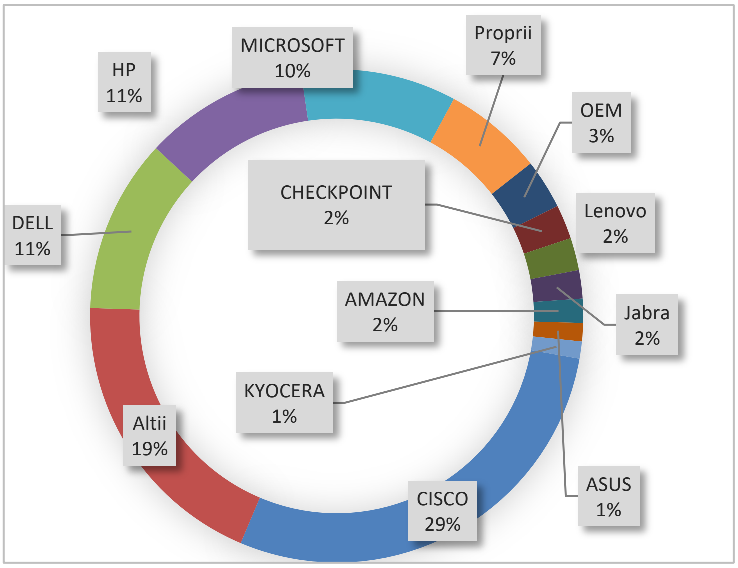
The projects developed by the companies in this technology cluster cover a broad spectrum of solutions, starting from physical communications infrastructure, perimeter security, video systems, digital signage systems and computing and printing systems and continuing with the design and implementation of complex data centre/hybrid or cloud IT architectures, enterprise networking, cyber security platforms and the implementation of related software platforms, including collaboration platforms (modern workplace).

The services provided are both project-based and managed services, with managed services being delivered mainly to clients in mature markets, Europe and the United States. The companies that are part of this pillar are:

- **Dendrio Solutions SRL** (CUI 11973883), 88% owned by Bittnet and managed by Iulian Zamfir, is the only multi-cloud integrator in Romania, partner certified to the highest standards by Cisco, Microsoft, Google, Amazon Web S0ervices, but also many other vendors, being the company that brings together IT&C integration activities coming from Bittnet, Gecad Net and Crescendo.
- **TopTech** (Tax registration number CUI 2114184) 86% owned by Bittnet, and managed by Dragos Groza, is a company with a 30-year experience, integrating IT infrastructures (communications, data processing, physical security systems) from vendors such as Dell, HP, Xerox or Microsoft, with a regional presence, 6 branches in Transylvania and Banat and a team of over 86 specialists.
- **2Net Computer SRL** (Tax registration number CUI 8586712) , owned entirely by Bittnet and managed by Mr. George Tomescu – the founder of the company who also stayed with us during the transition process – it is a company specialized in the sale of equipment and the implementation of IT infrastructure solutions with regional presence, having presence in Brasov and Covasna counties (thus contributing to the national presence of the group).
- **Optimizor - formerly IT Prepared SRL** (Tax registration number 35456175), 50.2% owned by Bittnet and managed by Alexandru Ana, is an entrepreneurial managed services company ("Managed services") founded in 2016, providing IT support services mainly to the US market. ITPrepared's client portfolio is primarily based on US companies, but also contains a number of local clients. Managed services represent the outsourcing of responsibility for maintaining and anticipating the need for a range of processes and functions that aim to improve operations and reduce expenses within a company

RON	Cloud & Infra in 2021	Cloud & Infra + TT & 2net In 2021	Cloud & Infra In 2022	% Total	% Organic
Revenues from contracts with clients	**92,213,685**	**171,740,660**	**210,617,501**	**128%**	**23%**
Cost of sales	-76,842,529	-142,492,590	-178,377,575	**110%**	25%
Gross margin	**15,371,156**	**29,248,071**	**32,239,926**	39%	**10%**
Sales/distribution costs	-5,377,309	-5,472,482	-7,461,198	343%	36%
Administrative expenses	-5,431,697	-16,115,551	-24,069,545	126%	49%
of which depreciation	-1,020,862	-1,857,637	-2,311,916	-171%	24%
One-off result	1,893,091	1,893,091	-1,343,341	**-11%**	-171%
Operating profit (without one-offs)	**4,945,313**	**8,598,177**	**4,425,081**		**-49%**
SOP expense	0	0	0	**-10%**	
Financial result	**-1,929,832**	**-2,181,135**	**-1,741,733**	0%	**-20%**
Of which mark to market revaluations	0	0	0	**-73%**	0%
Gross profit	**4,908,573**	**8,310,134**	**1,340,007**	-67%	**-84%**
Income tax	-728.661	-1,257,867	-238,355	**-74%**	-81%
Net profit	**4,179,911**	**7,052,267**	**1,101,652**	**110%**	**-84%**





This business segment recorded in 2022 solid results in the revenue area but a negative impact on the whole group in terms of profitability: even though revenue grew organically by 23% (and almost 130% in total), gross margin grew only 10% organically, and 110% in total – thus showing that the problem is generated by Dendrio. The additional gross margin generated was not sufficient to cover the increased fixed costs, so the total operating profit decreased by 3%, while the business more than doubled. The additional gross margin generated was not sufficient to cover the increased fixed costs, so the total operating profit decreased by 3%, while the business more than doubled. At the operating profit level, even though TopTech and 2Net also recorded decreases (somewhat normal in that inflationary pressure on costs unfortunately overlapped with the M&A process), the main part of the decrease is generated by Dendrio, for the following reasons:

1. Expanding the team too quickly to support the next level of business (three teams have been established in 2022: Project Management Office, Sales Development Representatives and Customer Success); we expect the structure created this year to allow the company to participate in complex projects required by the National Recovery and Resilience Plan;
2. The time allocated by colleagues in these teams is reflected in the form of costs only in the Dendrio budget but their efforts have contributed to a certain extent to the results of the other companies, which will be corrected during 2023.

3. Accelerated increase in human resource costs – we compete with global companies for access to specialists – competition accentuated by the opening of international markets;
4. Disruptions in the global supply chain have led (among many other negative consequences) to increased unpredictability of deliveries and consequently sub-optimal allocation of human resources.

Thus, the focus both in H2 2022 but especially for 2023 and beyond will be on counteracting these negative effects. We have already made the following changes:

- We succeeded to convince a new colleague - Iulian Zamfir - to join the management team in the position of Director of Operations - thus aiming to increase the operational efficiency of the company;
- We have introduced separate P&L based measurements for each function of the company; in this way presales, project management or delivery teams become profit generating and will calibrate their activity accordingly;
- We have launched an initiative to recalibrate the small and medium customer segment resulting in a reduction in the number of customers per segment, which will continue in 2023; we will focus on customers that can be optimally served by Dendrio, with a minimum 20% gross margin;
- We have set an indirect expenditure target for 2023 close to 2022 expenditure, focusing on increasing the profitability of the business; this translates into a resizing of the delivery team.
- The entire technology division – Dendrio by default – will focus on profitability, with growth targets still important but subject to profitability.

In order not to be left with a totally negative impression, we also list some positive aspects of Dendrio's evolution in 2022:

- Increase in the IT consulting services component (architecture and technology uptake) in relation to implementation services that are correlated with hardware infrastructure
- Strengthening and integrating processes across the dedicated mid-market team and expanding the Sales Development Representatives team across the technology division.
- Increase the number of recurring service contracts provided on a monthly or annual subscription basis.

In **TopTech's** case, the highlights for the 30th year of operation are over 30% revenue growth based on over 23% growth in services, with minimal team growth (7% vs. 2021). For 2023 the company aims to maintain accelerated growth by investing in the development of delivery teams, strengthening the position with our technology partners (Dell, HP, Jabra and many others) and increasing the mix of products and services delivered with group companies.

For **2Net**, 2022 meant focusing on strengthening the regional team (across all functional areas), maximising partnerships with technology providers and diversifying the solution portfolio, with a focus on growing the service components. As part of this consolidation program starting in Q4 2022 a new Commercial and Operations Manager joined the management team, Mr. Bogdan Cuciureanu – an executive with over 25 years of experience in the IT&C industry, both in Romania and the United States.

Optimizor's business model (i.e. "managed services") combined with the services delivery with a focus on foreign markets (United States), but also on Romanian companies with regional presence in Europe, led to a significant increase in the company's operations of over 35% of revenue and an increase in the operating margin close to 100%; and thus the operating profit by 50%. Please see below a few noteworthy features:

- Expansion of the international client portfolio while maintaining a small team
- Continuous automation of delivery processes – which is a modus operandi for the Optimizor team;
- The new brand conveys more clearly the company's mission – to optimise its customers' IT processes and platforms
- Development of the service portfolio by adding the automation of cyber security processes; although it is still an emerging market, in the global context the demand for such services is growing rapidly
- Launch into operation of a platform designed for small and medium-sized companies; the product will incorporate the expertise acquired by Optimizer in foreign markets and its release for sale will start in 2023

Cybersecurity - Fort

This business pillar, managed by Vladimir Ghita, is made up of 3 companies providing cybersecurity services to corporate, large corporate, enterprise and public sector customers across the country. The companies that are part of the group are:

- **Global Resolution Experts S.A. (GRX)**(Tax registration number 34836770), 60% owned by Bittnet, is a professional services company in the cybersecurity area, offering penetration testing, as well as design, implementation and maintenance of cybersecurity solutions.
- **GRX Advisory SRL** (Tax registration number 43813325), wholly owned by GRX, offers professional services in the area of cybersecurity, providing penetration testing, as well as design, implementation and maintenance of cyber-security solutions.
- **ISEC Associates SRL** (Tax registration number: 23037351), 70% owned by Bittnet, is a company that offers professional services in the cybersecurity area, providing auditing, consulting and penetration testing services in classical and managed services. The company holds numerous certifications (ASF, BNR, CISA, CISM, CEH, CISSP, OSCP, CDPSE, ISO 27701, etc).

Cybersecurity continues to be an area of great interest worldwide, with a great potential for development in the coming period. This is largely due to the increasing volume of threats that companies in all sectors are facing. It is estimated that by 2025 the losses from cybercrime will reach USD 10.5 trillion, while the average cost of a single data breach event is around USD 4.35 million. This context will lead to a global market for cyber security services of around USD 188 billion in 2023.

Fort aims to leverage this favourable context in terms of the services it provides by meeting the unsolved needs of customers to identify, understand and solve potential security gaps. The reduced number of companies and cybersecurity experts has a positive impact on the demand for the company's services, which has been observed throughout 2022. We expect the trend of increasing demand to continue in 2023, especially given the continued diversification of attacks and the increasing level of sophistication they have in the cyberspace.

Continued investment in 2022 with regard to human resources has enabled the delivery of a considerably higher number of projects, which is reflected in the positive dynamics of turnover. Although the results are significantly better compared to 2021, there is still a need for recruitment, specialisation and retention of cyber security experts. Globally, it is estimated that there are around 3.5 million unfilled positions available to be tackled in 2023. This is also true for Fort, as the growth of the company is more a challenge from the point of view of the delivery team and less in terms of identifying and capitalizing on new sales opportunities. In order to ensure an adequate level in terms of teams, the company intensified in 2022, but mainly in the second semester, the recruitment mechanisms, using in this respect collaborations with 5 providers of “head-hunting” and “talent scouting” services.

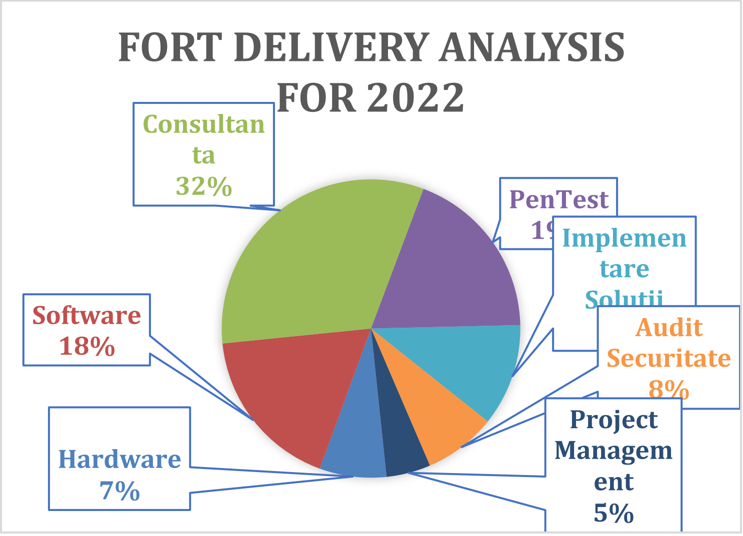
	2021	2022	FY22 vs FY21
Revenues from contracts with clients	**10,491,822**	**15,048,523**	**43%**
Cost of sales	-5,375,089	-9,305,767	73%
Gross margin	**5,116,733**	**5,742,756**	**12%**
Sales/distribution costs	-42.588	-339,971	698%
Administrative expenses	-1,808,449	-2,145,012	19%
of which depreciation	-231.465	-253,454	10%
One-off result	680.030	-151,175	-122%
Operating profit (without one-offs)	**3,401,379**	**3,979,000**	**17%**
Financial result	-26.254	-11,769	-55%
Gross profit	4,055,155	3,816,056	-6%
Net Profit, of which:	**3,918,293**	**3,620,615**	**-8%**

The significant expansion of the team, in order to support the business level targeted in 2023, has “loaded” the P&L of 2022 with costs of about RON 685,000. From a business point of view this is an “investment in the future, in the team”, an investment that is expected to pay off from H1 2023. From a profit point of view for 2022, however, this is an expense with no related income.

Another similar element, temporarily masking Fort's business evolution, is the start of the execution of a project co-financed by European Funds, through which an innovative solution based on artificial intelligence will be delivered. **The value of the whole project amounts to RON 7.34 million, of which the European funding amounts to RON 5.74 million**. During the fiscal year 2022 we have recorded expenses related to the project and not covered by grant income in the amount of RON 150,000 (in other words a negative impact on profitability of RON 150,000). With the completion of the product financed in this project we expect regular long-term revenues starting from 2024.

Without these investments in the future of the company, the operating profit would have registered a positive development of 41%, identical to the turnover. We believe, however, that the temporary “pain” generated by only 17% growth in operating profit is one that will bring significant value to our shareholders, and to Fort – a company we intend to list during 2023.

This company has no bank loans, consistently generates positive operating cashflow, which is why a substantial share of net profit in 2022 will be distributed as a dividend to Fort shareholders (Bittnet being the main beneficiary).



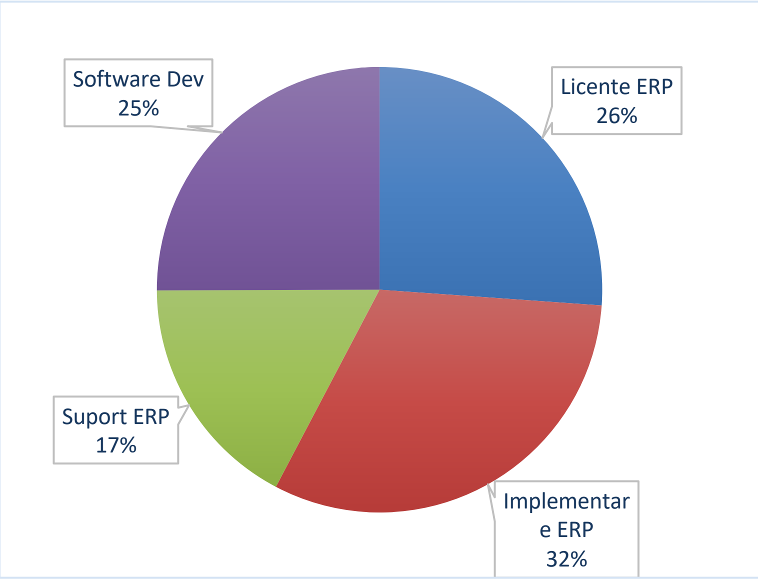
Platforms and Software Development

This segment comprises the following companies:

- **Elian Solutions SRL** (Tax registration number: 23037351), managed by Iulian Motoi, is a company founded in 2008 and 51% owned by Bittnet Systems SA. Gold partner certified by Microsoft for ERP solutions.
- **Nenos Software SRL** (Tax registration number 29612482), managed by Toader Toporau, is a company 61% owned by Bittnet, being a custom software development company with focus in Artificial Intelligence and Machine Learning (AI/ML).
- **Nonlinear SRL** (Tax registration number 37758005) is a SPV established to access European funding, 60% owned by Bittnet. The activity is a product based software development, focused on the development of a platform for digitization and automation of processes in small and medium companies using low code/no code and machine learning technologies.

In the case of Elian the year 2022 was (again!) an exceptional year, achieving an overrun of the budget set; in this respect the company recorded a 74% increase in turnover, with a significant increase in implementation services (implementation provided 40% of revenue, compared to 26% in 2021). The increase in the share of services is due to the expansion and consolidation of the delivery team, with a direct consequence of the increase in the capacity to deliver projects to customers but also the demand for upgrading to the latest system version released by Microsoft. More and more customers have decided to switch from various older versions of NAV to Dynamics 365 Business Central on the latest Microsoft technology. Both the general benefits of the latest versions released by the manufacturer, the legislative requirements (SAFT, e-Factura) and the limitations of older technologies have led to a sharp increase in interest to upgrade

- Elian continued the recruitment process started in previous years, following the same recruitment principle (attracting senior resources, who have the ability to enter production in a shorter timeframe). If at the end of 2021 we had a team of 32 people, in 2022 the team reached 46 – an increase of more than 40% in delivery resources.
- Another factor that contributed to increasing delivery capacity and achieving the above results is the operational performance objective (KPI) for consulting and programming teams that the Elian team implemented starting Q2 2022: self-planning – each team member does their task management together with the Team Manager and Project Manager. In this way there is clear traceability on delivery times, resource load and possible deviations from the delivery deadlines. The KPI is calculated based on the number of tasks per week.
- The accelerated growth trend will continue in 2023- the company is still planning to expand the team, with the potential to double the team by the end of the year.
- We have launched Software as a Service, a type of licensing that we expect to continue to grow aggressively in 2023. This translates into strengthening recurring income from monthly subscriptions.



Nenos continued to grow the business albeit at a relatively slow pace – a 10% increase in revenue and 17% increase in gross margin – due to the closure of previous projects. The company has managed this situation nimbly, reducing related operating costs (and team size) proportionately.

By 2023 we aim to:

- **Continue to expand sales activities** within Nenos Software by adding a dedicated international expansion colleague to the Sales Development Specialist team
- **Carry out Rebranding process and marketing campaigns.** At the end of 2022 the Nenos Software rebranding campaign was started. The industry in which Nenos Software operates, namely Artificial Intelligence,is constantly developing and moving, so together with the group's marketing team we are reconsidering the company's communication strategy.
- **We have a new generation of programmers.** It's time for the final exam for students in the first generation of Nenos Academy. We are proud of the participants who have made it this far, who have met the requirements and performed homework prepared by the mentors, for the two junior categories: FullStack Web Developers and Python Developers. We support students' development at all stages and encourage them to accumulate information at the pace they feel comfortable with. We are also proud of those Nenos Academy students who have bonded with our team during this training journey, and then chose to become our colleagues. We hope that the current edition, which started in December, will give us the chance to discover talented, passionate young people eager to join us in the job market!

	ELIAN		NENOS		NONLINEAR	
	2021	2022	2021	2022	2021	2022
Revenues from contracts with clients	**6,856,103**	**11,938,112**	**2,716,680**	**2,908,045**	**891.241**	**1,068,642**
Cost of sales	-5,375,130	-7,783,472	-947.564	-1,527,558	-309.400	-762,502
Gross margin	**1,480,974**	**4,154,640**	**1,769,116**	**1,380,488**	**581.841**	**306,140**
Sales/distribution costs	-236.915	-580,625	-10.649	-89,573	-55	0
Administrative expenses	-1,097,241	-2,006,378	-1,012,934	-775,931	-229.560	-158,528
of which depreciation	-83.273	-253,276	-48.669	-152,037	-7.299	-11,515
Operating profit (without one-offs)	**153.588**	**1,619,017**	**751.722**	**523,813**	**370.982**	**168,776**
Financial result	-19.043	-67,604	-1.956	-32,731	-1.780	-6,000
Gross profit	134.544	1,551,413	749.766	491,082	369.203	162,777
Net profit	**90.297**	**1,359,914**	**723.082**	**462,033**	**360.393**	**152,127**

BNET investment thesis

From the beginning of our journey as a listed company we have tried to convey "our value proposition" to investors in an as transparent manner as possible. In other words, what we offer to investors, which is the investment thesis that anyone who chooses to trust us can have.

This can be expressed very simply in the following sentence:

You invest in the medium and long term in BNET shares if you want exposure to the Romanian IT&C industry, an accelerated growth field, together with a management team that has not only skin in the game but also demonstrated over 15 years better results than industry average, both operationally and in terms of capital management.

Each of the decisions we make is aimed at building an anti-fragile group, so that we have the strongest force – time – with us ("Time is the friend of the wonderful business, the enemy of the average ones"). The second element is the combination of 'good operations' and the ability to manage capital, as described in the 'secret of success' in the book 'The outsiders – 8 outstanding CEOs'. Below are some arguments for each of the components of this investment thesis:

- Choosing an industry with favourable prospects is a decision that completely eases both the work of investors and decreases the importance of choosing a competent management: "a rising tide lifts all boats". There has been no industry in the last 20 years that has continued to grow faster than the IT&C industry.
- The existence of a management team with 'significant skin in the game' solves the 'principal-agent' problem so demanded by investors on the Romanian capital market. If the well-being of the management comes from the same sources, through the same mechanisms as the small shareholders, the most important conflict is eliminated. Thus, in our case, the value of BNET shares represents for management both most of the personal wealth and most of the income (unlike salary, the option-based compensation policy aligns the management's income with the wealth brought to the shareholders).
- Demonstrated track record from an operational point of view: in addition to numerous international recognitions (Deloitte Top 50 in Tech, Financial Times Top 1000 Fastest Growing Companies, EY Entreprenerur of the Year finalists, etc);
- Demonstrated track record from the point of view of capital management: the growth rate of equity attracted historically, through the mechanisms of the capital market is about 35%, which strengthens our confidence in the adopted financial model, which we intend to continue to apply as long as the results continue to be visibly better than the market average.

The Buffett test for capitalisation of earnings versus dividend pay-out

One question we sometimes get from investors is related to dividend distributions and why we don't do this. As we have stated since our listing and on numerous occasions, as long as we are in the "high growth" stage, we do not intend to distribute dividends, because the money left in the company grows much faster than it could grow in any other investment alternative.

So far we have demonstrated the above statement by calculating the growth in the value of the company's equity compared to the capital attracted (Net Book Assets compared to Cash Attracted in Capital Increase). This test revealed an **IRR return on shareholders' invested capital of approximately 40% per year**. In addition, by analysing the growth in equity generated by the business (thus eliminating capital attracted from the stock market) each year in relation to the equity at the beginning of the year, **our Group has an average ROE of approximately 55% over the 8 years since listing.**

Year	Final Equity (Thousand RON)l	Value Generated	ROE
2014	865		
2015	1.920	1.055	122%
2016	3.100	1.180	61%
2017	5.961	2.054	66%
2018	14.001	5.148	86%
2019	12.372	-1.629	-12%
2020	27.646	6.105	49%
2021	55.249	16.878	61%
2022	61.006	8.360	15%
	Average		**56,24%**

Operation	Amount
Equity on 15 April 2015	-864.743
MCS05-Dec-17	-807.127
MCS14-Dec-18	-2,892,205
MCS10-Apr-20	-9,168,712
MCS02-Mar-21	-10,725,345
Buyback August	2,603,000
Equity on 31 Dec 22	61,006,000*
IRR	**36,6%**
Equity drawn	**20,990,389**
Equity Generated	**37,412,611**

The above insights show how we have created value from an accounting perspective – intrinsically. "Price is what you pay, value is what you get" . To assess whether or not we have created wealth through stock market capitalisation (share price is often the only indicator retail investors follow) there is a famous test: the “Buffett” test for capitalised earnings.

* Attention! The Equity figure at the end of 2022 does not take into account the conversion of the RON 10 million debt of the sellers from M&A transactions, which was decided during 2022 (September). Accounting for this operation as well, Equity would exceed RON 71 million and the IRR generated would be just over 42%.

	Profit during the period	MCS / Buy-back.	"Retained" during the period	"Retained" total in 5y rolling	Equity at year end	Mkt. Cap. At year end	5y Mkt Cap Increase	Buffett Multiplier
(1)	(2)	(3)	(4)=(2)+(3)	(5)	(6)	(7)	(8)	(9)=(8)/(5)
2014	115				865	7.896		
2015	889	0	115		1.920	8.108		
2016	870	0	889		3.100	21.418		
2017	1.206	807	1.677		5.961	31.941		
2018	4.408	2.892	4.098		14.001	55.530		
2019	-2.631	0	4.408	11.187	12.372	112.717	104.821	**9.4**
2020	1.025	9.268	6.637	17.709	27.646	157.586	149.478	**8.4**
2021	14.424	10.725	11.750	28.570	52.740	161.907	140.489	**4.9**
2022		-2.604	9.170	36.063	71006	158.666	126.725	**3.5**

A simple formulation of these calculations is that, if we analyse the investment over a 5-year period, as recommended for stock market investment, **every RON allocated to our company (either through capitalisation of profits or through participation in capital increases), brought at least RON 3,5 into the shareholders' pockets.**

Of course, some investors may find that any of the components of the investment thesis described above does not fit their investment style. But we would like our shareholders to understand the "bet" they are making when investing in Bittnet Group shares: that the vision of accelerated growth towards a turnover of RON 500 million generates a great opportunity in the medium and long term and that sometimes the evolution of quarterly, half-yearly or annual results will fluctuate. We, the management team, are here to clarify these fluctuations and to guide our journey together towards the RON 500 million figure, without having as objective the share price, which, on the contrary, is decided by the shareholders. However, we are convinced that in the long term the value of the company will reflect the business results and the accumulated investments in the companies acquired over the years.

We conclude this chapter by reminding you that no investment in the shares of a company is risk-free, and please read carefully the chapters on Risks in the Universal Registration Document, or on the investor relations website.

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bittnet group

Annex 1 – 'Alternative Performance Measurements'

The ESMA guidelines require us to explain any indicator we have used in assessing the financial or non-financial results of the company, if that indicator is not found in the IFRS or XBRL standards, published by ESEF. In our financial statements, we used the following indicators:

Indicator	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: 1. Financial result elimination (expenses addition to the gross profit, and financial-type incomes subtraction) 2. 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.

Individual and pro-forma P&L (values in RON MILLIONS)

	BNET		EQG		EQT		CLC	
	2021	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Revenues from contracts with clients	**13.069**	**15,415**	**2.016**	**1,675**	**244**	**84**	**2.136**	**4,560**
Cost of sales	- 6.704	- 7,332	- 1.259	- 1,160	-92	-37	- 1.390	- 4,122
Gross margin	**6.365**	**8,082**	**758**	**516**	**153**	**47**	**745**	**438**
Other revenues	133	766	54	3	259	1,612	880	0
Sales/distribution costs	- 3.673	- 4,339	-109	-304	-	-	-138	-327
Administrative expenses	- 3.773	- 6,357	-723	-789	-406	-215	-530	-274
of which depreciation	-641	- 1,422	-376	-275	-288	-147	-46	-52
One-off result	-138	-199	-	-	-	1,484	1.038	-58
Operating profit (without one-offs)	**-810**	**- 1,649**	**-20**	**-547**	**6**	**-40**	**-82**	**-104**
SOP expense	- 1.067	-890	-	-	-	-	-	-
Financial result	12.224	3,646	-27	-32	-	-2	-86	-193
Mark-to-market revaluations	9.737	- 2,889	-	-	-	-	-	-
Gross profit	10.209	907	-47	-609	6	1,441	870	-355
Income tax	- 1.040	226	-17	-8	-2	-1	-	61
Net profit	**9.169**	**1,134**	**-64**	**-617**	**3**	**1,441**	**870**	**-294**

	DEND		ITPR		NET 2		TT	
	2021	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Revenues from contracts with clients	**86.733**	**103,849**	**5.481**	**7,478**	**23.662**	**25,111**	**55.865**	**74,180**
Cost of sales	- 72.913	-89,597	- 3.929	- 4,492	- 20.521	- 22,757	- 45.129	- 61,531
Gross margin	**13.819**	**14,251**	**1.552**	**2,985**	**3.141**	**2,354**	**10.736**	**12,649**
Other revenues	2.267	477	9	0	93	1,811	462	85
Sales/distribution costs	- 5.377	-7,164	-	-212	-5	-5	-90	-80
Administrative expenses	- 5.297	-7,579	-135	-687	- 1.622	- 3,862	- 9.062	- 11,940
of which depreciation	-921	-1,290	-100	-63	-364	-232	-473	-727
One-off result	1.893	129	-	-58	-	- 946	-	-468
Operating profit (without one-offs)	**3.519**	**-146**	**1.426**	**2,145**	**1.606**	**1,243**	**2.047**	**1,182**
Financial result	- 1.975	-1,475	45	36	-87	-172	-164	-129
Gross profit	3.438	-1,491	1.471	2,122	1.519	125	1.882	584
Income tax	-603	386	-126	-336	-239	-223	-290	-65
Net profit	**2.835**	**- 1,105**	**1.345**	**1,786**	**1.280**	**-97**	**1.592**	**518**

	ELIA		NENO		NONL	
	2021	2022	2021	2022	2021	2022
Revenues from contracts with clients	**6.856**	**11,938**	**2.717**	**2,908**	**891**	**1,069**
Cost of sales	-5.375	-7,783	-948	-1,528	-309	-763
Gross margin	**1.481**	**4,155**	**1.769**	**1,380**	**582**	**306**
Other revenues	7	51	6	9	19	21
Sales/distribution costs	-237	-581	-11	-90	-0	-
Administrative expenses	-1.097	-2,006	-1.013	-775	-230	-159
Of which depreciation	-83	-253	-49	-152	-7	-12
Operating profit (without one-offs)	**154**	**1,619**	**752**	**525**	**371**	**169**
Financial result	-19	-67	-2	-32	-2	-6
Gross profit	135	1,551	750	500	369	163
Income tax	-44	-191	-27	-29	-9	-11
Net profit	**90**	**1,360**	**723**	**462**	**360**	**152**

	GRX		GRX-A		ISEC	
	2021	2022	2021	2022	2021	2022
Revenues from contracts with clients	**5.648**	**7.780**	**3.444**	**5,725**	**1.400**	**1,543**
Cost of sales	-2.546	-4.743	-1.759	-3,183	-1.071	-1,381
Gross margin	**3.102**	**3.038**	**1.685**	**2,542**	**329**	**163**
Other revenues	213	569	2	1	601	-
Sales/distribution costs	-	-252	-2	-2	-41	-86
Administrative expenses	-1.026	-1.449	-72	-318	-711	-378
Of which depreciation	-161	-179	-2	-58	-69	-17
One-off result	-	-151	-	-	680	-
Operating profit (without one-offs)	**2.289**	**2.057**	**1.614**	**2,223**	**-502**	**-301**
Financial result	-3	83	0	-30	-23	-64
Gross profit	2.286	1.989	1.615	2,197	155	-365
Income tax	-108	-216	-29	-35	-	55
Net profit	**2.178**	**1.773**	**1.586**	**2,158**	**155**	**-310**

For questions or feedback, please email us at:

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