Alicante, 18th of May 2023

## COMMUNICATION – MARKET NOTICE - FACEPHI BIOMETRIA, S.A.

Dear Sirs,

Pursuant to Article 17 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), and section 4.2.1 of Euronext Growth Markets Rule Book Part I: Harmonized Rules, on ongoing obligations of companies listed on Euronext, (hereinafter "FacePhi" or "the Company") hereby notifies the following:

By means of this publication, FACEPHI BIOMETRÍA, S.A. complementing the information already published regarding 2022 annual accounts:

**FINANCIAL INFORMATION FOR THE YEAR 2022 (translated)**

- Independent audit report corresponding to the individual annual accounts of the Company for the year 2022.
- Individual annual accounts of the Company for the year 2022 prepared together with the management report.
- Independent audit report corresponding to the consolidated annual accounts of the Company for the year 2022.
- Consolidated annual accounts of the Company for the year 2022 prepared together with the management report.

We remain at your disposal for any clarification you might deem necessary.

Sincerely,

Javier Mira Miró
**Chairman of the Board of Directors**

**FACEPHI BIOMETRÍA, S.A.**

**Auditor´s Report,**
**Annual Accounts and Director's Report**
**for the year ended December 31, 2022**

*This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation or information, views opinions, the original language version of our report takes precedence over this translation.*

AUREN AUDITORES SP, S.L.P. Inscrita en el R.M. de Madrid. Tomo 33.829, Sección 8, Folio 89, Hoja M-608799, Inscripción 1. C.I.F.: B/87352357. Avda. General Perón, 38 – 28020 Madrid

# INDEPENDENT AUDITOR´S REPORT ON THE ANNUAL ACCOUNTS

To the shareholders of FacePhi Biometría, S.A.

## REPORT ON THE ANNUAL ACCOUNTS

### Opinion

We have audited the annual accounts of FacePhi Biometría, S.A. (the Company), which comprise the balance sheet as at December 31, 2022, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2022, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in note 2.a of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

### Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual accounts section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Impairment of non-current assets*

**Risk description**

As of December 31, 2022, the Company has registered, under the heading of “intangible fixed assets”, non-current assets amounting to 7,607 thousand euros. These assets correspond mainly to computer applications and development expenses, which, due to meeting the requirements established by applicable financial reporting framework, have been activated in the balance sheet. The Company's Board have evaluated the recoverable value of these assets by calculating their value in use. We have considered this area a key audit matter due to the relevance of the amounts affected and the complexity of the estimates and assumptions made by the Company's Directors in the impairment analysis process.

The information regarding the criteria and valuation methods applied by the Company's Administrators, and the main assumptions used in determining the recoverable value of these assets, can be found in notes 3.3 and 4.f of the attached annual report.

**Audit response**

Our audit procedures have included, among others:

- understanding of the criteria applied and review of the processes established by the Company's Administrators in determining the value in use of non-current assets,
- review of the model used by the Company's administrators, covering its mathematical coherence, the reasonableness of projected cash flows, discount rates and long-term growth rates, as well as the results of the sensitivity analysis carried out by the Company's Directors,
- finally, we have evaluated the adequacy of the information disclosures included by the Company in the attached report in accordance with the applicable financial reporting framework.

### *Revenue’s recognition*

**Risk description**

As indicated in notes 3.16 and 14 of the attached report, almost all the Company's turnover is derived from the sale of the rights to use (licensing, maintenance and support) of the recognition technology software by facial biometrics.

Considering that the recognition and imputation of income to the profit and loss account depends on the various licensing modalities, the maintenance and support accrual periods, as well as the interpretation of the rest of the contractual conditions, based therefore on processes estimation, we have considered this area as a key audit matter.

**Audit response**

Our main audit procedures included at the end of the year ended December 31, 2022, among others:

- understanding of the internal process related to revenue recognition,
- evaluation of controls over the process of generating and making licenses available to customers,
- We have examined the contracts signed with the different clients and based on their understanding, we have verified compliance with the contractual terms and evaluated the recognition of income in the corresponding period,
- obtaining external confirmations for a sample of clients pending collection, carrying out, where appropriate, alternative verification procedures using supporting documents for subsequent collection or supporting documentation for the provision of the service or the provision of licenses,
- based on a sample obtained from the management programs on the transfer of licenses as of December 31, 2022, we have verified the accrual basis and imputation of income in the appropriate period,
- we have evaluated the adequacy of the information disclosures included by the Company in the attached report in accordance with the applicable financial reporting framework.

## Other information: Director´s report

Other information comprises only the Director´s report for the 2022 financial year, the formulation of which is the responsibility of the Company´s directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the Director´s report. Our responsibility regarding the Director´s report, in accordance with legislation governing the audit practice, is to evaluate and report on the consistency between the Director´s report and the annual accounts as a result of our knowledge of the Company obtained during the audit of the aforementioned financial statements, and does not include information different to that obtained as evidence during our audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the Director´s report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

Based on the work performed, as described in the previous paragraph, the information contained in the Director´s report is consistent with that contained in the annual accounts for the 2022 financial year, and its content and presentation are in accordance with the applicable regulations.

## Responsibility of the directors and the audit committee for the annual accounts

The directors are responsible for issuing the attached annual accounts, in order to express the true image of the assets, the financial situation and the results of the Company, in accordance with the regulatory framework of financial information applicable to the entity in Spain, and of the internal control that they consider necessary to allow the preparation of annual accounts free of material misstatement, due to fraud or error.

In preparing the annual accounts, directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as appropriate, issues related to the going concern and using the going concern accounting principle except if the directors intend to liquidate the company or to cease its operations, or there is no other realistic alternative.

The audit committee is responsible for supervising the process of preparing and presenting the annual accounts.

## Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company´s directors.

- Conclude on the appropriateness of the directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Company´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Additional report for the audit committee

The opinion expressed in this report is consistent with that expressed in our additional report to the company's audit committee dated April 30, 2023.

### Appointment period

The Ordinary General Shareholders' Meeting held on July 24, 2020 appointed us as auditors for a period of 3 years, counted from the year ended on December 31, 2020.

Previously, we were appointed by decision of the General Shareholders' Meeting for a period of three years, and we have been carrying out the audit work without interruption since the year ended on December 31, 2017.

AUREN AUDITORES SP, S.L.P.
Registered in-ROAC under Nº S2347

*Original signed in Spanish by*
Cristina Herráiz Linares
Registered in ROAC under Nº 10657
April 30, 2023

Member of
Antea
Alliance of independent firms

# Annual Financial Statements and Management Report
## 31 December 2022

## Table of Contents



## Management Report

| Balance sheet as at 31 December 2022 (In euros) | | | |
|---|---|---|---|
| ASSETS | NOTES TO THE REPORT | 31/12/2022 | 31/12/2021 |
| **A) NON-CURRENT ASSETS** | | **16,681,956** | **9,043,705** |
| **I. Intangible fixed assets** | **4** | **7,606,650** | **3,849,869** |
| 1. Development | | **3,911,085** | **44,955** |
| 3. Patents, licences, trademarks and similar | | **60,018** | **52,388** |
| 5. Computer applications | | **3,635,547** | **3,752,525** |
| **II. Tangible fixed assets** | **5** | **1,713,190** | **407,919** |
| 2. Technical facilities and other tangible fixed assets | | **765,796** | **407,919** |
| **3.** Fixed assets in progress and advances | | **947,394** | **0** |
| **IV. Long-term investments in group and associated companies** | **8** | **454,627** | **2,454,627** |
| 1. Equity instruments | | **435,314** | **2,435,314** |
| 2. Loans to companies | | **19,313** | **19,313** |
| **V. Long-term financial investments.** | **9** | **127,913** | **214,478** |
| 1. Equity instruments | | **0** | **125,063** |
| 2. Loans to third parties | | **1,700** | **1,700** |
| 5. Other financial assets | | **126,213** | **87,715** |
| **VI. Deferred tax assets** | **13** | **1,555,337** | **1,092,394** |
| **VII. Non-current trade debts** | **9** | **5,224,239** | **1,024,419** |
| **B) CURRENT ASSETS** | | **16,252,849** | **10,217,292** |
| **III. Trade debtors and other accounts receivable** | **9** | **12,951,027** | **8,317,893** |
| 1. Trade accounts, sales and provision of services | | 11,147,258 | 7,907,312 |
| 2. Trade with Group and associated companies | | 47,713 | 0 |
| 3. Sundry debtors | | 433 | 0 |
| 5. Deferred tax assets | **13** | (733) | 0 |
| 6. Other credits with government agencies | **13** | 1,756,357 | 410,581 |
| **IV. Short-term investments in group and associated companies** | **8** | 885,456 | 192,196 |
| 2. Loans to companies | | 885,456 | 192,196 |
| **V. Short-term financial investments** | **9** | **55,793** | **42,895** |
| 5. Other financial assets | | **55,793** | **42,895** |
| **VI. Short-term accruals** | | **448,792** | **297,787** |
| **VII. Cash and cash equivalents** | **10** | **1,911,782** | **1,366,521** |
| 1. Treasury | | **1,911,782** | **1,366,521** |
| **TOTAL ASSETS (A+B)** | | **32,934,804** | **19,260,997** |

The attached management report forms an integral part of the balance sheet as at 31 December 2022.

## Balance sheet
## as at 31 December 2022
(In euros)

| NET EQUITY AND LIABILITIES | NOTES TO THE REPORT | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **A) NET EQUITY** | 11 | **16,301,258** | **9,410,230** |
| **A-1) Capital and reserves** | **11.1** | | **9,344,233** |
| **I. Capital** | | **16,123,636** | **605,373** |
| 1. Authorised capital | | **697,311** | **605,373** |
| **II. Issue premium** | | **697,311** | **10,074,525** |
| **III. Reserves** | | **15,560,800** | **1,062,173** |
| 1. Legal and statutory | | **108,379** | **108,553** |
| 2. Other reserves | | **108,553** | **953,620** |
| **IV. (Treasury stock)** | | **(175)** | **(556,510)** |
| **V. Profit (loss) previous financial years** | | **(454,079)** | **(1,682,335)** |
| | | **(1,841,328)** | **(1,682,335)** |
| 2. (Losses from previous financial years) | | **(1,841,328)** | **(158,993)** |
| **VII. Profit (loss) for the financial year** | | **2,052,553** | **65,997** |
| **A-3) Grants, donations and bequests received** | **11.2** | **177,622** | |
| **B) NON-CURRENT LIABILITIES** | | **4,229,166** | **5,100,154** |
| **I. Long-term provisions** | | **36,904** | **36,904** |
| 4. Other provisions | | **36,904** | **36,904** |
| **II. Long-term debts** | **12** | **4,133,055** | **5,041,251** |
| 2. Debts with credit institutions | | 3,649,671 | 5,041,251 |
| 3. Financial leasing creditors | | 176,195 | 0 |
| 5. Other financial liabilities | | 307,189 | 0 |
| **IV. Deferred tax liabilities** | **13** | **59,207** | **21,999** |
| **C) CURRENT LIABILITIES** | | **12,404,380** | **4,750,613** |
| **III. Short-term debts** | **12** | **7,312,155** | **1,397,718** |
| 2. Debts with credit institutions | | 3,918,990 | 1,185,686 |
| 3. Financial leasing creditors | | 88,277 | 0 |
| 4. Derivatives | 11 | 99,093 | 0 |
| 5. Other financial liabilities | | 3,205,796 | 212,032 |
| **V. Trade creditors and other accounts payable** | **12** | **4,747,505** | **2,789,971** |
| 1. Suppliers | | 563,163 | 395,798 |
| 2. Suppliers, group and associated companies | **16** | 0 | 381,235 |
| 3. Sundry creditors | | 2,300,937 | 1,320,780 |
| 4. Personnel (remuneration pending payment) | | 1,463,777 | 512,213 |
| 6. Other debts with government agencies | **13** | 419,627 | 179,944 |
| **VI. Short-term accruals** | **14.a** | **344,720** | **562,924** |
| **TOTAL NET EQUITY AND LIABILITIES** | | **32,934,804** | **19,260,997** |

The attached management report forms an integral part of the balance sheet as at 31 December 2022.

| Income statement for the financial year ended on 31 December 2022 (In euros) | NOTES TO THE REPORT | (Debit) Credit 2022 | (Debit) Credit 2021 |
|---|---|---|---|
| **A) ONGOING OPERATIONS** | | | |
| **1. Net turnover** | **14.a** | **21,843,067** | **12,680,565** |
| b) Provision of services | | 21,843,067 | 12,680,565 |
| **3. Work performed by the Company for its assets** | **14.c** | **3,818,608** | **2,100,208** |
| **4. Supplies** | **14.b** | **(3,185,110)** | **(1,866,795)** |
| c) Works performed by other companies | | (3,185,110) | (1,866,795) |
| **5. Other operating revenue** | | **182,798** | **34,213** |
| a) Non-core and other current operating revenue | | **101,330** | **7,204** |
| b) Operating subsidies entered to outcome of the financial year | | **81,468** | **27,009** |
| **6. Personnel expenses** | **14.e** | **(9,834,527)** | **(6,721,202)** |
| a) Wages, salaries and similar | | (8,256,091) | (5,818,606) |
| b) Social Security | | (1,575,676) | (900,515) |
| c) Provisions | | (2,761) | (2,082) |
| **7. Other operating expenses** | **14.f** | **(8,293,566)** | **(5,604,412)** |
| a) External services | | (6,952,150) | (5,527,958) |
| b) Taxes | | (729) | (1,159) |
| c) Losses, impairment and variation of provisions for trade transactions | **9** | (719,915) | (75,294) |
| d) Other operating expenses | | (620,771) | 0 |
| **8. Amortisation of fixed assets** | **4 - 5** | **(1,967,525)** | **(885,582)** |
| **9. Allocation of subsidies for non-financial fixed assets and others** | **14.d** | **119,639** | **67.063** |
| **11. Impairment and outcome for disposal of fixed assets** | | **(1,987)** | **0** |
| b) Outcome of disposals and others | | **(1,987)** | **0** |
| **13. Other outcomes** | | **2,627** | **(14,792)** |
| **A.1) OPERATING PROFIT (LOSS) (1+2+3+4+5+6+7+8+9+10+11+12+13)** | | **2,684,024** | **(210,733)** |
| **14. Financial revenue** | | **0** | **2,559** |
| b) From negotiable securities and other financial instruments | | **0** | **2,559** |
| *b1) In group and associated companies* | | **0** | **2,378** |
| *b2) Of third parties* | | **0** | **181** |
| **15. Financial expenses** | | **(299,856)** | **(384,227)** |
| b) For debts with third parties | | (299,856) | (384,227) |
| **16. Variation in fair value of financial instruments** | | **(677,308)** | **(380,604)** |
| a) Business portfolio | | **(677,308)** | **(380,604)** |
| **17. Exchange differences** | **14.g** | **389,626** | **313,099** |
| **18. Impairment and outcome of disposal of financial instruments** | | **(124,938)** | **201,434** |
| a) Impairment and losses | **8** | 0 | 201,434 |
| b) Outcome of disposals and others | **9** | (124,938) | 0 |
| **A.2) FINANCIAL PROFIT (LOSS) (14+15+16 +17+18+19)** | | **(712,475)** | **(247,740)** |
| **A.3) PROFIT (LOSS) BEFORE TAXES (A.1 + A.2)** | | **1,971,549** | **(458,472)** |
| **20. Corporation tax** | **13.3** | **81,004** | **299,479** |
| **A.4) PROFIT (LOSS) FOR FIN. YR. FROM ONGOING OPERATIONS (A.3 + 20)** | | **2,052,553** | **(158,993)** |
| **B) DISCONTINUED OPERATIONS** | | | |
| **A.5) PROFIT (LOSS) FOR FIN. YEAR (A.4 + 21)** | | **2,052,553** | **(158,993)** |

The attached management report forms an integral part of the income statement as at 31 December 2022.

## Statement of changes in net equity for the financial year ended on 31 December 2022

(In euros)

| A) Recognised income and expenditure statement | Notes to the report | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **A) INCOME STATEMENT PROFIT (LOSS)** | | **2,052,553** | **(158,993)** |
| **INCOME AND EXPENDITURE CHARGED DIRECTLY TO NET EQUITY** | | | |
| *I. Changes in value of financial instruments* | | 0 | 0 |
| *II. Cash flow hedging instruments* | | 0 | 0 |
| *III. Grants, donations and bequests* | ***11.2*** | 186,495 | 0 |
| *IV. Actuarial earnings and losses and other restatements* | | 0 | 0 |
| *V. Non-current assets and related liabilities held for sale* | | 0 | 0 |
| *VI. Conversion differences* | | 0 | 0 |
| *VII. Tax effect* | ***13.4*** | (46,624) | 0 |
| **B) TOTAL INCOME AND EXPENDITURE CHARGED DIRECTLY TO NET EQUITY (I + II + III + IV + V + VI + VII)** | | **139,871** | **0** |
| **TRANSFERRED TO INCOME STATEMENT** | | | |
| VIII. Changes in value of financial instruments | | 0 | 0 |
| IX. Cash flow hedging instruments | | 0 | 0 |
| X. Grants, donations and bequests | ***11.2*** | (119,639) | (67,063) |
| XI. Non-current assets and related liabilities held for sale | | 0 | 0 |
| XII. Conversion differences | | 0 | 0 |
| XIII. Tax effect | ***13.4*** | 29,910 | 16,766 |
| **C) TOTAL TRANSFERS TO THE INCOME STATEMENT (VIII + IX +X + XI +XII + XIII)** | | **(89,729)** | **(50,298)** |
| **TOTAL RECOGNISED INCOME AND EXPENDITURE (A + B + C)** | | **2,102,695** | **(209,291)** |

### B) Statement of total changes in net equity for the financial year ended on 31 December 2020

(In euros)

| | Capital Authorised | Issue premium | Reserves | (Treasury stock). | Profit (loss) previous financial years | Profit (loss) for the financial year | Subsidies, donations and bequests | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **A. BALANCE AT END 2020 FINANCIAL YEAR** | **577,141** | **7,222,153** | **1,208,969** | **(341,760)** | **0** | **(1,682,335)** | **116,294** | **7,100,462** |
| *I. Restatement for changes of criteria 2020 and previous fin. years* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *II. Restatement due to errors in 2020 financial year* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **B) RESTATED BALANCE, START OF 2021 FINANCIAL YEAR** | **577,141** | **7,222,153** | **1,208,969** | **(341,760)** | **0** | **(1,682,335)** | **116,234** | **7,100,462** |
| *I. Total recognised income and expenditure* | 0 | 0 | 0 | 0 | 0 | *158,993* | *(50,298)* | *(209,291)* |
| *II. Transactions with partners or proprietors* | *28,232* | *2,852,372* | *(146,795)* | *(214,750)* | 0 | 0 | *0* | *2,519,058* |
| 1. Capital increases | 28,232 | 2,471,760 | (73,125) | 0 | 0 | 0 | *0* | 2,426,868 |
| 3. Conversion of financial liabilities to net equity | 0 | 380,611 | | 0 | 0 | 0 | *0* | 380,611 |
| 5. Net transactions with treasury stock. | 0 | 0 | (73,670) | (214,750) | *0* | *0* | *0* | (288,421) |
| *III. Other changes in Net Equity* | 0 | 0 | 0 | 0 | (1,682,335) | 1,682,335 | *0* | 0 |
| 2. Other variations. | 0 | 0 | 0 | 0 | (1,682,335) | 1,682,335 | *0* | 0 |
| ***C) BALANCE AT END OF 2021 FINANCIAL YEAR*** | ***605,373*** | ***10,074,525*** | ***1,062,173*** | ***(558,510)*** | ***(1,682,335)*** | ***(158,993)*** | ***65,997*** | ***9,410,230*** |
| *I. Restatement for changes of criteria 2021 fin. year* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *II. Restatement due to errors in 2021 financial year* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***D) RESTATED BALANCE, START OF 2022 FINANCIAL YEAR*** | ***605,373*** | ***10,074,525*** | ***1,062,173*** | ***(558,510)*** | ***(1,682,335)*** | ***(158,993)*** | ***65,997*** | ***9,410,230*** |
| *I. Total recognised income and expenditure* | 0 | 0 | 0 | 0 | 0 | 2,052,553 | 50,142 | 2,102,695 |
| *II. Transactions with partners or proprietors* | 91,938 | 5,486,275 | (953,795) | (102,431) | 0 | 0 | 61,484 | 4,788,333 |
| 1. Capital increases | 91,938 | 4,908,007 | (179,625) | 0 | 0 | 0 | 0 | 4,820,320 |
| 3. Conversion of financial liabilities to net equity | 0 | 578,268 | 0 | 0 | 0 | 0 | 0 | 578,268 |
| 5. Net transactions with treasury stock. | 0 | 0 | (181,184) | 102,431 | 0 | 0 | 0 | (78,753) |
| 6. Variation in NE due to business combinations | 0 | 0 | (592,985) | 0 | 0 | 0 | 61,484 | (531,502) |
| *III. Other changes in Net Equity* | 0 | 0 | | 0 | (158,993) | 158,993 | 0 | 0 |
| 2. Other variations. | 0 | 0 | 0 | 0 | (158,993) | 158,993 | 0 | 0 |
| **E) BALANCE AT END OF 2022 FINANCIAL YEAR** | **697,311** | **15,560,800** | **108,379** | **(454,079)** | **(1,841,328)** | **2,052,553** | **177,622** | **16,301,258** |

The attached management report forms an integral part of the statement of changes in net equity as at 31 December 2022.

| Cash flow statement for the financial year ended on 31 December 2020 (In euros) | | |
|---|---|---|
| | **31/12/2022** | **31/12/2021** |
| **A) Operating cash flows** | | |
| **1. Profit (loss) for the financial year before tax** | **1,971,549** | **(458,472)** |
| **2. Restatements of outcome** | **(663,687)** | **1,506,810** |
| a) Amortisation of fixed assets (+) | 1,967,525 | 885,582 |
| b) Value restatements for impairment (+/-) | 719,915 | (126,140) |
| c) Variation in provisions (+/-) | 0 | 10,410 |
| d) Recognition of subsidies (-) | (201,107) | (67,063) |
| e) Outcome of deregistration and disposal of fixed assets (+/-) | 1,987 | 0 |
| f) Outcome of deregistration and disposal of financial instruments (+/-) | 124,938 | 0 |
| g) Financial revenues (-) | 0 | (2,559) |
| h) Financial expenses (+) | 299,856 | 384,227 |
| i) Exchange rate differences (+/-) | (435,511) | 41,743 |
| j) Variation in fair value of financial instruments (+/-) | 677,318 | 380,611 |
| k) Other income and expenditure (+/-) | (3,818,608) | 0 |
| **3. Changes in working capital** | **(6,361,045)** | **(3,858,687)** |
| b) Debtors and other accounts receivable (+/-) | (7,926,755) | (5,015,140) |
| c) Other current assets (+/-) | (151,004) | (124,164) |
| d) Creditors and other accounts payable (+/-) | 1,934,918 | 1,476,651 |
| e) Other current liabilities (+/-) | (218,205) | (196,034) |
| **4. Other operating cash flows** | **(237,834)** | **(389,448)** |
| a) Interest paid (-) | (283,518) | (389,630) |
| c) Interest collected (+) | 0 | 182 |
| e) Other payments (collections) (-/+) | 45,683 | 0 |
| **5. Operating cash flows (+/-1 +/-2 +/-3 +/-4)** | **(5,291,018)** | **(3,199,796)** |
| **B) Cash flows from investments** | | |
| **6. Investment outlays (-)** | **(2,910,568)** | **(3,027,648)** |
| a) In group and associated companies | (885,456) | (392,394) |
| b) Intangible fixed assets | (495,764) | (2,272,544) |
| c) Tangible fixed assets | (1,468,552) | (298,942) |
| e) Other financial assets | (60,797) | (63,768) |
| **7. Collection for divestment (+)** | **36,901** | **469,956** |
| c) Tangible fixed assets | **27,430** | **0** |
| e) Other financial assets | **9,471** | **469,956** |
| **8. Cash flows from investments (7-6)** | **(2,873,668)** | **(2,557,692)** |
| **C) Cash flows from financing activity** | | |
| **9. Collection and payments for equity instruments** | **4,708,743** | **2,114,072** |
| a) Issuance of equity instruments | 4,760,487 | 2,402,493 |
| c) Acquisition of equity instruments | (338,101) | (585,934) |
| d) Disposal of treasury stock (+) | 259,348 | 297,513 |
| e) Grants, donations and bequests received | 27,009 | 0 |
| **10. Collection and payments for financial liability instruments** | **3,894,130** | **(808,685)** |
| a) Issue. | | |
| 2. Debts with credit institutions (+) | 1,604,229 | 0 |
| 4. Others (+) | 2,300,429 | 0 |
| b) Return y amortisation of | | |
| 2. Debts with credit institutions (-) | (10,528) | (807,086) |
| 4. Others (-). | 0 | (1,598) |

| | | |
|---|---|---|
| **11. Outlays for dividends and remuneration of other equity instruments** | **0** | **0** |
| **12. Financing cash flows (+/-9 +/-10 -11)** | **8,602,874** | **1,305,387** |
| **D) Effect of exchange rate variations** | **107,072** | **(158,695)** |
| **E) Increase/decrease in cash and cash equivalents (+/-A +/-B +/-C +/-D)** | **545,260** | **(4,610,796)** |
| Cash and cash equivalents at start of fin. year | 1,366,521 | 5,977,318 |
| Cash and cash equivalents at end of fin. year | 1,911,782 | 1,366,521 |

The attached management report forms an integral part of the cash flow statement as at 31 December 2022.

# REPORT ON THE ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2022

## NOTE 1. NATURE AND MAIN ACTIVITIES

### *a) Nature and main activities*

FACEPHI BIOMETRIA S.A. was incorporated for an indefinite period on 26 September 2012 before the notary public Ignacio J. Torres López. Its registered address is Calle México 20, Alicante, Spain.

According to the Articles of Association, its corporate purpose is the following:

- Research, development and marketing of all kinds of information technology material: hardware, software and electrical appliances.
- Online sales by the Internet and/or similar distribution channels, import, export, representation, marketing, distribution, dealership, wholesale and retail sale, assembly, handling, manufacture and provision of related hardware, software services on physical support and through the sale of licenses for use, electronic products and components, electrical home appliances and telecommunications.
- Performance of Internet-based activities and provision of information and training services.
- Development, construction, acquisition, conveyancing, representation, leasing (except financial leasing), subleasing, installation or direct or indirect operation of consultancy services, urban land management, administration, custody and management of all kinds of real property, plots classified in any zoning category, buildings, single-family dwellings, apartments, condominiums, sports fields, residential buildings, premises and industrial or business facilities, hospitality establishments. All the above furnished or unfurnished, acting on its own behalf or that of third parties and with property of public and private ownership.

Currently, the Company's main activity consists of marketing and implementation of biometric facial recognition software developed by the Company itself and classified in category 845 of the National Classification of Economic Activities (CNAE).

The Company has been listed on BME Growth in the expanding enterprise segment since 1 July 2014 and on Euronext Growth in Paris since 25 February 2020.

Therefore, FacePhi Biometría S.A. is subject to the control and supervision regime provided for under Regulation (EU) 596/2014 on market abuse, the text of the Securities Market Act approved by Royal Legislative Decree 4/2015 of 23 October and concordant provisions and by the Circulars issued by BME Growth.

### *b) Composition of the Group*

In accordance with la information provided in Note 8, the Company is the parent company the Facephi Group (hereinafter the Company).

In compliance with Royal Decree 1159/2010 of 17 September that adopted the rules for drafting of annual financial statements, on 31 March 2023 the Company's governing body drew up its annual financial statements for the year ended 31 December 2022 which will be deposited in the Companies' Registry of Alicante following approval by the Annual General Meeting.

Notes 8 and 16.b to this report set forth the information regarding balances and transactions with the Group companies and with other related parties in accordance with currently applicable commercial legislation.

### *c) Business combinations: Acquisition of Ecertic Digital Solutions, S.L.*

On 20 April 2020 the purchase agreement for acquisition of 100% of the share capital of the trading company Ecertic Digital Solutions, S.L. – until then a technology supplier – was executed for the sum of two (2) million euros. The Company's management considers that this transaction achieves the strategic objective of promoting the digital on-boarding service in its commercial portfolio and consolidating its domestic and international leadership in the field of identification and authentication. The transaction was settled by a cash payment of 1,159,999 euros and assignment of 164,706 shares of the Company's treasury stock valued at 840,001 euros according to their recognised fair value.

The fair value of the assets and liabilities of Ecertic, together with their book value before the acquisition, were entered as follows once the company had been acquired:

| | Euros | |
|---|---|---|
| | **Book value** | **Fair value** |
| Intangible Assets | 293,666 | 1,920,360 |
| Tangible fixed assets | 13,456 | 13,456 |
| Trade debtors and other accounts receivable | 120,329 | 120,829 |
| Cash and cash equivalents | 7,474 | 7,474 |
| Deferred tax liabilities | (38,723) | (38,723) |
| Trade creditors and other accounts payable | (23,396) | (23,396) |
| **Identified net assets** | **372,806** | **2,000,000** |
| Goodwill arising from the transaction | | --- |
| **Total acquisition cost** | | **2,000,000** |

Therefore, the acquisition price as at 31 December 2020 implies the existence of an implicit goodwill fund amounting to 1,627,194 euros that has been attributed to the technology provided by said company for development of the digital on boarding solutions that the Company markets at the present time.

The merger agreements signed on 2 November 2021 and the project issued by the governing bodies of the absorbing company FACEPHI BIOMETRÍA, S.A. and the absorbed entity ECERTIC DIGITAL SOLUTIONS, S.L. were executed and notarised on 3 March 2022 with the content and applicable requirements laid down for this purpose in articles 30 and 31 of Act 3/2009 of 3 April on structural changes to trading companies.

The governing bodies of the two companies approved the merger transaction in accordance with the project on 9 November 2021. The absorbed company was acquired and liquidated by universal succession of its assets and the respective merger balance sheets as at 30

September 2021 were also approved. The effective carrying date of the absorbed company's transaction was 1 January 2022.

In compliance with Article 51 of the Structural Changes Act, it was not necessary to seek approval of the merger from the General Meeting of the absorbed company since the absorbing company was the direct owner of 100% of the share capital of the absorbed limited liability company.

The following is the merger entry recognised in the Company's accounting records on 1 January 2022

| | Euros | |
|---|---|---|
| **Heads** | **Debit** | **Credit** |
| Intangible fixed assets | 1,267,704 | |
| Tangible fixed assets | 8,367 | |
| Trade debtors and other accounts receivable | 15,815 | |
| Trade with Group companies | 382,548 | |
| Treasury | 45,683 | |
| Merger reserves | 592,985 | |
| Subsidies | | 61,484 |
| Deferred tax liabilities | | 20,495 |
| Short-term debts | | (3,842) |
| Short term debts with Group companies | | 192,196 |
| Trade creditors | | 42,771 |
| Shares in Ecertic | | 2,000,000 |
| **Total** | **2,313,102** | **2,313,102** |

### *d) Consortiums and joint ventures*

In the 2022 financial year the Company acquired 21.08% of "UTE DH Healthcare Provider Software Spain, S.L.U – Facephi Biometría, S.A.", a consortium domiciled in Madrid that has been incorporated to execute the object of the contract awarded by the Directorate of the National Institute of Health Management (INGESA) for installation and integration of a master system for hospital patients with biometric identification for the Melilla District Hospital, the Ceuta University Hospital and the Ceuta and Melilla primary attention system.

The estimated value of the contract is 711,490 euros and the execution period is 38 months. The works had not yet begun on the drafting date of these financial statements.

## NOTE 2. ANNUAL FINANCIAL STATEMENTS REPORTING CRITERIA

### *a) Regulatory framework for financial reporting applicable to the Company*

These annual financial statements have been drawn up by the Board of Directors in accordance with the regulatory framework for financial reporting applicable to the Company laid down in the following jurisprudence:

- The Spanish Commercial Code and other commercial legislation.
- The consolidated text of the Corporate Enterprises Act.

- Royal Decree 1514/2007 of 16 November and its subsequent amendments that adopts the General Accounting Plan and its subsequent amendments contained in Royal Decrees 1159/2010 of 17 September, 602/2016 of 17 December and 1/2021 of 12 January.
- The mandatory standards adopted by the Accounting and Auditing Institute for implementation of the General Accounting Plan and its complementary rules.
- The rest of the applicable Spanish accounting regulations.

### *b) True and fair view*

These annual financial statements have been drawn up on the basis of the Company's accounting records in accordance with the regulatory financial reporting framework set forth above and in particular with the accounting principles and criteria contained in the same in such a way that they provide a true image of the Company's equity, financial position and accounting outcomes of its transactions and cash flows for the 2022 financial year. The cash flow statement has been drawn up in order to accurately report on the origin and use of the Company's monetary assets in the form of cash and cash equivalents.

The annual financial statements are presented in euros, the Company's functional and reporting currency. The figures set forth in this management report have been rounded to whole numbers (without decimals) even in calculated amounts.

There are no exceptional reasons why accounting-related legal provisions have not been applied to show the true and fair view.

These annual financial statements, drawn up by the Company's Board of Directors, will be submitted to the Annual General Meeting for approval and are expected to be approved without reservations or amendments. The annual financial statements for financial 2021 were approved by the General Meeting held on 21 June 2022.

### *c) Non-mandatory accounting principles applied*

No non-mandatory accounting principles have been applied. The Board of Directors has also drawn up these annual financial statements taking all the mandatory accounting principles and standards that could have a significant effect on said financial statements into account. No mandatory accounting criterion has been ignored.

### *d) Critical aspects of assessing and estimating uncertainty*

The Company's directors are responsible for the information set forth in these annual financial statements.

The Company's directors and senior managers are required to make certain estimates and assumptions that affect application of the regulations and valuation of assets, liabilities, revenues, expenses and commitments when drawing up the annual financial statements. These estimates and assumptions are based on historical experience and other factors that are considered reasonable under the current circumstances.

The following is a breakdown of the aspects that have entailed a greater degree of judgement and complexity or those for which the hypothetical assumptions and estimation have been most significant during drafting of the annual financial statements:

- *Provisions for impairment of investments in Group and associated companies*: the accounting treatment given to investments in Group and associated companies involves making estimates at the end of each financial year to determine whether the value of said investments has suffered impairment and, as required, to enter a restatement against the income statement and earnings for the period or, as the case may be, to reverse a previously-recognised provision. Determining the need to recognise an impairment loss or, as required, reversal of the same involves making estimates that include, among others, analysis of the causes of any value impairment or recovery, the moment said movements were incurred and the expected amount of the same.

For financial investments in Group and associated companies, the recoverable value is calculated in accordance with the provisions of Note 3.5.

The uncertainties inherent in the estimates required to determine the amount of the recoverable value and the assumptions regarding future variations in investments entail a significant degree of judgment insofar as the timing and nature of future business changes are difficult to foresee.

- *Impairment of non-current assets*: valuation of non-current assets other than financial assets requires making estimations to determine their recoverable value for the purposes of assessing their potential impairment. To determine this recoverable value, the Company's directors estimate the expected future cash flows of the assets or the cash-generating units of which they are part and use an appropriate discount rate to calculate the present value of said cash flows. The cash flows depend on fulfilment of the projections included in the business plan for the next five financial years while the discount rates depend on the interest rate plus the risk premium (see Note 3.3).

- *Deferred tax assets* are recognised for all deductible temporary differences, negative tax bases pending compensation and rebates pending application for which it is probable that the Company will have future taxable profits that enable application of these assets. The Company's directors must make significant estimates to determine the amount of deferred tax assets that can be recognised taking the amounts and dates on which future taxable profits will be obtained and the reversal period of taxable temporary differences into account. As at 31 December 2022, the Company has recognised deferred tax assets for a total amount of 1,555,336 euros (1,092,394 euros at 31 December 2021) for temporary tax differences, taxable bases pending compensation and rebates pending application (see Note 13).

These estimates were made on the basis of the best information available as at 31 December 2022 on the events under analysis. Nevertheless, it is possible that future events may make it necessary to change them (upwards or downwards) in coming financial years. Said changes, if any, will always be made in a prospective manner in accordance with the provisions of Rule 22 of the General Accounting Plan, recognising the effects of any changes in the estimates in the associated income statement.

There have been no significant changes during the 2022 financial year in the judgments and accounting estimates used by the Company in previous years, nor are there expected to be with respect to those applied when drafting these annual financial statements.

### *e) The Company as a going concern*

The Company has made a loss of 1,841,000 euros in previous financial years. It has made a profit of 2,052,000 euros in the 2022 financial year. EBITDA generated during the 2022 financial year stands at 5,371,000 euros (750,000 euros in financial 2021).

Moreover, net equity amounted to 16.3 million euros as at 31 December 2022, an increase of 6.9 million euros over the previous year, mainly derived from the capital increase transactions executed during the 2022 financial year (see Note 11.1).

Under these circumstances the Company's Board of Directors estimates that the cash flows generated by the business and the available financing lines will enable it to address its current liabilities and the Company's expansion plans. Therefore, these annual financial statements have been drawn up on the basis of the going concern principle.

### *f) Comparison of the information*

In addition to the figures for the 2022 financial year, for comparative purposes these annual financial statements present, with each item on the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the quantitative information required in the notes to the financial statements for the 2021 financial year approved by the Annual General Meeting.

The Management Report also contains comparative information from the previous year except when the accounting rules expressly state that it is not required.

### *g) Changes in accounting criteria and correction of errors*

The Company has not made any restatement for changes of accounting criteria during the financial year ended 31 December 2022 and nor has it been necessary to rectify any error from said financial year or from previous periods.

## NOTE 3. RECOGNITION AND VALUATION RULES

The annual financial statements have been drawn up in accordance with the valuation and classification principles and rules set forth in the currently applicable General Accounting Plan.

The following are the most significant accounting principles and rules applied when drawing up these annual financial statements.

### *3.1 Intangible fixed assets*

Assets entered under intangible fixed assets are recognised at their acquisition price or production cost. Intangible fixed assets are reported in the annual financial statements at cost minus depreciation and, as appropriate, any accumulated value restatements due to impairment.

Intangible fixed assets are assets with a defined useful life and therefore must be written off over the useful economic life defined as the time during which it is reasonably expected that the financial benefits inherent to the asset will produce returns for the Company.

These assets are written off over a period of ten years when their useful life cannot be reliably estimated.

At all events, intangible assets must be analysed at least once a year to detect any signs of value impairment and quantify the same as required.

a) <u>Computer application development expenses</u>

The *<u>development expenses</u>* of the information technology applications that are subsequently marketed are capitalised the moment in which all the following conditions are met:

- There is a specific, individualised project that enables reliable assessment of the disbursement attributable to completion of the same.
- The allocation, attribution and distribution over time of the costs of each project are clearly established.
- There are well-founded reasons for a technically successful conclusion to the project at all times, whether the Company intends to operate it directly or to sell resulting product to a third party if there is a market for the same once the project is concluded.
- The financial-commercial profitability of the project is reasonably assured.
- Financing to ensure completion of the projects is reasonably assured. In addition to ensuring the availability of adequate technical or other resources to complete the project and to use or sell the intangible asset.
- The UTE intends to finish the intangible asset in question in order to use or sell it.

Fulfilment of all the above conditions is verified over the entire period during which the project is developed. The amount capitalised is that applicable the moment all the aforesaid conditions are fulfilled.

Under no circumstance shall disbursements initially recognised as expenses of the financial year in which they occur and which subsequently fulfil the above conditions be capitalised.

The expenses of own personnel and the costs of the services acquired from third parties that have participated in the development of the applications and computer software are included as increased costs of the same, with payment under the head of "Work carried out by the Company for its fixed assets" in the Income Statement.

Other development expenses are recognised as expenses when they are incurred. Development costs previously recognised as expenses are not restated as assets in subsequent years. Development costs capitalised in accordance with the conditions set forth above in this section are written off on a straight line basis during their estimated useful life. The period varies depending on the project but shall not exceed five (5) years.

If the favourable expectations that made it possible to capitalise the development costs of a project change for the worse, the part pending amortisation is charged to outcome for the financial year in which said changes take place.

Estimates of impairment of intangible assets are based on calculation of the future cash flows derived from fulfilment of the business plan drawn up by Company management and updated at a market discount rate. Said plan supports the commercial success of capitalised development spending and the expectation that it will be recovered.

As at 31 December 2022 the Company estimates that there is no indication of impairment of intangible assets since the directors are reasonably sure that the business plan will be fulfilled, which means that on the basis of their forecasts, all the intangible assets and tax credits will be fully recovered in the coming years.

b) Computer applications

Computer program licenses acquired from third parties are capitalised on the basis of the costs incurred for acquisition of the programs and for configuring them for use in specific applications. These costs are written off over their estimated useful lives on a straight-line basis over a period of six (6) years.

Expenses related to maintenance of computer programs are recognised as expenses when they are incurred. Costs directly related to the production of unique and identifiable computer programs controlled by the Company and which are likely to generate monetary benefits in excess of costs for more than one year are recognised as intangible assets. Direct costs include the personnel costs of the software development and an appropriate percentage of overheads.

Computer program development costs recognised as assets are written off over their estimated useful lives (not exceeding 5 years).

c) Intellectual property

Intellectual property shall be valued at its acquisition cost or that of the right to use or to assign the use of the various versions of the program provided that, due to the contractual monetary conditions, said assets must be posted to the inventory of the acquiring company. Intellectual property includes but is not limited to: patents for inventions, utility model protection certificates, industrial design and other modalities consistent with the applicable legislation.

Intellectual property rights are valued at the acquisition price or production cost. The book value of development expenses capitalised at the time the associated patent or similar right is obtained – including the cost of registration and formalisation of the intellectual property – are recognised as such provided that the legal conditions required for registration in the appropriate registry are met and without prejudice to the amounts that could also be recognised for acquisition of the associated rights from third parties. Research expenses continue to be written off at the same rate and under no circumstances shall they be posted to the book value of the intellectual property. The useful life is estimated at between 10 and 20 years.

### *3.2 Tangible fixed assets*

Property, plant and equipment are recognised at acquisition price or production cost minus accumulated depreciation and the accumulated cost of recognised losses.

Costs of extension, modernisation or improvement of property, plant and equipment are posted to Assets as increased value of the property only when they entail an increase in its capacity, productivity or extension of its useful life and provided that it is possible to know or estimate the book value of items removed from the inventory due to having been replaced.

Major repair costs are capitalised and written off over their estimated useful life. Recurring maintenance expenses are charged to the income statement for the year in which they are incurred.

With the exception of land, which is not depreciated, depreciation of property, plant and equipment is calculated on a straight-line basis depending on the nature of the asset and taking the wear and tear actually suffered due to its operation, use and enjoyment into account.

The following are the estimated depreciation data of the main items:

| | Annual | Years of useful | Method |
|---|---|---|---|
| Other facilities | 10% | 10 | Straight-line |
| Furnishings | 5% - 10% | 10 - 20. | Straight-line |
| Information processing equipment | 25% | 4 | Straight-line |
| Other tangible fixed assets | 10% - 20% | 5 - 10 | Straight-line |

The residual value and useful life of assets are reviewed and restated if necessary on the date of each balance sheet.

The value of an asset is immediately reduced to its recoverable amount whenever its book value is higher than its estimated recoverable amount.

Gains and losses from the sale of property, plant and equipment are calculated by comparing the income obtained from the sale with the book value and are recorded in the income statement.

### *3.3 Impairment of non-financial assets*

The directors assess whether there are indications of impairment of non-current assets at least at the close of each financial year. Their recoverable values are estimated if such evidence is found.

The recoverable amount is the fair value minus the cost of sale or the value in use, whichever is higher. A loss by impairment is recognised if the book value is higher than the recoverable amount. Value in use is the net present value of expected future cash flows using risk-free market interest rates adjusted for the specific risks associated with the asset. The recoverable value of assets that do not generate cash flows largely independent of those derived from other assets or groups of assets is determined by the cash-generating units to which said assets belong.

Valuation corrections for impairment and their reversal are recorded in the income statement. Except for those associated with goodwill, valuation restatements for impairment are reverted when the circumstances that gave rise to them cease to exist. Reversion of impairment is limited to the book value of the asset that would be applicable if the associated impairment had not been previously recognised.

The Company’s directors have updated their five-year business plan that forms the basis on which a new impairment test for non-financial assets will be conducted.

### *3.4 Leases*

Leases in which the Company assumes a significant proportion of the risks and benefits derived from ownership are classified as financial leases. Assets acquired by means of financial leasing are recognised in accordance with their nature at the fair value of the assets or the current value of the agreed minimum payments at the beginning of the lease, whichever is lower, and a financial liability is entered for the same amount. Leasing payments are distributed between financial expenses and reduction of liabilities. The assets are subject to the same amortization, impairment and write-off criteria as other assets of the same nature.

Leases in which the lessor retains a significant proportion of the risks and benefits derived from ownership are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are charged to the income statement for the year in which they accrue on a straight-line basis over the lease period.

### *3.5 Financial assets*

**Classification of financial instruments**

Financial instruments are classified at the time of initial recognition as financial assets, financial liabilities or equity instruments depending on the definition of their financial nature in the contractual agreement and on the definitions of financial asset, financial liability or equity instrument.

The Company classifies financial instruments into one category or another depending on their characteristics and the Board of Directors' investment strategy at the time of initial recognition.

**Compensation criteria**

Financial assets and liabilities are subject to compensation only when the creditor has an enforceable right to compensate the amounts recognised and intends to settle the net amount or to simultaneously liquidate the asset and cancel the liability.

**Assets at amortised cost**

If the Company holds an investment solely for the purpose of receiving cash flows arising from execution of the contract and the contractual conditions of the financial asset entail cash flows that are exclusively payments of capital and interest on the outstanding principal on specific dates, the financial asset shall be recognised in said category even when it is listed for trading on an organised market.

As a general rule, this category includes debits for both trade and non-trade transactions:

a. Credits for trade transactions: these are financial assets that originate in the disposal of goods and provision of services for the Company's trade transactions with deferred payment, and

b. Credits for non-trade transactions: these are financial assets which – not being equity instruments or derivatives, do not originate in trade transactions and the collection of which is a specific or specifiable amount – arise from transactions involving loans or credits granted by the company.

<u>Initial valuation</u>

Financial assets classified in this category are initially recognised at fair value which, unless there is evidence to the contrary, will be the transaction price which in turn is equal to the fair value of the consideration plus any transaction costs directly imputable to the asset in question.

Notwithstanding the above, credits for trade transactions with maturity at no more than one year that do not have a contractual interest rate, credits to personnel, dividends pending collection and demand disbursements on equity instruments may be valued at their face value when the effect of not updating the cash flows is not significant.

<u>Subsequent valuation</u>

Financial assets recognised in this category are valued at their amortised cost. Accrued interest is charged to the income statement on the basis of the effective interest rate method.

Nevertheless, credits with a maturity of no more than one year which – in accordance with the provisions of the above section are initially recognised at face value – will continue to be valued at said amount unless they have been impaired.

The Company will consider whether an impairment loss should be recognised if the contractual cash flows of a financial asset change due to the issuer's financial difficulties.

Impairment

The required valuation restatements must be made at least at the end of each financial year if there is objective evidence that the value of a financial asset or a group of financial assets with similar collectively-assessed risk characteristics has suffered impairment as a result of one or more events having occurred after their initial recognition and which cause a reduction or delay – that may be due to the debtor's insolvency – in the estimated future cash flows.

Losses due to value impairment of these financial assets shall be the difference between their book value and the net present value of their estimated future cash flows, including any flows originating in the estimated outcome of execution of real or personal guaranties, discounted at the effective interest rate at the time of initial recognition of the asset. The effective interest rate on the closing date of the annual financial statements shall be used for financial assets with variable interest rates in accordance with the contractual conditions. Models based on statistical formulas or methods may be used to calculate impairment losses on a group of financial assets.

Impairment losses and reversals shall be recognised as expenses or revenue respectively in the income statement if the amount of such losses decreases for reasons related to a subsequent event. Reversal of the impairment is recognised as income and is limited to the book value of the financial asset that would be recognised on the reversal date if the impairment had not been posted.

Notwithstanding the above, provided enables a sufficiently reliable estimate of the recoverable amount, the Company may take the market value of instruments traded on an open market as a substitute for calculation of the present value of future cash flows.

Recognition of interest on financial assets with credit impairment will follow the general rules, without prejudice to the fact that at the same time the Company must assess whether said amount will be recovered and, if necessary, account for the associated impairment loss.

**Financial assets at cost**

The following securities shall be included in this category:

a) Investments in the equity of group, multi-group and associated companies as defined in rule 13 on drafting annual financial statements in the Spanish General Accounting Plan.

b) All other investments in equity instruments the fair value of which cannot be determined by reference to a quoted price on an active market for an identical instrument or cannot be estimated reliably and all derivatives for which said instruments are the underlying security.

c) Hybrid financial assets the fair value of which cannot be reliably estimated unless the requirements for their recognition at amortised cost are met.

d) Contributions made as a consequence of an equity account or similar contract.

e) Equity loans the interest of which is contingent in nature, either because a fixed or variable interest rate is conditional upon the borrowing company achieving a milestone (for example, making a profit) or because said interest is calculated exclusively by reference to variations in the activity of the company in question.

f) All other financial assets that would initially be classified in the fair value portfolio with changes in the income statement when a reliable estimate of their fair value cannot be obtained.

Initial valuation

Investments in this category will be initially valued at cost, which will be equivalent to the fair value of the consideration paid plus the transaction costs directly attributable to them. In the case of transactions between Group companies, the applicable criteria set forth in section 2 of Recognition and Valuation rule 21 and the criteria for determining the cost of the combination set forth in the Business Combination rule of the General Accounting Plan must be applied.

Nevertheless, in the event of an investment made prior to classification of the entity as a group, multi-group or associate company, the cost of said investment will be considered to be its book value immediately before the Company became a member of the group.

The value of the any preferential subscription rights and any similar items acquired will form part of the initial valuation.

Subsequent valuation

Financial assets recognised in this category are valued at cost minus the accumulated amount of value restatements due to impairment, if any.

If a value is to be assigned to these assets due to deregistration from the balance sheet or any other reason, the weighted average cost method by homogeneous groups – understood as securities with equal rights – shall be applied.

The cost of preferential subscription and other similar rights will decrease the book value of the respective assets in the event of sale or separation of the same in order to exercise them. Said cost shall be determined by applying a generally-accepted valuation formula.

Payments made as a result of a joint venture or similar agreement will be valued at cost, increased or decreased by any profit or loss attributable to the Company as a non-managing partner and minus any accumulated impairment valuations as required.

The same criteria shall be applied to equity loans the interest of which is contingent in nature, either because a fixed or variable interest rate conditional upon the borrowing company achieving a milestone (for example, making a profit) is agreed or because said interest is calculated exclusively by reference to variations in the activity of the Company in question. If, in addition to contingent interest, an irrevocable fixed interest rate is agreed, the latter shall be entered as financial income as it accrues. The transaction costs shall be attributed to the income statement on a straight-line basis throughout the life of the equity loan.

**Value impairment**

The required valuation restatements must be made at least at the end of each financial year if there is objective evidence that the book value of an investment will not be recovered.

The amount of the valuation restatement will be the difference between its carrying value and the recoverable amount understood as the fair value minus cost of sale or the present value of the future cash flows from the investment, whichever is greater. In the case of equity instruments, the amount of the restatement shall be calculated either by estimating the expected cash flows as a result of allocation of dividends by the investee and disposal or write-off of the investment in the same or by estimating the Company's share of the cash flows expected to be generated by the investee from both its ordinary activities and from disposal or write-off of the same.

In the absence of better evidence of the recoverable amount of investments in equity instruments, the impairment loss estimate for this class of assets will be calculated on the basis of the equity of the investee and the tacit capital gains existing at the valuation date net of tax effect. Provided that the investee has invested in another company in turn, this value shall be calculated by taking the equity set forth in the financial statements into account and applying the criteria of the Commercial Code and its development rules.

If the investee is domiciled outside Spanish territory, the equity to be taken into account will be annotated according to the rules set forth in this provision. However, if high inflation rates are involved, the values to be considered will be those resulting from the adjusted financial statements as set forth in the foreign currency rule.

As a general rule, the indirect equity-based estimation method may be used in cases where it can be applied to demonstrate a minimum recoverable amount without the need for a more complex analysis when it can be inferred that no impairment has occurred.

Recognition of value impairment restatements and their reversal, if any, will be entered respectively as an expense or as revenue in the income statement. The reversal of the impairment will be limited to the carrying value of the investment that would have been recognised on the reversal date if the impairment had not occurred.

However, in the event of an investment in the company prior to its classification as a group, multigroup or associate company, and valuation restatements have been made directly attributable to the equity resulting from said investment prior to the aforesaid classification, these restatements shall be maintained after the classification until the investment is disposed of or deregistered, at which time they shall be recognised in the income statement, or until the following circumstances occur:

a) In the case of prior valuation restatements for increases in value, valuation impairment restatements will be entered against the item of equity that includes the previously-made valuation restatements up to the amount of the same and the excess, if any, will be recognised in the income statement. Value impairment restatements imputed directly to net equity shall not be reversed.

b) In the case of prior valuation restatements due to write-downs that result in a recoverable amount greater than the carrying value of the investments, the latter will be increased up to the limit of the write-down against the item to which the valuation restatements were imputed. From that point on the resulting balance will be considered to constitute the cost of the investment. However, in the event of objective evidence of impairment in the value of the investment, the losses accumulated directly in equity will be recognised in the income statement.

**Interest and dividends**

Interest and dividends on financial assets accrued after acquisition are recognised as revenues in the income statement. Interest from financial assets valued at cost must be recognised on the basis of the effective interest rate method and dividends when they are allocated to the shareholder entitled to receive them.

For these purposes, taking into account the maturity of the financial assets, the sum of the explicit interest accrued and not due at that moment and the sum of the dividends agreed by the competent body up to the time of acquisition are independently recognised in the initial valuation of said assets. "Explicit interest rate" is understood to mean that obtained by applying the contractual interest rate of the financial instrument.

If the allocated dividends unequivocally originate in outcomes generated prior to the acquisition date of the investee due to the fact that amounts in excess of the profits generated by the same since acquisition have been distributed, these dividends shall not be recognised as income and will reduce the carrying value of the investment by the appropriate amount.

Unless the allocation charged to said profits must unequivocally be treated as recovery of the investment from the point of view of the entity that collects the dividend, the appraisal as to whether or not profits have been generated by the investee will be made taking only the profits recognised in the individual income statement as at the acquisition date into account.

**Cancellation of financial assets**

The Company writes off a financial asset, or part of it, when the contractual rights to the cash flows of the financial asset expire or have been assigned. For this to happen, the risks and benefits inherent in ownership of the asset must have been substantially transferred. Said risks and benefits are assessed by comparing the exposure of the Company to variation in the amounts and timing of the net cash flows of the assigned asset before and after transfer of the same. The risks and benefits of ownership of the financial asset shall be understood to have been substantially assigned when their exposure to said variation is no longer significant with respect to the total variation in the present value of the future net cash flows associated with the financial asset.

If the Company has not substantially assigned or retained the risks and benefits of ownership, the financial asset will be deregistered if the Company has failed to retain control of it. Occurrence of this circumstance will depend on the capacity of the transferee to unilaterally transfer the entire asset to an unrelated third party without imposing conditions. The transferring company will continue to recognise the transferred asset for the amount to which the Company is exposed to variations in the value of the same (i.e. the Company is still involved with the asset) and will recognise an associated liability if the former retains control of it.

The gain or loss arising from derecognition when the financial asset is written off forms part of the revenue for the year in which it occurs and is determined by the difference between the consideration received net of any attributable transaction costs, taking any new asset acquired minus any liability assumed and the book value of the financial asset plus any accumulated earnings already recognised directly in equity into account.

The above criteria shall also be applied to transfers of a group of financial assets or a part of the same.

### *3.6 Financial liabilities*

Financial liabilities are classified into the following valuation categories: amortised cost financial liabilities and fair value financial liabilities with changes in the income statement.

**Amortised cost financial liabilities**

Financial liabilities are classified into the following valuation categories: amortised cost financial liabilities and fair value financial liabilities with changes in the income statement.

As a general rule, this category includes debits for both trade and non-trade transactions:

a) Debits for trade transactions: these are financial liabilities that originate in acquisition of goods and services for the Company's trade transactions with deferred payment, and

b) Debits for non-trade transactions: these are financial liabilities which – not being derivative instruments – do not originate in trade transactions but in transactions involving loans or credits received by the Company.

Initial valuation

Financial liabilities classified in this category are initially recognised at fair value which, unless there is evidence to the contrary, will be the transaction price which in turn is equal to the fair value of the consideration plus any transaction costs directly imputable to the liability in question.

Notwithstanding the above, debits for trade transactions with maturity at no more than one year that do not have a contractual interest rate and disbursements required by third parties on holdings the amount of which is expected to be paid in the short term, may be valued at their face value when the effect of not updating cash flows is negligible.

Subsequent valuation

Financial liabilities recognised in this category are valued at their amortised cost. Accrued interest is charged to the income statement on the basis of the effective interest rate method.

Nevertheless, debits with a maturity of no more than one year which – in accordance with the provisions of the above section are initially recognised at face value – will continue to be valued at said amount.

**Deregistration and modification of financial liabilities**

The Company will deregister a financial liability, or part of it, when the associated obligation has extinguished; i.e., when it has been settled, cancelled, or has expired. It will also deregister any of its own financial liabilities that it may acquire even when the intention is to reallocate them in the future.

The difference between the book value of the financial liability – or the part of it that has been written off and that also includes any assigned assets other than the assumed cash or liability – and the consideration paid including directly attributable transaction costs, is recognised in the income statement for the year in which it occurs.

### *3.7 Net equity*

The capital stock is represented by shares. Incremental costs directly attributable to the issuance of new shares or options are reported in net equity as a deduction, net of taxes, from the amounts obtained.

a) Own equity instruments held by the Company (treasury stock)

Acquisition of equity instruments by the Company is recognised separately at the acquisition cost as a reduction of the equity on the balance sheet. No result is recognised in the income statement for transactions capitalised with treasury stock.

Transaction costs related to treasury stock are recorded as a reduction in reserves once any tax effect has been considered.

b) Capital increases by issuance of options convertible into own equity instruments

The Company uses the stock option issuance method (equity warrants - EW) in order to obtain financing for its expansion plans. A financial derivative is created if the fixed-for-fixed swap rule is not observed in accordance with the conditions of the options issue. The fixed-for-fixed swap rule is met if the only possible settlement of the instrument is by delivery of a fixed number of treasury shares for a fixed price.

The financial derivative that arises, because it is not considered hedging, is recorded, at the time of its valuation, at each accounting close, at its fair value in the income statement.

The fair value of the derivative is determined using option pricing models that take the life of the option, the market price of the underlying assets, the expected volatility of the shares and the risk-free interest rate during the life of the option into account.

Variations in the fair value of the derivative during its life (that is, from the date of signature to exercise of the option), are recognised in the financial statements as a financial cost/revenue. The derivative is written off the balance sheet on the conversion date of the options into shares and the cash received for the conversion – plus/minus the accumulated fair value of the derivative until that moment – is charged to capital and reserves (capital plus issue premium).

As set forth in Note 11.1.a.3, there are equity warrant issues pending maturity at close of the financial year ended 31 December 2022. The associated financial derivative liability for the sum of 99,093 euros has been recognised. At the close of the financial year ended 31 December 2021 there were no options issues pending expiration and therefore there was no derivative recognised on the balance sheet on said date.

### *3.8 Cash and cash equivalents*

Cash and cash equivalents include cash on hand and demand bank deposits with credit institutions. Other highly-liquid short-term investments are also included under this head provided that they are easily convertible into specified amounts of cash and that their time to maturity does not exceed three months.

The Company reports payments and receipts from high-rotation financial assets and liabilities for their net value in the cash flow statement. For these purposes, the rotation period is considered high when the period between the acquisition and the expiration dates does not exceed six months.

### *3.9 Classification of assets and liabilities as current or non-current*

The Company classifies assets and liabilities as current or non-current on the balance sheet. For these purposes, current assets or liabilities are those that meet the following criteria:

- Assets are classified as current when they are expected to be capitalised, are held for sale or consumption in the course of the Company's normal operating cycle, are held primarily for trade, are expected to be capitalised within twelve months after the closing date or are composed of cash and cash equivalents except in cases where they cannot be exchanged or used to settle a liability within at least the twelve months following the accounting closure date.

- Liabilities are classified as current when they are expected to be settled within the normal operating cycle, are held primarily for trade, must be settled within twelve months of the accounting closure date or there is no unconditional right to postpone cancellation of the liabilities during the twelve months following the closure date.

- Financial liabilities are classified as current when they must be settled within the twelve months following the closure date even if the original term is for a longer period and there is a refinancing or restructuring agreement for long-term payments that has concluded after the closing date and before the annual financial statements are drawn up.

All other assets and liabilities that fail to meet the conditions set forth above are classified as “non-current.”

### *3.10 Subsidies, donations and bequests*

Reimbursable grants are recognised as liabilities until they meet the conditions to be considered non-reimbursable, while non-reimbursable subsidies are recognised directly in equity as income on a systematic, rational basis in a manner correlated with expenses deriving from the subsidy. Non-refundable grants received from partners are recognised directly in equity.

For these purposes, a grant is considered non-refundable when there is an individualized agreement to grant the subsidy, all the conditions established for its award have been met and there are no reasonable doubts that it will be collected.

Monetary grants are valued at the fair value of the amount granted and non-monetary grants at the fair value of the asset received. These values are referenced to the recognition date.

Non-refundable grants related to the acquisition of intangible fixed assets, property, plant and equipment and real estate investments are charged as income for the year in proportion to the amortisation of the associated assets or, as appropriate, when they are disposed of, their value is restated due to impairment or they are written off the balance sheet. Non-refundable grants related to specific expenses and those granted to compensate for the operating deficit in the financial year in which they are granted are recognised in the income statement in the same year in which the associated expenses are accrued, except when they are used to compensate for operating deficits in future financial years, in which case they are allocated in said years.

### *3.11 Corporation tax*

Corporation tax expense (income) for the financial year is calculated as the sum of current tax – calculated by applying the tax rate to the taxable base for the financial year minus any rebates and deductions – and the variations produced in the deferred tax assets and liabilities recognised during the financial year in question. It is recognised in the income statement except when it refers to transactions recognised directly in equity (in which case the associated tax is also recognised in equity).

The deferred tax expense or income represents recognition and cancellation of deferred tax assets and liabilities. These include temporary differences (defined as amounts expected to be payable or recoverable derived from differences between the book value of assets and liabilities and their fiscal value), negative taxable bases pending compensation and credits for fiscal deductions not fiscally applied. These amounts are posted by applying the tax rate at which they are expected to be recovered or settled to the associated temporary difference or credit.

Deferred tax liabilities are recognised for all taxable temporary differences except those derived from initial recognition of goodwill or other assets and liabilities in a transaction that does not affect fiscal or accounting outcomes and is not a business combination as well as those associated with investments in subsidiaries, associates and joint ventures in which the Company can control the timing of the reversal and it is probable that they will not revert in the foreseeable future.

Deferred tax assets, on the other hand, are only recognised to the extent that it is considered probable that the Company will have future taxable profits against which they can be capitalised.

Once posted, deferred tax assets are reconsidered at each accounting closure. They are restated if there are doubts concerning their future recovery. Any deferred tax assets not posted on the balance sheet are evaluated each time the books are closed and recognised to the extent that their recovery with future tax benefits is deemed to be probable.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities.

### *3.12 Employee benefits*

a) Severance payments

Severance payments are paid to employees as a result of Company management's decision to terminate their employment contracts before the normal retirement age. These benefits are recognised when a demonstrable commitment has been made to dismiss workers in accordance with a detailed regulatory plan of mandatory compliance. Benefits that will not be paid during the twelve months following the balance sheet date are discounted to their current value.

b) Exclusivity clause

The Company has entered into various employment clauses that include exclusivity clauses. The directors deem that the circumstances do no warrant recognition of an associated liability or expense since the probability of occurrence is negligible.

### *3.13 Transactions with payments based on equity instruments*

Transactions which, in exchange for receiving goods or services including services provided by employees, are settled by the Company using its own equity instruments or with an amount based on the value of its own equity instruments (such as share options or share appreciation rights) are considered to constitute payments based on equity instruments.

*Recognition*

On the one hand, the Company will recognise goods or services received as assets or as expenses depending on their nature at the time of receipt, and on the other, the associated increase in net equity if the transaction is settled using equity instruments or the associated liability if the transaction is settled with a sum based on the value of equity instruments.

If the Company can choose between making the payment with equity instruments or in cash, it shall recognise a liability to the extent to which it has incurred a present obligation to settle in cash or with other assets. Otherwise, it will recognise an entry in net equity. If it the goods or services supplier that exercises the option, the Company will recognise a compound financial instrument that will include a liability component due to the other party's right of to demand payment in cash, and a net equity component, due to the holder's right to receive remuneration with equity instruments.

Transactions that require provision of services for a certain period will be recognised as these services are provided throughout said period.

*Valuation*

Transactions with employees settled using equity instruments will be recognised on the date of the agreement to grant said instruments. Both the services rendered and the increase in equity to be recognised shall be valued at the fair value of the equity instruments so assigned.

Transactions settled with equity instruments the consideration of which consists of goods or services other than those provided by employees will be valued at the fair value of the goods or services on the date they are received provided that said value can be reliably estimated. If the fair value of the goods or services received cannot be reliably estimated, the goods or services received and the increase in equity will be valued at the fair value of the equity instruments assigned on the date on which the Company obtains the goods or the other party provides the services.

Pursuant to the provisions of the preceding paragraphs, no additional restatements will be made to net equity after the vesting date once the goods and services received and the associated increase in net equity have been recognised.

The goods or services received and the liability to be recognised in transactions settled in cash will be valued at the fair value of the liability on the date on which the requirements for their recognition are met.

Subsequently, the associated liability will be valued at fair value on the closing date of each financial year until settlement and any valuation change that occurs during the financial year will be charged to the income statement.

The Company's General Meeting held on 21 June 2022 approved the Stock Option Plan for directors, managers, employees and business partners. The aim of this Plan is to achieve the Company's corporate objectives, control its processes, stimulate its expansion, improve its management, focus on optimising all aspects required to enhance its long-term value, align the interests of employees and shareholders and to ensure that the Company's key employees are retained.

As of 31 December 2022 the Plan has not met any of its goals and therefore no provision has been recognised on the balance sheet at said date.

### *3.14 Provisions and contingencies*

Provisions for environmental restoration, restructuring costs and litigation are recognised when the Company has a present legal or implicit obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliably estimated. Provisions for future operating losses are not recognised.

Provisions are valued at the present value of the disbursements expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the obligation. Any restatement of the provision due to updating are recognised as financial expenses as they accrue.

Provisions with an insignificant financial effect and a maturity period shorter than or equal to one year are not discounted.

When it is expected that part of the disbursement required to settle the provision will be paid by a third party, said reimbursement is recognised as an independent asset provided that receipt of the same is practically assured.

Potential obligations arising as a result of past events, the appearance of which is conditioned by the occurrence or not of one or more future events beyond the Company's control, are considered to constitute contingent liabilities.

Said contingent liabilities are not subject to accounting records and their details are set forth in the report.

### *3.15 Business combinations*

Business combinations are considered to consist of transactions in which a Group company gains control of one or more undertakings – understood as an integrated group of activities and assets that can be managed to provide earnings or to lower costs or provide other benefits to the owners.

The merger, spin-off and non-monetary contribution transactions of a business between Group companies are recognised by valuing the equity instruments acquired at their book values in the annual financial statements of the last Spanish parent company on the date on which the transaction was executed. If these annual financial statements are not drawn up, said instruments are valued at the amounts existing before the transaction in the individual annual financial statements of the contributor. Any differences that may arise are entered against reserves. The effective accounting date is the start date of the financial year in which the transaction is approved.

Merger or spin-off transactions other than the above and business combinations arising from the acquisition of all the equity components of an undertaking or of a party that constitutes one or more businesses, are recognised by valuing the acquired equity components in accordance with the acquisition method. This means that these assets and liabilities will be valued as a general rule at their fair value on the date of the transaction provided that this can be reliably measured and, as required, the difference between the cost of the business combination and the value of said assets and liabilities will be entered as goodwill if it is positive or as income in the income statement if it is negative. The acquisition date is the date on which the acquiring company gains control of the target enterprise or enterprises.

### *3.16 Recognition of revenue for provision of services*

Operating revenue derived from contracts with customers are posted at the time transfer of control of the goods and services committed to said customers occurs. Control of goods or services refers to the ability to fully decide on the use of the item involved and to substantially obtain all its remaining benefits.

A process consisting of the following stages is implemented to apply this criterion:

- Identification of the contract with the customer.
- Identification of the contractual obligation to be met.

- Determination of the transaction price.
- Allocation of the transaction price to the obligations to be fulfilled based on the sale price of each good or service or by estimating the sale price when it cannot be otherwise ascertained.
- Recognition of the revenue from ordinary activities at the time the Company fulfils each acquired commitment

Income from the sale of goods or services is recognised at the fair value of the consideration received or to be received deriving from the same Discounts for prompt payment, volume or other kinds of discount and interest added to the face value of the loans are posted as a reduction thereof. Notwithstanding the above, the interest added to trade credits with maturity at no more than one year that do not have a contractual interest rate are included when the effect of not updating the cash flows is not significant.

Revenue is recognised when its value can be reliably measured, it is probable that future economic benefits will accrue to the Company and the specific conditions for each activity are met as set forth below. The amount of the income cannot be reliably valued until all contingencies related to the sale have been resolved. The Company bases its estimates on historical results taking the type of customer, the kind of transaction and the specific terms of each agreement into account.

The Company recognises income derived from licensing of software for biometric facial recognition technology once all the risks and benefits of the product have been transferred to the purchaser and the conditions set forth in the above paragraph have been met. It is then charged to the income statement the moment it is delivered to the customer. Income from services not yet provided is represented in the balance sheet as short-term accruals.

Income from maintenance and support services is recognised on the basis of accrual of the provision of the service.

### *3.17 Foreign currency transactions*

Transactions in foreign currency are converted into the functional currency using the exchange rates prevailing on the date of the transactions. The gains and losses in foreign currency that result from the settlement of these transactions and from the conversion at the cash exchange rates at the close of the fiscal year of the monetary assets and liabilities denominated in foreign currency are recognized in the income statement.

### *3.18 Balances and transactions with Group companies and other related parties*

The Company performs all its transactions with related parties at market values. The transfer prices are properly substantiated and therefore the Company's governing body considers that there are no significant risks from which substantial liabilities may arise in the future due to these transactions.

This valuation rule affects the related parties set forth in rule 15 on drafting of the annual financial statements of the Spanish General Accounting Plan. Consequently:

a) It shall be understood that two companies form part of the group when they are linked by a direct or indirect control relationship analogous to that provided for in article 42 of the Commercial Code or when the companies are controlled by any means by one or more natural or legal persons that act jointly or are under sole management by statutory agreements or clauses.

b) The term *associated company* shall be understood to mean an enterprise which, without being a Group company in the sense indicated above, is subject to significant influence exerted by the Company or controlling natural persons due to their holding in its equity, which in turn enables them to create a lasting connection that is used to influence its activity.

c) The term multigroup company shall be understood to mean and enterprise that id managed jointly by the Company or one or more Group companies including the controlling interest – whether legal or natural persons – or one or more third parties not linked to the Group.

In addition to the group, multi-group and associated enterprises, natural persons with the capacity to directly or indirectly influence the Company's voting rights or those of its controlling interest such that enable them to exercise a significant influence over one or the other are deemed to constitute parties related to the Company, as are their close relations, key personnel in the Company or its controlling interest, among which the directors and senior managers and their close relations and entities over which the aforesaid persons could exercise a significant influence are also included.

### *3.19 Equity items of an environmental nature*

Assets used on a long-term basis in the Company's activities and the main purpose of which is to prevent, reduce or repair the damage that its activities may cause to the natural environment are considered to constitute assets of an environmental nature. Expenses deriving from environmental activities are recognised as "other operating expenses" during the financial year in which they are incurred.

The directors consider that as at 31 December 2022 and 2021 there are no contingencies of an environmental nature that could be significant in relation to the Company's equity, financial situation and results and therefore there are no provisions or contingencies entered under this head.

### *3.20 Consortiums*

In accordance with Recognition and Valuation rule 20 of the Spanish General Accounting Plan for integration and accounting recognition of transactions carried out with consortiums (UTEs) of which the Company is a member, the proportional part of the UTE's balances shall be accounted for in the balance sheet and income statement as a function of the percentage holding possessed by the entity in question after the relevant timing and valuation homogenisation so that they are duly recognised at the end of the financial year and all the associated assets, liabilities, income and expenditure are reported in the annual financial statements.

As set forth in Note 1.d), the Company forms part of a UTE that had not begun operations as at the end of the 2022 financial year and thus does not figure in the financial statements drawn up on said date.

## NOTE 4. INTANGIBLE FIXED ASSETS

The following are the breakdown and movement of the items included under the head of *Intangible fixed assets*:

**Cost:**

| | Euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Item** | **Cost as at 31.12.20** | **Additions** | **Transfers** | **Cost as at 31.12.21** | **Business combinations** | **Additions** | **Transfers** | **Cost as at 31.12.22** |
| Research | 56,958 | --- | --- | 56,958 | --- | --- | --- | 56,958 |
| Development | 930,592 | 2,100,208 | (2,983,775) | 47,026 | --- | 4,242,399 | (3,571,563) | 717,861 |
| Intellectual property | 54,447 | 11,544 | --- | 65,992 | --- | 19,006 | --- | 84,998 |
| Computer applications | 3,334,573 | 160,791 | 2,983,775 | 6,479,140 | 2,054,150 | 52,967 | 3,571,563 | 12,157,820 |
| **Total cost** | **4,376,571** | **2,272,544** | **---** | **6,649,115** | **2,054,150** | **4,314,372** | **---** | **13,017,637** |

**Amortisation**:

| | Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| **Item** | **Balance as at 31.12.20** | **Prov. Fin. yr.** | **Transfers** | **Balance as at 31.12.21** | **Business combinations** | **Prov. Fin. yr.** | **Balance as at 31.12.22** |
| Research | 56,958 | --- | --- | 56,958 | --- | --- | 56,958 |
| Development | --- | 66,654 | (64,584) | 2,070 | --- | 376,269 | 378,339 |
| Intellectual property | 4,133 | 9,471 | --- | 13,604 | --- | 11,376 | 24,980 |
| Computer applications | 1,922,882 | 739,149 | 64,584 | 2,726,614 | 786,445 | 1,437,650 | 4,950,709 |
| **Total amortisation** | **1,983,973** | **815,273** | **---** | **2,799,246** | **786,445** | **1,825,295** | **5,410,987** |

**Net book value:**

| | Euros | |
|---|---|---|
| **Item** | **Balance as at 31.12.21** | **Balance as at 31.12.22** |
| Research | --- | --- |
| Development | 44,955 | 3,911,085 |
| Intellectual property | 52,388 | 60,018 |
| Computer applications | 3,752,525 | 3,635,547 |
| **Total net worth** | **3,849,869** | **7,606,650** |

### *a) Research and Development*

The Company continues to implement its investment policy and to improve its current facial biometric applications. The capitalised expenses during the financial year ended 31 December 2022 and 2021 are associated with the following milestones:

| | Euros | |
|---|---|---|
| **Description: Project 2020** | **2022** | **2021** |
| Improvements to Software Development Kit (SDK) | 3,423,366 | 1,641,621 |
| Platform as a Service (PAAS) | 395,241 | 458,588 |
| **Total** | **3,818,608** | **2,100,209** |
| Development acquired from third parties | 423,791 | --- |
| **Total** | **4,242,399** | **2,100,209** |

Said expenses are recognised under the head of Development since there are good reasons to foresee commercial success on completion, at which time they are reclassified under the head of Intangible assets in accordance with their nature (computer applications). If there were well-substantiated reasons to consider that the project will not be successful, the Company would write off these expenses and recognise them as losses in intangible fixed assets. Almost all the activity involved in development of new applications or improvements to current ones has been performed internally and recognised by capitalisation of production costs under the head of *Works performed by the Company for its own Assets* in the income statement.

As at 31 December 2022 the sum of 3,571,563 euros (2,983,775 euros in 2021) has been transferred to the Computer applications account as a consequence of the start of marketing of the facial biometric improvements and new products.

### *b) Intellectual Property*

**Intellectual property**

The group holds the following registered trademarks:

| | |
|---|---|
| • FACEPHI BEYOND BIOMETRICS | • PHIVOX |
| • SELPHI, YOU BLINK, YOU´RE IN | • SELPHI ID |
| • LOOK & PHI | • SIGNPHI |
| • INPHINITE | |

FacePhi Biometría is the owner of the *Selphi You Blink You´re in* and *FacePhi Beyond Biometrics* trademarks (MUE 015106354 and MUE 015114853 respectively) in both the European Union and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126.

European Union trademark protection is also provided by European trademark certificates with registration numbers MUE 017896710 LookΦ MUE 017948110 inPhinite; MUE 017948113 4Phingers; MUE 017948116 Phivox; MUE 017948119 SignPhi and MUE 017948878 SelphID.

International expansion and activity in LATAM has prompted the governing body to extend the geographical coverage of trademark protection. Consequently, the FacePhi Beyond Biometrics and SelphID Identity Validation trademarks are duly registered either as international trademarks with territorial designation or as domestic trademarks in all markets in which the Company carries out commercial activity in APAC, LATAM and EMEA.

In October 2022, anticipating what is now a reality in the digital user verification sector, the Group adopted a rebranding strategy consisting of adapting the brand image to the Company's development and track record, emphasizing its present and future brand values and benefits.

As a result, in addition to the trademarks already reviewed above, the protection of which continues to be a priority, the Company has applied for the following trademarks:

- FACEPHI PROTECTING IDENTITY TO BUILD THE FUTURE
- FACEPHI IDENTITY PLATFORM

**Intellectual property**

Entry into force of Act 1/2019 of 20 February, the Business Secrets Act, determines a scenario where legal certainty regarding knowledge considered to constitute business secrets (algorithms, know-how, etc.) is greater than before and consequently provides stronger protection against potential breaches of business secrets.

Notwithstanding, the legal doctrine and jurisprudence in the field agree that application of the Act will not be really effective unless the companies are equipped with tools capable of configuring an environment of security, protection, reliability and traceability.

The Group has recently obtained the following technical certifications:

- The ESQUEMA NACIONAL DE SEGURIDAD - ENS (the National Security Scheme) initially designed for the field of Spanish e-government and now extended to all service providers to public entities, lays down the security policy in the use of electronic media, the basic principles and minimum requirements for proper protection of information.
- ISO/IEC 30107-3: Level 1 and 2 - INTERNATIONAL LEVEL. This standard consists of a series of guidelines the purpose of which is to subject biometric technology to the most effective attacks possible in an attempt to break its security measures in order to assess the extent to which the application is reliable vis-à-vis identity-theft attacks.
- ISO 27001 - INTERNATIONAL LEVEL. The core mission of ISO 27001 is to protect the confidentiality, integrity and availability of the Company's information. It does so by investigating issues that could potentially affect the information (i.e., risk assessment) and then determines what needs to be done to prevent these problems from occurring (i.e., risk mitigation or processing).
- ISO 22301: - Security and resilience. Business continuity management system. The international standard designed to help organisations to foresee, prepare for, respond to and recover from physical and/or logic-based disruptions.
- ISO/IEC 27017: Information technology — Security techniques. Code of practice for information security controls based on ISO/IEC 27002 for cloud services. The international standard that provides controls and implementation guidance for both cloud service providers and cloud service customers to help make cloud services as secure as the rest of the data contained in a certified information management system. It sets up the framework for the customer-service provider relationship in the cloud.

### c) Computer applications

The Company, in accordance with the identifiability and separability criteria of intangible assets, transfers the production cost of internally-developed software improvements and utilities according to their nature (computer applications) that have entered the marketing phase for generation of income inherent in the activity.

The additions for the 2021 financial year include the sum of 100,000 euros for software developments acquired from one of the Group companies.

### d) Fully-amortised intangible fixed assets

The Company held the following fully-amortised tangible fixed assets as of 31 December 2022 and 2021:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Research | 56,958 | 56,958 |
| Computer applications | 1,717,155 | 1,353,953 |
| **Total cost** | **1,774,113** | **1,410,911** |

### e) Sundry information

As set forth in Note 11.2, during the year ended 31 December 2022 the Company received subsidies related to intangible assets for capitalised development expenses.

As at 31 December 2022 and 2021, the Company has no firm intangible asset investment or sale commitments to third parties.

No financial expenses have been capitalised and there are no intangible fixed assets in foreign countries. All intangible fixed assets are subject to operating conditions and they are not affected by encumbrances or liens. Neither has the Company made or reversed value restatements for impairment of any item of its intangible fixed assets.

### f) Non-current asset impairment test

The recoverable value of non-current assets has been assessed by considering the Company as a single cash-generating unit by estimating their value in use using cash-flow projections based on the business plan and estimates made by management for the next 5 years. The discount rate applied to the cash flow projections was 8.5% and the cash flows after the five-year period are extrapolated using a growth rate of 2%. No impairment has been detected in the value of the assets.

<u>Key assumptions for calculating value in use</u>

Calculation of value in use was based on the following hypotheses:

- Growth: based on its forecasts, the Company expects to boost its growth by 90% in 2023 and maintain a growth rate of 25% for the financial projection period (2024-2027) and of 2% per annum as of 2027. The Company continues to invest in human resources aimed at the sales and marketing activity and developing the business in countries where it already operates and by opening new offices and developing sales channels that will enable it to increase its turnover.

- EBITDA. EBITDA: the Company estimates that its EBITDA will undergo a progressive increase, obtaining new contracts and optimising its human resource structure.
- Discount rate. A WACC in accordance with that calculated by analysts who follow the Company has been used.
- CAPEX. CAPEX: the Company estimates that its investments in intangible assets, mainly for development of and improvements to its technology, will continue to grow in line with the growth in turnover and the human resource structure.

Sensitivity to changes in hypotheses

In view of the differences between the book values of the Company's net assets under analysis and their value in use, Management considers it highly unlikely that any reasonably predictable or probable variation in any of the hypotheses set forth above (e.g., a 1% increase in WACC and/or 1% decrease in the growth rate) would mean that the book value of the assets would exceed their recoverable value.

## NOTE 5. TANGIBLE FIXED ASSETS

The following is the breakdown and movement of the items that comprise tangible fixed assets:

**Cost:**

| | Euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Item** | **Cost as at 31.12.20** | **Additions** | **Disposals** | **Cost as at 31.12.21** | **Business combinations** | **Additions** | **Disposals** | **Cost as at 31.12.22** |
| Technical facilities | 1,347 | --- | --- | 1,347 | --- | --- | --- | 1,347 |
| Other facilities | 32,167 | --- | --- | 32,167 | --- | --- | --- | 32,167 |
| Furnishings | 74,986 | 8,094 | --- | 83,080 | --- | --- | (3,599) | 79,481 |
| Inf. processing equipment | 129,021 | 290,848 | --- | 419,869 | 10,040 | 494,885 | --- | 924,794 |
| Other tangible fixed assets | 9,213 | --- | --- | 9,213 | --- | 26,273 | (26,273) | 9,213 |
| Fixed assets in progress and advances | --- | --- | --- | --- | --- | 947,394 | --- | 947,394 |
| **Total cost** | **246,733** | **298,942** | **---** | **545,676** | **10,040** | **1,468,552** | **(29,871)** | **1,994,396** |

**Amortisation**:

| | Euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Item** | **Balance as at 31.12.20** | **Prov. fin. yr.** | **Disposals** | **Balance as at 31.12.21** | **Business combinations** | **Prov. fin. yr.** | **Disposals** | **Balance as at 31.12.22** |
| Other facilities | 3,628 | 3,217 | --- | 6,845 | --- | 3,217 | --- | 10,062 |
| Furnishings | 22,079 | 6,705 | --- | 28,784 | --- | 6,499 | (455) | 34,828 |
| Inf. processing equipment | 38,303 | 59,238 | --- | 97,540 | 1,673 | 131,803 | --- | 231,016 |
| Other tangible fixed assets | 3,438 | 1,150 | --- | 4,587 | --- | 712 | --- | 5,299 |
| **Total amortisation** | **67,448** | **70,309** | **---** | **137,757** | **1,673** | **142,230** | **(455)** | **281,205** |

**Net book value:**

| | Euros | |
|---|---|---|
| **Item** | **Balance as at 31.12.21** | **Balance as at 31.12.22** |
| Technical facilities | 1,347 | 1,347 |
| Other facilities | 25,322 | 22,105 |
| Furnishings | 54,296 | 44,653 |
| Inf. processing equipment | 322,329 | 693,778 |
| Other tangible fixed assets | 4,625 | 3,913 |
| Fixed assets in progress and advances | --- | 947,394 |
| **Total net worth** | **407,919** | **1,713,190** |

Additions for investments in tangible fixed assets during the 2022 and 2021 financial years mainly involve information technology equipment for newly-recruited personnel.

During the 2022 financial year the Company acquired, for 26,273 euros, a motor vehicle that it had been using under an operating lease. Following acquisition it was sold to the Secretary of the Board of Directors for the same amount without affecting the income statement.

### *a) Fully written-off assets*

The following are the Company's fully-amortised tangible fixed assets still in use at the end of the 2022 and 2021 financial years:

| | Euros | |
|---|---|---|
| **Item** | **2022** | **2021** |
| Furnishings | 4,235 | --- |
| Information processing equipment | 28,715 | 25,132 |
| Other tangible fixed assets | 4,036 | 2,716 |
| **Total** | **36,986** | **27,848** |

### *b) Insurance:*

The Company has taken out insurance policies to cover the risks to which its property, plant and equipment are exposed. The coverage of these policies is considered sufficient.

### *c) Sundry information*

No financial expenses have been capitalised, there are no tangible fixed assets in other countries and there are no encumbrances or liens on the items under this head. Neither has the Company made or reversed value restatements for impairment of any item of its intangible fixed assets.

As at 31 December 2022, the Company has made advances on account of property, plant and equipment for the sum of 947,394 euros, mainly in connection with adaptation works for the new offices in downtown Alicante that are expected to be finished by May 2023, the estimated cost of which amounts to 1.5 million euros.

## NOTE 6. LEASES AND OTHER TRANSACTIONS OF A SIMILAR NATURE

### *a) Operating leases*

The following is the sum of the minimum future payments for non-cancellable operating leases:

| | Euros | |
|---|---|---|
| **Minimum future payments** | **31.12.22** | **31.12.21** |
| Up to one year | 120,886 | 101,738 |
| Between one and five years | 203,499 | 20,109 |
| More than five years | --- | --- |
| **Total** | **324,385** | **121,848** |

The most significant features of the leasing contracts are the following lease payments recognised as expenses for the financial year in question:

| Description of the lease | Expense 2022 fin. year | Expense 2021 fin. year | Due date | Renewal | Price update criteria |
|---|---|---|---|---|---|
| Offices, garages and storage | 77,886 | 79,153 | 06/05/2025 | N/A | YES (CPI) |
| Madrid Office | 18,787 | --- | 30/06/2023 | N/A | NO |
| Computer hardware | 1,842 | 833 | 21/05/2024 | N/A | NO |
| Computer hardware | 984 | 2,026 | 18/06/2022 | N/A | NO |
| Computer hardware | 1,009 | 825 | 18/12/2023 | N/A | NO |
| Transport vehicles | --- | 16,439 | 03/01/2022 | N/A | NO |
| Transport vehicles | 58,015 | 46,446 | 08/01/2023 | N/A | NO |
| Rentals, software, cloud and others | 389,632 | --- | N/A | N/A | N/A |
| **Total** | **548,154** | **145,722** | | | |

In 2017 the Company entered into two operating lease contracts for vehicles initially intended for use by members of the Board of Directors. The monthly payment amounts to 1,256 euros per vehicle and expired on 3 January 2022. Both contracts were classified as operating leases due to the fact that exercising the purchase option at maturity was not considered at the time of initial recognition. Moreover, on 8 January 2020 the Company entered into two operating rental contracts for vehicles intended for the use of members of the Board of Directors. The monthly fee amounts to 2,223 euros per vehicle and expires in 3 years. One of the two vehicles was subleased to a third party on 5 October 2021 for a fee of 2,223 euros per month for a period of 15 months. Nevertheless, this vehicle was sold to a member of the Board during the 2022 financial year as set forth in Note 5.

The Company has maintained an operating lease contract since 1 October 2017 for its head offices. This contract has a term of five years and the rent is 2,842 euros per month. Two months' prior notice and compensation of three month's rent payment are required for early cancellation. The Company has placed the sum of 5,600 euros as a rental bond and an additional guarantee of 2,800 euros.

Due to the fact that the Company has implemented teleworking measures for employees whose functions so enable, this lease contract was terminated by mutual agreement as of 30 September 2022.

In order to extend its registered headquarters and corporate offices, in the first half of 2020 the Company entered into a new lease contract with a term of five years and monthly rent of 2,493 euros. This contract may be cancelled with three months' prior notice and compensation equal to three month's rent after the first three years. The Company has placed a rental bond of 4,986 euros.

Moreover, due to the fact that the Company is taking measures to modernise its work model, on 4 March 2022 it entered into a new lease contract in a business centre in the city of Alicante for a period of 10 years counting from the end of the conditioning works or from 31 December 2022, whichever occurs first, including a 3-year mandatory permanence period. The lessor grants a 12-month grace period counting from the end of the conditioning works or from 31 December 2022. The Company has placed a rental bond of 34,000 euros, the equivalent of two monthly rent payments.

***b) Financial leasing***

During the 2022 financial year the Company acquired an information processing server by entering into a financial year leasing contract for a total of 275,000 euros. In order to comply with the conditions of substantial transfer of the risks and benefits inherent in ownership of the asset, the recognition and valuation rule set forth in Note 3.2 was activated under the head of "machinery" in the tangible fixed assets account.

The following is a breakdown of the most important conditions of the financial loan contract in effect during the financial year and its position as at 31 December 2022:

| | | | Euros | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Object of the contract** | **Start** | **Term (months)** | **Cost Asset** | **Instalments paid as at 31.12.22** | **Amount pending payment as at 31.12.22** | | | **Purchase option** |
| | | | | | **Capital** | | **Interest pending payment** | |
| | | | | | **S/T** | **L/T** | | |
| Information processing equip. | 15/11/2022 | 36 | 275,000 | 12,556 | 88,277 | 176,195 | 17,758 | --- |
| | | **Total** | **275,000** | **12,556** | **88,277** | **176,195** | **17,758** | **---** |

In relation to said contract, during the year ended 31 December 2022, the Company paid the sums of 10,528 euros and 2,028 euros in principal and interest respectively.

The financial lease transaction in effect as of 31 December 2022 accrued interest at an average rate of 4.54%.

Furthermore, the following is the breakdown of the book value of the asset acquired under the financial lease contract as at 31 December 2022:

| | Euros | | |
|---|---|---|---|
| | 31.12.22 | | |
| **Item** | **Cost** | **Accumulated amortisation** | **Net book value** |
| Information Processing equip. | 275,000 | 11,458 | 263,542 |
| **Total** | **275,000** | **11,458** | **263,542** |

## NOTE 7. INFORMATION ON THE NATURE AND RISK LEVEL OF FINANCIAL INSTRUMENTS

Financial risk management is aimed at establishing the required mechanisms to control the Company's exposure to different types of risk: market risk (including exchange rate risk, interest rate risk and price risk), credit risk and liquidity risk. Risk management is monitored by the Company's Board of Directors with the support of the management control departments.

Credit risk

Credit risk arises from potential losses caused by infringement of contractual obligations by Company's counterparties, i.e., by failure to collect financial assets in compliance with the established amounts and timeframes. The Company only works with banks and financial institutions of recognised prestige and solvency.

Due to their excellent credit standing, the Company's main debtors do not pose specific credit risks of cancellation of the balances pending collection at the end of the financial year. The following is the breakdown by seniority of the trade debtors and other accounts receivable as at 31 December:

| | Euros | |
|---|---|---|
| | **31.12.22** | **31.12.21** |
| Long-term debts not due | 5,224,239 | 1,024,419 |
| Short-term debts not due | 10,943,108 | 7,218,818 |
| Past due but not doubtful | 204,150 | 685,990 |
| Doubtful | 1,897,511 | 1,177,596 |
| **Total** | **18,269,008** | **10,106,823** |
| Restatements due to impairment (Note 9.1) | (1,897,511) | (1,177,596) |
| **Total** | **16,371,497** | **8,929,227** |

Liquidity risk

Prudent management of liquidity risk entails maintaining sufficient cash and highly-liquid securities, the availability of financing through a sufficient number of committed credit facilities and the ability to liquidate market positions. Liquidity risk is considered sufficiently mitigated by the expansion of our credit lines with financial institutions (Note 12) and the convertible debt issuance financing agreements entered into with the investment fund Nice & Green, S.A. (hereinafter “Nice & Green”) (see Note 11).

Market-related financial risks

a. Interest rate risk on cash flows and fair value

Income and cash flows from the Company’s operating activities are for the most part independent of changes in market interest rates.

The Company’s interest rate risk arises from long-term borrowings. Borrowing issued at variable rates exposes the Company to the cash flow interest rate risk. Borrowing at fixed interest rates exposes the Company to fair value interest rate risk. The Company’s policy consists in diversifying its long-term borrowings between variable interest rate instruments and fixed interest rate instruments (see Note 12).

b. Exchange rate risk

The Company operates internationally and is therefore exposed to exchange rate risks due to its foreign currency transactions. The exchange rate risk arises from recognised assets and liabilities. The breakdown of financial assets and liabilities and transactions denominated in foreign currency is reported in Note 14.

The Company's financial management cannot predict the effects of exchange rates on future operating results due to the potential volatility of the foreign exchange markets. The Company does not currently use hedging derivatives to hedge its exposure to other currencies.

c. Price risks

There are no significant price risks.

Fair value estimate

The Company assumes that the book value of credits and debits for trade transactions is close to their fair value. The fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate for similar financial instruments available to the Company.

## NOTE 8. FINANCIAL INVESTMENTS IN GROUP COMPANIES

The following are the movements posted under the head of *Short and Long-term Investments in Group and Associated Companies* for the 2022 and 2021 financial years:

| | Euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance as at 31.12.20 | Additions | Disposals/Transfers | Balance as at 31.12.21 | Additions | Disposals | Transfers | Balance as at 31.12.22 |
| **Long-term** | | | | | | | | |
| ▪ Multigroup & assoc. company eq. instrum. | 2,081,264 | --- | 435,313 | 2,516,577 | --- | --- | (2,000,000) | 516,577 |
| ▪ Finan. creds. group & related comps | 252,051 | 200,011 | (432,748) | 19,313 | --- | --- | --- | 19,313 |
| ▪ Int. on l/t credits to gr. & relat. comps | --- | 2,378 | (2,378) | --- | --- | --- | --- | --- |
| ▪ Impair. holdings in group | (81,264) | --- | --- | (81,264) | --- | --- | --- | (81,264) |
| ▪ Impair. gr. comp. credit. | (201,434) | --- | 201,434 | --- | --- | --- | --- | --- |
| **Total l/t inv. in gr. & assoc. comps.** | **2,050,617** | **202,389** | **201,621** | **2,454,627** | **---** | **---** | **(2,000,000)** | **454,627** |
| **Short term:** | | | | | | | | |
| ▪ Finan. creds. group & related comps | --- | 192,196 | --- | 192,196 | 1,588,628 | (22,401) | (872,966) | 885,456 |
| **Total s/t inv. in gr. & assoc. comps.** | **---** | **192,196** | **---** | **192,196** | **1,588,628** | **(22,401)** | **(872,966)** | **885,456** |

### *8.1 Equity instruments in group companies*

The following is the information on the Group companies as at 31 December 2022:

*FacePhi APAC Ltd*

The Company holds 100% of the share capital of FacePhi APAC Ltd, – a subsidiary incorporated for an indefinite period on 15 October 2019 with registered office in Pangyo (South Korea) – as part of its internationalisation and business development strategy. The Company was incorporated with an initial capital of 100,000,000 KRW, equivalent to 81,264 euros, fully called and paid up by the Company as the sole shareholder.

Investments in equity instruments in Group companies, in accordance with the criteria described in Note 3.5, are valued at the initial consideration at the exchange rate on the subscription or purchase date, reduced by an impairment from previous financial years for the sum of 81,264 euros.

As a result of maintaining said equity deficit during the first half of 2021, the Company's directors decided to convert the long-term financial credit that it had granted to the subsidiary for the sum of 435,126 euros including interest accrued at the time by means of increasing the subsidiary's capital by the corresponding amount. For this reason, on the basis of the subsidiary's business plan, the directors of the Parent Company decided to reverse the impairment of the financial credit recognised in the previous financial year. This reversal was recognised as it appears in the attached income statement as at 31 December 2021 for the sum of 201,434 euros under the head of *Impairment and outcome of disposal of financial instruments*.

*Ecertic Digital Solutions, S.L.*

On 20 April 2020 the purchase agreement for acquisition of 100% of the share capital of the trading company Ecertic Digital Solutions, S.L. – until then a technology supplier – was executed for the sum of two (2) million euros. The Company's management considers that this transaction achieves the strategic objective of promoting the digital on-boarding service in its commercial portfolio and consolidating its domestic and international leadership in the field of identification and authentication. The transaction was settled by a cash payment of 1,159,999 euros and assignment of 164,706 shares of the Company's treasury stock valued at 840,001 euros according to the fair value of the shares involved (Note 11.1.b).

The fair value of the assets and liabilities of Ecertic together with their book value before the acquisition were entered as follows once the Company had been acquired:

| | **Book value** | **Fair value** |
|---|---|---|
| Intangible Assets | 293,666 | 1,920,360 |
| Tangible fixed assets | 13,456 | 13,456 |
| Trade debtors and other accounts receivable | 120,329 | 120,829 |
| Cash and cash equivalents | 7,474 | 7,474 |
| Deferred tax liabilities | (38,723) | (38,723) |
| Trade creditors and other accounts payable | (23,396) | (23,396) |
| **Identified net assets** | **372,806** | **2,000,000** |
| Goodwill arising from the transaction | 1,627,194 | --- |
| **Total acquisition cost** | **2,000,000** | **2,000,000** |

Therefore, the acquisition price as at 31 December 2020 implies the existence of an implicit goodwill fund amounting to 1,627,194 euros that has been attributed to the technology provided by said company for development of the digital on-boarding solutions that the Company markets at the present time.

As set forth in Note 1.c) on business combinations, on 9 November 2021 the governing bodies of Company and of Ecertic Digital Solutions, S.L. approved the merger transaction in accordance with the project. Consequently, the company to be taken over was acquired and liquidated by universal succession of its assets with accounting effect as of 1 January 2022. For that reason the holding of 2,000,000 euros in said company has been written off.

*<u>Celmuy Trading, S.A.</u>*

On 25 April 2021 the Company acquired a 100% holding in the share capital of Celmuy Trading S.A. for an amount equivalent to its nominal value of 10,000 pesos, the equivalent to 188 euros valued at the exchange rate on the date of the transaction.

Celmuy Trading S.A. was incorporated under the laws of Uruguay on 11 August 2020 and registered in the Single Tax Registry of said country with number 218731960012.

Celmuy Trading began trade transactions on 1 March 2022. Its main activity is marketing of the Company's technological products in Latin America, the provision of technical assistance services and implementation of the solutions marketed by the Company.

Facephi Beyond Biometrics Ltd was registered with the Companies Registry in England and Wales on 26 May 2022 under number 14135809. Said company, incorporated under the laws of Great Britain, was registered with a capital of GBP 100 that had not been called on the drafting date of these annual financial statements.

*Equity position of companies in the consolidation group*

The following was the equity position of Group companies obtained from the unaudited accounting records as at 31 December 2022 and 2021:

| | Celmuy Trading, S.A. | Facephi Beyond Biometrics, Ltd. | FacePhi APAC Ltd | | Ecertic, S.L. |
|---|---|---|---|---|---|
| | 2022 | 2022 | 2022 | 2021 | 2021 |
| Called capital | 187 | --- | 516,390 | 516,390 | 8,867 |
| Issue premium | --- | --- | --- | --- | 703,365 |
| Reserves | --- | --- | (227,466) | (275,817) | (327,603) |
| Profit (loss) for the financial year | 43,450 | (909,089) | (66,428) | 48,351 | (85,330) |
| Conversion differences | (2,539) | 14,654 | (8,086) | (3,335) | --- |
| Subsidies | --- | --- | --- | --- | 61,484 |
| **Net equity** | **41,098** | **(894,435)** | **214,410** | **285,589** | **360,783** |
| % holding | 100% | 100% | 100% | 100% | 100% |
| **Theoretical value of holding** | **41,098** | **(894,435)** | **214,410** | **285,589** | **360,783** |

Celmuy Trading S.A. did not submit financial statements on 31 December 2021 due to the fact that it had not begun operations.

### *8.2 Long-term financial credit facilities*

At the end of the 2019 financial year the Company entered into agreement with Facephi APC Ltd for a loan of 88,051 euros with maturity at a maximum of 3 years remunerated by interest at the official rate. However, in order to finance the operating losses generated by the subsidiary, the Company has entered into an agreement for a new credit line with a limit of 500,000 euros expiring on 31 December 2025 and which cancels the previous agreement. It is remunerated by interest at the official rate.

In view of the losses generated as a result of its incorporation and start-up, the Company's governing body decided to contribute a financial credit for the sum of 435,126 euros to the subsidiary's capital and reserves. As of 31 December 2022, the balance drawn down amounted to 19,313 (the same amount in 2021).

Since it was capitalised in the principal, no interest had accrued as at 31 December 2022 (2,378 euros at 31 December 2021).

### *8.3 Short-term financial credits*

As at 31 December 2022 and 2021 the Company had granted the following credits to Group companies:

| | Euros | |
|---|---|---|
| | 31.12.21 | 31.12.22 |
| Ecertic Digital Solutions, S.L. | 192,196 | --- |
| Celmuy Trading, S.A. | --- | 54,962 |
| Facephi Beyond Biometrics, Ltd. | --- | 830,494 |
| **Total** | **192,196** | **885,456** |

## NOTE 9. FINANCIAL ASSETS

### *9.1 Analysis by category*

The following table shows the book value of each category of financial instrument provided for in Rule nine of the Spanish General Accounting Plan's (PGC) recognition and valuation rules in accordance with the information set forth in Note 3.5 except investments in Group and associated companies (see Note 8). and cash and cash equivalents (see Note 10):

| | Euros | | | |
|---|---|---|---|---|
| | Credits, derivatives and others | | | |
| | Short-term | | Long-term | |
| | 2022 | 2021 | 2022 | 2021 |
| *Assets at cost* | | | | |
| • Equity instruments | --- | --- | --- | 125,063 |
| *Assets at amortised cost* | | | | |
| • Trade debtors and other accounts receivable (*) | 11,195,404 | 7,907,312 | 5,224,239 | 1,024,419 |
| • Loans to personnel | --- | --- | 1,700 | 1,700 |
| • Other financial assets | 55,793 | 42,895 | 126,213 | 87,715 |
| **Total** | **11,251,196** | **7,950,207** | **5,352,152** | **1,238,897** |

(*) Does not include balances with government agencies.

There are no significant differences between the book value and the fair value of financial assets recognised at cost or amortised cost.

*Investment in long-term equity instruments*

On 21 December 2020 the Group called 125,000 shares with a par value of one euro (€ 1) representing 21.04% of the share capital of Ama Movie, A.I.E., a company incorporated for an indefinite period on 15 March 2018. It is domiciled in Madrid and its tax I.D number is V-88067806. Its corporate purpose is the production, edition, distribution and marketing of theatrical, cinematographic and audio-visual productions.

In view of the impossibility of intervening in the entity's financial and operating policy decisions despite holding more than 20% of the voting rights, the Company has classified it as an equity instrument valued at cost.

The Company has sold said investment for the sum of 125 euros, having incurred a loss of 124,938 euros, entered under the head of "Impairment of outcome for disposal of financial instruments" in the attached income statement as at 31 December 2022.

*Trade debtors and other accounts receivable*

The following is a breakdown of this item as at 31 December 2022 and 2021

| | Euros | |
|---|---|---|
| | 2022 | 2021 |
| **Non-current trade debtors** | | |
| • Trade receivables for provision of services | 5,224,239 | 1,024,419 |
| **Total long-term** | **5,224,239** | **1,024,419** |
| **Trade credits and other short-term accounts receivable** | | |
| • Trade receivables for provision of services | 3,421,673 | 3,607,873 |
| • Trade invoices pending issue | 7,725,586 | 4,299,438 |
| • Doubtful trade debts | 1,897,511 | 1,177,596 |
| • Trade with Group companies (Note 16.b) | 47,713 | --- |
| • Sundry debtors | 433 | --- |
| • Impairment of credit for trade transactions | (1,897,511) | (1,177,596) |
| • Deferred tax assets | (733) | --- |
| • Other credits with govt. agencies (Note 13.1) | 1,756,357 | 410,581 |
| **Total** | **12,951,027** | **8,317,893** |

The Company's collection conditions allow its customers up to one year to pay for goods and services. This is normal business practice in the sector in which it operates and particularly in technology assignment and licensing agreements.

The Company's Management considers that the credit risk is sufficiently guaranteed in view of the solvency of the debtors with whom it works (mainly financial institutions).

Impairment of trade credits

The following is the breakdown of losses for value impairment due to the credit risk associated with trade credit accounts receivable during the 2022 and 2021 financial years:

| | Euros | |
|---|---|---|
| | 2022 | 2021 |
| **Initial balance** | **1,177,596** | **1,102,302** |
| Provision for impairment of accounts receivable | 719,915 | 75,294 |
| Reversal of unused amounts | --- | --- |
| **Final balance** | **1,897,511** | **1,177,596** |

Recognition and reversal of valuation restatements for impairment of accounts receivable from customers has been included under heading A.7.c) *Losses, impairment and variation in provisions for trade transactions* in the attached income statement.

*Other short and long-term financial assets*

As at 31 December 2022 the *Other long-term financial assets* account includes the rental bonds for the offices for the sum of 51,884 euros (13,386 euros as of 31 December 2021) and 74,329 euros (same amount as of 31 December 2021) as a final good-faith bond for the public tender awarded by AENA in financial 2021 for supply and upgrading of a facial biometrics system.

These bonds have not been valued at amortised cost due to the negligible effect they would have on the Company's net equity.

Moreover, on 31 December 2022 the *Other short-term financial assets* account includes the sum of 31,344 euros (same amount as at 31 December 2021) for a fixed-term deposit (F.T.D.) for a nominal value of $US 35,500 and maturity on 8 February 2023 as a guarantee placed with a customers for provision of licencing, support and consultancy.

Furthermore, on 31 December 2021 the *Other short-term financial assets* account includes the sum of 8,829 euros for a fixed-term deposit for a nominal value of $US 10,000 with maturity on 14 February 2022 as a guarantee placed with a customers for provision of licencing, support and consultancy. Said deposit was capitalised on maturity.

This short-term item also includes the sum of 1,265 euros placed on 10 May 2022 as a contribution to the UTE DH Healthcare Provider Software Spain, S.L.U. – Facephi Biometrics, S.A. set forth in Note 1.d).

### *9.2 Analysis by maturity*

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as at 31 December2022:

| | **Financial assets** | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | **2024** | **2025** | **2026** | **Subsequent years** | **Total** |
| **Financial asset** | | | | | | |
| • Debtors and other accounts receivable (*) | 11,195,404 | 2,247,575 | 1,401,640 | 677,828 | 897,197 | 16,419,642 |
| • Other financial assets | 55,793 | 10,100 | 79,315 | --- | 38,498 | 183,706 |
| **Total** | **11,251,196** | **2,257,675** | **1,480,955** | **677,828** | **935,695** | **16,603,348** |

(*) Does not include balances with government agencies.

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as at 31 December 2021:

| | Financial assets | | | | | |
|---|---|---|---|---|---|---|
| | **2022** | **2023** | **2024** | **2025** | **Subsequent years** | **Total** |
| **Financial asset** | | | | | | |
| • Equity instruments | --- | --- | --- | --- | 125,063 | 125,063 |
| • Debtors and other accounts receivable (*) | 7,907,312 | 1,024,419 | --- | --- | --- | 8,931,731 |
| • Other financial assets | 42,895 | 10,100 | --- | 79,315 | --- | 132,310 |
| **Total** | **7,950,207** | **1,034,519** | **---** | **79,315** | **125,063** | **9,189,104** |

(*) Does not include balances with government agencies.

## NOTE 10. CASH AND CASH EQUIVALENTS

The following breakdown shows the movements in the cash and cash equivalents account as at 31 December 2022 and 2021:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Cash, euros | 1,549 | 1,424 |
| Cash, foreign currency (Note 14.g) | 112 | --- |
| Banks and credit inst. demand c/c, euros | 1,083,361 | 651,343 |
| Banks and credit inst. demand c/c in f.c. (Note 14.g) | 826,760 | 713,755 |
| **Total** | **1,911,782** | **1,366,521** |

The *Treasury in Banks and Financial Institutions* account includes an entry of 277,758 euros (355,264 euros at 31 December 2021) for financial deposits in the securities trading and settlement entities of Euronext and BME Growth, the funds of which are not freely available to the Company unless the liquidity provider estimates that the cash or shares at its disposal are excessive.

Except for those mentioned above, at the close of the financial year there are no restrictions on the availability of the balances kept in demand current accounts.

As a result of the financial restructuring agreement entered into on 14 December 2020, the Company had established a pledge right over the current accounts and other available liquid assets for the sum of 1,608,374 euros (864,125 euros, as at 31 December 2021) (see Note 12.2).

## NOTE 11. NET EQUITY

The attached statement of changes in net equity shows the breakdown and movement of the various accounts under the head of Net Equity during the financial periods ended on 31 December 2022 and 2021.

### *11.1 Capital and reserves*

#### *a) Share capital and share premium*

The following is the composition of the Company's share capital and share premium as at 31 December 2022 and 2021:

| | Euros | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Capital | Issue premium | Capital | Issue premium |
| Authorised | 697,311 | 15,560,800 | 605,373 | 10,074,525 |
| **Total** | **697,311** | **15,560,800** | **605,373** | **10,074,525** |

The following is a breakdown of movements of share capital and share premiums recognised as at 31 December 2022 and 2021:

| | Number of shares | Par value | Share capital | Issue premium |
|---|---|---|---|---|
| **Opening balance as at 1 January 2022** | **15,134,322** | **0.04** | **605,373** | **10,074,525** |
| Capital increase 21.03.2022 | 209,045 | 0.04 | 8,362 | 649,258 |
| Capital increase 02.06.2022 | 773,886 | 0.04 | 30,955 | 2,110,353 |
| Capital increase 14.07.2022 | 809,498 | 0.04 | 32,380 | 1,627,091 |
| Capital increase 01.12.2022 | 260,811 | 0.04 | 10,432 | 550,311 |
| Capital increase 23.12.2022 | 245,206 | 0.04 | 9,808 | 549,261 |
| **Balance at 31 December 2022** | **17,432,768** | **0.04** | **697,311** | **15,560,800** |

| | Number of shares | Par value | Share capital | Issue premium |
|---|---|---|---|---|
| **Opening balance as of 1 January 2021** | **14,428,519** | **0.04** | **577,141** | **7,222,153** |
| Capital increase 25.03.2021 | 237,456 | 0.04 | 9,498 | 1,011,551 |
| Capital increase 29.04.2021 | 281,001 | 0.04 | 11,240 | 1,138,281 |
| Capital increase 01.06.2021 | 187,346 | 0.04 | 7,494 | 702,540 |
| **Closing balance as at 31 December 2021** | **15,134,322** | **0.04** | **605,373** | **10,074,525** |

On 14 December 2020 the Company entered into a new financing agreement with similar conditions and features as the previous one (dated September 2019) with Nice & Green S.A., for which reason the Extraordinary General Meeting held on 25 January 2021 agreed, in compliance with article 297.1.b) of the Corporate Enterprises Act (LSC) to delegate powers to the Board of Directors to issue equity warrants (EW) convertible into shares of the Company for a maximum conversion sum of 20 million euros and to increase the share capital by the amount required to address conversion of said warrants. In accordance with art 417 of the LSC, the pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green S.A. Said delegated power was limited by the condition that the total amount of the increases in share capital agreed on one or more occasions may not exceed the equivalent of half of the share capital at the time, i.e. 288,570.38 euros under any circumstances.

The price of conversion into shares considered in the financing agreement may not be lower than 130% of the nominal value of the Company's shares, i.e., at a lower price per equity warrant than 0.052 euros, or higher than the conversion price resulting from 92% of the lowest weighted average price during the six trading days prior to the date on which the conversion right is exercised. The investment commitment ended on 31 December 2022.

The funds obtained from this new financing agreement will be used to boost the organic growth the Company is experiencing in areas such as Latin America, the United States and Asia, among others, and to drive its international expansion, reinforce and enlarge the workforce in the search for excellence and commitment to achieving the Company’s goals and thus foster product excellence in response to an increasingly demanding market.

***a.1) Share capital and share premium formalised during 2022***

The Company’s Board of Directors, in exercise of the delegated powers set forth above, issued equity warrants (EWs) for conversion into shares of the following capital increase transactions during the 2022 financial year:

*Issuance of the February 2022 equity warrants*

On 16 February 2022 the Board of Directors adopted a resolution to conduct an issue of 48,076,923 equity warrants convertible to the Company’s shares for a maximum of 2,500,000 euros. The only recipient of the (February 2022) Equity Warrants was Nice & Green.

The following were the EW-to-shares conversion notifications made by Nice & Green between 16 February and 21 March 2022 for the sum of 599,996 euros:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 25/02/2022 | 99,999 | 32,290 | 3.0969 | 0.04 | 3.0569 | 1,291.60 | 98,707.30 |
| 28/02/2022 | 299,998 | 95,849 | 3.1299 | 0.04 | 3.0899 | 3,833.96 | 296,163.83 |
| 09/03/2022 | 200,000 | 80,906 | 2.4720 | 0.04 | 2.4320 | 3,236.24 | 196,763.39 |
| **Totals** | **599,996** | **209,045** | | | | **8,362** | **591,635** |

With respect to the aforesaid notifications, the associated capital conversion and increase agreement was formalised on 21 March 2022 pursuant to an instrument executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-

Trujillo under number 331 of his journal record and registered in the Companies Registry of Alicante on 6 April 2022.

Furthermore, between 21 March and 2 June 2022 Nice & Green made the following EW-to-shares conversion notifications for a total of 1,899,994 euros:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 01/04/2022 | 99,999 | 38,172 | 2.6197 | 0.04 | 2.5797 | 1,526.88 | 98,472.31 |
| 03/05/2022 | 249,998 | 104,558 | 2.3910 | 0.04 | 2.3510 | 4,182.32 | 245,815.86 |
| 13/05/2022 | 549,999 | 237,642 | 2.3144 | 0.04 | 2.2744 | 9,505.68 | 540,492.96 |
| 19/05/2022 | 499,999 | 212,983 | 2.3476 | 0.04 | 2.3076 | 8,519.32 | 491,479.57 |
| 27/05/2022 | 499,999 | 180,531 | 2.7696 | 0.04 | 2.7296 | 7,221.24 | 492,777.42 |
| **Totals** | **1,899,994** | **773,886** | | | | **30,955** | **1,869,038** |

The associated capital conversion and increase agreement was formalised on 2 June 2022 pursuant to an instrument executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 645 of his journal record and registered in the Companies Registry of Alicante on 16 June 2022.

*Issuance of the June 2022 equity warrants*

On 8 June 2022 the Board of Directors adopted a resolution to conduct an issue of 48,076,923 equity warrants convertible to Company shares for a maximum of 2,500,000 euros. The only recipient of the (June 2022) Equity Warrants was Nice & Green.

The following is the only EW-to-shares conversion notification made by Nice & Green on 8 July 2022 for the sum of 1,500,000 euros:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 08/07/2022 | 1,500,000 | 809,498 | 1.853 | 0.04 | 1.813 | 32,380 | 1,467,620 |
| **Totals** | **1,500,000** | **809,498** | | | | **32,380** | **1,467,620** |

With respect to the aforesaid notifications, the associated capital conversion and increase agreement was formalised on 14 July 2022 pursuant to an instrument executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 829 of his journal record and registered in the Companies Registry of Alicante on 4 August 2022.

Moreover, Nice & Green did not finally execute the sum of 1,000,000 euros for the issuance of the "June 2022 EW." However, the parties entered into separate loans for the aforesaid amount as indicated in Note 12.4).

*Issuance of the November 2022 equity warrants*

On 7 November 2022 the Board of Directors adopted a resolution to conduct an issue of 48,076,923 equity warrants convertible to Company shares for a maximum of 2,500,000 euros. The only recipient of the (November 2022) Equity Warrants was Nice & Green.

The following were the EW-to-shares conversion notifications made by Nice & Green between 22 November and 12 December 2022 for the sum of 999,998 euros:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 22/11/2022 | 499,998 | 260,811 | 1.9171 | 0.04 | 1.8771 | 10,432 | 489,566 |
| 12/12/2022 | 500,000 | 245,206 | 2.0391 | 0.04 | 1.9991 | 9,808 | 490,191 |
| **Totals** | **999,998** | **506,017** | | | | **20,241** | **979,757** |

With respect to the aforesaid notifications, the associated capital conversion and increase agreements were formalised on 1 and 22 December 2022 pursuant to instruments executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under numbers 1358 and 1453 of his journal record and registered in the Companies Registry of Alicante on 23 and 31 January 2023.

*Effect on the income statement and on equity as of 31 December 2022 of the convertible EW issues and their conversion into treasury shares*

Since the fixed-for-fixed swap rule was not met in accordance with the valuation criteria and standards set forth in Note 3.7.b, according to the EW issuance conditions a financial derivative is created during the life of the warrant issue until the time it is converted into shares.

Variations in the fair value of the derivative during its life (that is, from the date of signature to exercise of the option), were recognised on 31 December 2022 for a total of 578,215 euros (380,604 euros during the 2021 financial year) under the head of *17. Variation in the fair value of financial instruments* in the consolidated income statement as a financial cost and recognised as a balancing entry in consolidated net equity as a higher share premium equivalent to the sum of the cash received for the conversion, minus the fair value accumulated by the derivative until that moment as set forth in the following breakdown:

**As at 31 December 2022**

| | Number of shares | Conversion price | Fair value | Share premium/cost |
|---|---|---|---|---|
| Capital increase 21.03.2022 | 32,290 | 3.0969 | 3.41 | 10,110 |
| Capital increase 21.03.2022 | 95,849 | 3.1299 | 3.45 | 30,681 |
| Capital increase 21.03.2022 | 80,906 | 2.4720 | 2.68 | 16,828 |
| Capital increase 02.06.2022 | 38,172 | 2.6197 | 2.94 | 12,226 |
| Capital increase 02.06.2022 | 104,558 | 2.3910 | 2.53 | 14,534 |
| Capital increase 02.06.2022 | 237,642 | 2.3144 | 2.56 | 58,365 |
| Capital increase 02.06.2022 | 212,983 | 2.3476 | 2.75 | 85,704 |
| Capital increase 02.06.2022 | 180,531 | 2.7696 | 3.16 | 70,479 |
| Capital increase 14.07.2022 | 809,498 | 1.853 | 2.05 | 159,471 |
| Capital increase 10.11.2022 | 260,811 | 1.9171 | 2.15 | 60,745 |
| Capital increase 01.12.2022 | 245,206 | 2.0391 | 2.28 | 59,070 |
| | | | | **578,215** |

**As at 31 December 2021**

| | Number of shares | Conversion price | Fair value | Share premium/cost |
|---|---|---|---|---|
| Capital increase 25.03.2021 | 237,456 | 3.5796 | 4.2999 | 171,052 |
| Capital increase 29.04.2021 | 281,001 | 3.5586 | 4.0908 | 149,523 |
| Capital increase 01.06.2021 | 187,346 | 3.4695 | 3.7899 | 60,037 |
| | | | | **380,611** |

## *a.2) Share capital and share premium formalised in previous financial years*

The conditions of the share capital issues executed and formalised in previous financial years and performed pursuant to the financing framework agreement entered into on 16 September 2019 with Nice & Green S.A. were reported in detail in the reports to the Company's individual annual financial statements for the relevant financial years. Section a.1) above also contains a breakdown of the impact of the share issues and capital increases in the 2022 and 2021 financial years on net equity.

## *a.3) Issue of convertible warrants and capital increases in progress*

Under the delegation by the Extraordinary General Meeting held on 25 January 2021, on 7 November 2022 the Board of Directors adopted a resolution to conduct an issue of 48,076,923 equity warrants convertible to Company shares for a maximum of 2,500,000 euros. The only recipient of the (November 2022) Equity Warrants was Nice & Green.

The (November 2022) Equity Warrants issue agreement was formalised on 10 November 2022 before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 1,228 of his journal record.

As at 31 December 2022, issuance of the (November 2022) Equity Warrants is in progress, pursuant to which a variation of 99,093 euros in the fair value of the derivative was recognised under the head of *17. Variation in the Fair Value of Financial Instruments* in the consolidated income statement on said date and charged to the Liabilities for Short-term Financial Derivatives account (see Note 12.1).

Furthermore, as reported in Note 20 on Events Subsequent to Closure, as of the drafting date of these annual financial statements, the capital increases associated with issuance of the (November 2022) Equity Warrants have been implemented by means of an issue premium for the sum of 1,500,000 euros to complete subscription of the issue in progress on 31 December 2022.

## *a.4) Significant holdings*

Pursuant to Article 228 of the Consolidated Text of the Securities Market Act adopted by Royal Legislative Decree 4/2015 of 23 October and to Circular 3/2020 of BME Growth, as at 31 December 2022 the following shareholders held a percentage of the Company's share capital equal to or greater than 5%:

| | % | % |
|---|---|---|
| | **12.2022** | **12.2021** |
| Banque Cantonale Vaudoise (Nice & Green) | 11.06 | --- |
| Salvador Martí Varó | 7.40 | 8.69 |
| Javier Mira Miró (*) | 6.02 | 7.46 |
| Juan Alfonso Ortiz Company (**) | 6.45 | 7.66 |
| José Cristobal Callado Solana | 5.31 | 6.10 |

(*) 7.26% taking into account 141,470, 35,196 and 33,000 shares deposited with Nice & Green as collateral pursuant to the material fact published on 18 September 2019, propriety information published on 15 December 2020 and other material information published on 1 July 2022, respectively.

(**) 6.92% taking into account 150,586, 26,080 and 43,666 shares deposited with Nice & Green as collateral pursuant to the material fact published on 18 September 2019, propriety information published on 15 December 2020 and other material information published on 1 July 2022 respectively.

All shares issued are fully paid up. There are no restrictions on their free transferability, except those provided as a guarantee to Nice & Green.

## *b) Treasury stock*

The total amount of treasury stock held as at 31 December 2022 is 454,079 euros (556,510 euros at 31 December 2021) represented by 155,144 shares (126,903 shares at the end of the previous financial year), the equivalent of 0.89% (0.84% in 2021) of the Company's share capital. This is well below the maximum limit of 10% provided for in article 509 of the Corporate Enterprises Act.

On 27 February 2020 the General Meeting approved a motion to authorise the Board of Directors to acquire treasury stock in the following terms:

- For a maximum of five (5) years from adoption of the agreement.
- Up to a maximum of 10% of the share capital.

When the shares are acquired for a consideration the price may vary by +/- 10% of the market value on the acquisition date.

The following are the share movements during the 2022 financial year:

| | 2021 | Purchases | Sales | 2022 |
|---|---|---|---|---|
| **Cost of treasury shares** | 556,510 | 338,101 | 440,533 | 454,079 |

The Company sold treasury shares during the 2022 financial year for a loss of 181,184 euros (a loss of 73,670 euros as at 31 December 2021) recognised against Voluntary Reserves.

### c) *Reserves and outcomes of previous financial years*

The following is a breakdown of reserves at the end of the 2021 and 2022 financial years:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Legal reserve | 108,553 | 108,553 |
| Voluntary Reserve | 592,811 | 953,620 |
| Ecertic merger reserves (Note 1.c) | (592,985) | --- |
| **Total** | **108,379** | **1,062,173** |

<u>Legal reserve</u>

In accordance with the provisions of article 274 of the Corporate Enterprises Act, companies that obtain liquid profits net of taxes during the financial year shall be obliged to allocate 10% of said profit to a reserve fund that shall reach an amount equal to at least one fifth of the share capital. This reserve may only be used to cover a debit balance on the income statement (if any) and must be replenished when it falls below the stipulated level.

<u>Voluntary reserves</u>

Voluntary reserves, as of 31 December 2022 and 2021, include profits from previous years that were neither distributed nor assigned to mandatory reserves.

These reserves are freely available.

As set forth in the attached statement of changes in net equity, during the 2022 financial year the sum of 179,625 euros (73,125 euros in previous years) net of taxes has been recognised against these reserves for the cost of issuance and expenses incurred as a result of the capital increases carried out during the year. A negative sum of 181,184 euros (73,670 euros in profits during the 2021 financial year) was also recognised for the outcome of the treasury stock sale-purchase transactions (see Note 11.1.b).

<u>Losses from previous financial years</u>

As of 31 December 2022 this item includes losses made in the 2020 and 2021 financial years for a total of 1,841,328 euros (1,682,335 euros at the end of the previous year) which will be offset with future profits.

### d) *Allocation of the outcome of the 2021 financial year and allocation proposal*

The following is the proposed distribution of the outcome of the financial year ended 31 December 2022, pending approval by the General Meeting:

| **Allocation basis:** | **2022** | **2021** |
|---|---|---|
| Profit (Loss) of the financial year net of corporation tax | 2,052,553 | (158,993) |
| **Total allocation basis** | **2,052,553** | **(158,993)** |
| **Allocation** | | |
| To losses from previous financial years | 1,841,328 | (158,993) |
| To legal reserve | 30,909 | --- |
| To voluntary reserves | 180,316 | --- |
| **Total allocation** | **2,052,553** | **(158,993)** |

The proposed distribution of the outcome of the financial year ended 31 December 2021 was approved by the General Meeting on 21 June 2022.

*Limitations on allocation of dividends*

The Company is legally bound to allocate an amount equal to 10% of the profit for the year to the legal reserve until it reaches a figure equal to at least 20% of the share capital. This reserve may not be distributed as dividends until it exceeds said 20% of the share capital.

Once the reserves required by law or by the articles of association have been covered, the Company may only pay dividends against profit for the financial year or freely available reserves if the following conditions are met:

- if the value of net assets is at least equal to that of the share capital once the distribution has been applied. For these purposes, the profits allocated directly to net equity may not directly or indirectly distributed. If there are losses from previous years that reduce the Company's net equity to less than the figure for the share capital, any profit shall be used to offset these losses.
- If there are intangible assets deriving from capitalisation of R&D expenses and/or goodwill on the asset side of the balance sheet. In this case, dividends may only be distributed if the amount of available reserves is at least equal to the net amount of the non-amortised intangible assets.

The Company has not allocated dividends since it was incorporated.

### *11.2. Subsidies*

The following are the amounts and features of the subsidies that appear on the balance sheet as at 31 December 2022 and 2021 under the head of Subsidies, donations and bequests and movements during this and the previous financial year:

**Fin. yr. ended 31 December 2022**

| Granting body | Year granted | Amount granted | Balance as at 31.12.21 | Additions for bus comb. | Additions for year | Transferred to profit (loss) 31.12.22 | Tax effect | Balance as at 31.12.22 |
|---|---|---|---|---|---|---|---|---|
| Europe (H2020) | 2016 | 1,692,600 | 65,997 | --- | --- | (67,063) | 16,766 | 15,699 |
| CDTI | 2018 | 180,390 | --- | 81,979 | --- | (36,456) | (11,380) | 34,141 |
| IMIDCA | 2021 | 110,884 | --- | --- | 110,884 | (11,088) | (24,949) | 74,847 |
| IMINOD | 2021 | 25,154 | --- | --- | 25,154 | (5,031) | (5,031) | 15,092 |
| Red.es | 2022 | 50,457 | --- | --- | 50,457 | --- | (12,614) | 37,843 |
| | | **2,059,485** | **65,997** | **81,979** | **186,495** | **(119,639)** | **(37,209)** | **177,622** |

**Fin. year ended 31 December 2021**

| Granting body | Administration | Year granted | Amount granted | Rest pend amort. 31.12.20 | Additions (Disposals) | Transferred to 2021 profit (loss) | Tax effect | Rest pend. amort. 31.12.21 |
|---|---|---|---|---|---|---|---|---|
| Europe (H2020) | European | 2016 | 1,692,600 | 116,294 | --- | (67,063) | 16,766 | 65,997 |
| | | | **1,692,600** | **116,294** | **---** | **(67,063)** | **16,766** | **65,997** |

H2020 is the largest European funding program for research and innovation projects. It has a total budget of roughly 80,000 million euros for the 2014 to 2020 period. The *SME Instrument* program was specifically designed to promote highly-innovative SMEs with a vigorous appetite for growth and internationalisation to boost their success on the market.

In 2016, the Company entered into an agreement with the European Commission to obtain aid to finance investment in development over a period of 2 years in the execution of a project identified as *Facial Recognition in bank security FACCES*.

This agreement contained a clause whereby the subsidy would be awarded for a maximum of 1,692,600 euros, the equivalent of 70% of the development budget of 2,418,000 euros.

The associated costs incurred with the eligible project, on the one hand, corresponded to R&D personnel costs that were capitalised in intangible assets and, on the other, to operating costs. Therefore the subsidy has both a capital component and an operations component that were distributed between the two in proportions of 19.81% and 80.19% respectively in accordance with the costs incurred by the Company in previous years.

The Company received the following subsidies in the 2021 financial year:

- On 27 January 2021, the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy for *Digitisation Projects in SMEs (Digitaliza-CV Teletrabajo)* for eligible costs totalling 67,523 euros and a grant of 27,009 euros. Due to the fact that the Company has already complied with the eligible expenses investment commitment, said subsidy has been fully allocated under the head of *Other operating revenue* on the attached income statement.
- On 30 November 2021 the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy for *SME Innovation Projects*. *Innovation in Electronic, Information and Communication Technologies (EICTs)* 2021 for an eligible cost of 162,500 euros and a subsidy of 70,663 euros. The eligible expenses period runs from 1 January 2021 to 30 June 2022. Subsequently, on 25 February 2022, the IVACE notified the grantee of extension of the execution period until 31 December 2022. As at 31 December 2021 the Company's management considers that it complies with the investment activity

deadlines. Nevertheless, the entire project will be executed in 2022 and for that reason the subsidy has been recognised under Short-term debt convertible into subsidies (Note 12.4).

- On 23 December 2021 the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy for *R&D projects in Cooperation (PIDCOP-CV) 2021* for eligible costs totalling 235,615 euros and a grant of 141,369 euros. The eligible expenses period runs from 11 March 2021 to 30 June 2022. Subsequently, on 25 February 2022, the IVACE notified the grantee of extension of the execution period until 31 December 2022. As at 31 December 2021 Company management considers that it complies with the investment activity deadlines. Nevertheless, the entire project will be executed in 2022 and for that reason the subsidy has been recognised under Short-term debt convertible into subsidies (Note 12.4).

Moreover, during the 2022 financial year the Company has benefitted from a RED.ES, M.P subsidy under the 2021 call for aid aimed at design engineering for research and development in artificial intelligence and other digital technologies and their integration into value chains, for the sum of 1,270,090 euros for investment in personnel costs and a collaboration grant amounting to 1,587,519 euros. As at 31 December 2022 this subsidy is pending collection and has been recognised under the following heads:

| | **Euros** |
|---|---|
| | **31/12/2022** |
| **Balance sheet**: | |
| Capital subsidies | 50,457 |
| ST debts convertible to subsidies | 905,366 |
| LT debts convertible to subsidies | 307,189 |
| **Income Statement**: | |
| Operating subsidies: | 7,078 |
| **Total** | **1,270,090** |

## NOTE 12. FINANCIAL LIABILITIES

### *12.1 Analysis by category*

The following is the classification of financial liabilities by category and class as at 31 December 2022 and 2021:

| | **Euros** | | | |
|---|---|---|---|---|
| | **Debts with credit institutions** | | **Derivatives and others** | |
| | **2022** | **2021** | **2022** | **2021** |
| **Long-term financial liabilities** | | | | |
| Valued at amortised cost: | | | | |
| - Bank loans and credit lines | 3,649,671 | 5,041,251 | --- | --- |
| - Financial leasing creditors (Note 6) | 176,195 | --- | --- | --- |
| Other financial liabilities | --- | --- | 307,189 | --- |
| **Total long-term** | **3,825,866** | **5,041,251** | **307,189** | **---** |

| | | | | |
|---|---|---|---|---|
| **Short-term financial liabilities** | | | | |
| Valued at amortised cost: | | | | |
| - Bank loans and credit lines | 3,918,990 | 1,185,686 | --- | --- |
| - Financial leasing creditors (Note 6) | 88,277 | --- | --- | --- |
| - Trade creditors and other accounts payable (*) | --- | --- | 4,327,877 | 2,610,027 |
| Other financial liabilities | --- | --- | 3,205,796 | 212,032 |
| Entered at fair value with restatement in the IS: | | | | |
| - Derivatives (Note 11.1.a.3) | --- | --- | 99,093 | --- |
| **Total short-term** | **4,007,267** | **1,185,686** | **7,632,766** | **2,822,059** |

(*) Does not include balances with government agencies.

### *12.2 Bank loans and credit lines*

The following is a breakdown of the debts with credit institutions as at 31 December 2022 and 2021:

| | Euros | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Short-term | Long-term | Short-term | Long-term |
| Bank loans and credit lines | 3,837,170 | 3,649,671 | 1,141,964 | 5,041,251 |
| Credit cards | 50,268 | --- | 28,509 | --- |
| Uncollected accrued interest | 31,551 | --- | 15,213 | --- |
| **Total** | **3,918,990** | **3,649,671** | **1,185,686** | **5,041,251** |

The following is a breakdown of the most important conditions of the financial loans in effect as at 31 December 2022 and 2021:

| | | | Euros | | | |
|---|---|---|---|---|---|---|
| | | | 31.12.22 | | 31.12.21 | |
| **Type of transaction** | **Maturity** | **Limit** | **Short-term** | **Long-term** | **Short-term** | **Long-term** |
| Loan (1) | 20.11.22 | 200,000 | --- | --- | 67,059 | --- |
| Loan (2) | 03.04.28 | 1,000,000 | 159,502 | 736,255 | 104,243 | 895,757 |
| Syndicated loan A | 30.06.25 | 6,000,000 | 1,231,169 | 2,913,416 | 970,662 | 4,145,494 |
| Syndicated loan B | 21.04.23 | 5,000,000 | 1,999,999 | --- | --- | --- |
| Syndicated loan C | 13.02.23 | 2,000,000 | 446,500 | --- | --- | --- |
| | | **Total** | **3,837,170** | **3,649,671** | **1,141,964** | **5,041,251** |

**(1)** The investment loan, the purpose of which is commercial establishment in the South Korean subsidiary, financing of personnel expenses, rentals and promotion.

**(2)** ICO PYMES loan On 3 May 2021 the Company obtained an extension of the grace period for repayment of the principal and the associated extension of maturity.

As at 31 December 2022, the Company has a credit card limit of 183,200 euros (209,022 euros as the end of the previous year) of which 50,268 euros has been drawn down as at said date (28,509 euros as at 31 December 2021).

During the 2022 financial year the Company has also entered into an invoice factoring agreement maturing on 31 October 2023 with a financial institution. This facility has not been used as at the end of the 2022 financial year.

The interest rate for debts with credit institutions is the Euribor plus a margin considered to be consistent with market costs. As at 31 December 2022, the Company has recognised the sum of 31,551 euros as accrued interest pending collection (15,213 euros as at 31 December 2021).

The average interest rate on long-term debts with credit institutions as at 31 December 2022 is 4.40% (4.90% in the previous year).

*Syndicated financial restructuring agreement*

On 14 December 2020 the Company reached a syndicated credit line agreement with a limit of 13 million euros with the following banks: The Santander, CaixaBank, Sabadell and Deutsche Bank credit institutions are involved in the deal, which is structured in three tranches:

- TRANCHE A, nominal sum of € 6 million for 5 years with half-yearly amortisation.
- TRANCHE B, Ordinary revolving credit. Nominal sum of € 5 million for three years plus two potential 1-year renewals.
- TRANCHE C, Revolving credit (bilateral contracts). Nominal sum of € 2 million over 3 years with two annual renewals up to 5 years.

The interest rate applicable to each settlement period will be Euribor + an initial 3% margin. This margin will vary depending on the variation in the net financial debt/EBITDA ratio at the end of each established review period.

Without prejudice to the net-worth personal liability of the Company for its participation in the aforesaid contracts, pledge rights in rem have been constituted on the credit rights of the operating current accounts and the transitory amortisation account associated with the loan (See Note 10). Along the same lines, as a guarantee for the above obligations the Company has established a movable property mortgage on its trademarks, which are valued at 2,244,829 euros.

Based on the estimates of its cash flows set forth in the business plan, Management considers that the Company will be capable of meeting all its contractual obligations deriving from the loans and financial credits into which it has entered as at the end of the financial year.

The debt issuance conditions related to the syndicated loan entail compliance with various annual ratios determined on the basis of net financial debt and financial expenses, both with respect to EBITDA, calculated using the information set forth in the Company's financial statements. As at 31 December 2022 the Company meets the ratios set in the aforesaid financing agreements.

### *12.3 Trade creditors and other accounts payable*

The following is a breakdown of this balance sheet item as at 31 December:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Suppliers | 563,163 | 395,798 |
| Suppliers, group and associated companies (Note 16.b) | --- | 381,235 |
| Creditors for provision of services | 808,455 | 65,419 |
| Creditors, invoices pending receipt | 1,492,481 | 1,255,361 |
| Personnel | 1,463,777 | 512,213 |
| Other debts with govt. agencies (Note 13.1) | 419,627 | 179,944 |
| **Trade creditors and other accounts payable** | **4,747,505** | **2,789,971** |

### *12.4 Other short-term financial liabilities*

The following is a breakdown of other short-term financial liabilities as at the end of the 2022 and 2021 financial years:

| | Euros | | | |
|---|---|---|---|---|
| | **Short-term** | | **Long-term** | |
| **Type of transaction** | **2022** | **2021** | **2022** | **2021** |
| Debts convertible to subsidies | 905,366 | 212,032 | 307,189 | --- |
| Nice & Green loans | 2,300,002 | --- | --- | --- |
| Others | 427 | --- | --- | --- |
| **Total** | **3,205,796** | **212,032** | **307,789** | **---** |

Since the investment had not yet been made at the drafting date of the annual financial statements, the Company has recognised the amount considered to be repayable of the capital subsidies granted to the Company under the head of Debts convertible to short- and long-term subsidies (see Note 11.2).

At the end of the 2022 financial year the amount of the subsidies granted and deemed to be refundable and pending substantiation amounted to 1,212,555 euros (212,032 euros at the end of the 2021 financial year) recognised in the short term.

As at 31 December 2022, the Company is involved in three financial transactions with Nice & Green for a total of 2.3 million euros as shown in the following breakdown:

- Provision of 1.5 million euros for capital increases derived from the framework financing agreement signed on 14 December 2020. As set forth in Note 20 of Events Subsequent to the Closure, at the drafting date of these annual financial statements this amount has been applied to the two capital increases and share premium implemented in January 2023 for a total amount of 1,500,000 euros.

- An interest-free financial loan granted on 13 May 2022 for 800,000 euros that has been partially applied to the capital increase and share premium implemented in June 2022 for the sum of 499,999 euros maturing on 31 January 2023, of which the sum of 100,000 euros is pending payment at the end of the 2022 financial year.

- An interest-free financial loan for 700,000 granted on 23 June 2022 euros and maturing on 23 June 2023. On 17 November 2022 this transaction was renewed and extended until 10 November 2023 with 5% per annum fixed interest and repayment in a single instalment at maturity.

### *12.5 Analysis by maturity*

The following are the amounts of the financial liability instruments with a specific or determinable maturity classified by year of maturity as at 31 December 2022:

| | **Non-current financial liabilities** | | | | |
|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **Subsequent years** | **Total** |
| Debts with credit institutions | 1,543,635 | 1,700,227 | 171,183 | 234,625 | 3,649,671 |
| Financial leasing creditors | 92,287 | 83,908 | --- | --- | 176,195 |
| Other financial liabilities | 307,189 | --- | --- | --- | 307,189 |
| **Total** | **1,943,111** | **1,784,135** | **171,183** | **234,625** | **4,133,054** |

As at 31 December 2021:

| | **Non-current financial liabilities** | | | | |
|---|---|---|---|---|---|
| | **2023** | **2024** | **2025** | **Subsequen t years** | **Total** |
| Debts with credit institutions | 1,391,850 | 1,543,504 | 1,700,089 | 405,808 | 5,041,250 |
| Other financial liabilities | --- | --- | --- | --- | --- |
| **Total** | **1,391,850** | **1,543,504** | **1,700,089** | **405,808** | **5,041,250** |

### *12.5 Information on the average period of payment to suppliers. Additional provision three, "Duty of information," Act 15/2010 of 5 July.*

In compliance with the duty of information provided for in Act 15/2010 (amended by Final Provision Two of Act 31/2014 of 3 December) that sets up measures to combat late payment in trade transactions, the following is a breakdown of the information on average supplier payment interval for trade transactions drawn up in accordance with the resolution of the Accounting and Auditing Institute (ICAC) dated 29 January 2016:

| | 2022 | 2021 |
|---|---|---|
| **Item** | **Days** | **Days** |
| Average period of payment to suppliers | 27 | 19 |
| Paid transaction ratio | 24 | 19 |
| Past-due transaction ratio | 50 | 26 |
| | **Euros** | |
| Total payments made | 11,245,432 | 7,266,275 |
| Total pending payments | 1,371,619 | 842,452 |

| | 2022 |
|---|---|
| **Number of invoices** | |
| Total number of invoices paid | 2,191 |
| Number of invoices paid before the legal deadline | 2,093 |
| **%** | 96% |
| **Amount in euros** | |
| Total amount of paid invoices | 11,245,432 |
| Amount of invoices paid within the legal deadline | 10,440,799 |
| % | 93% |

In compliance with the ICAC Resolution, trade transactions associated with the delivery of goods or provision of services accrued from the date of entry into force of Act 31/2014 of 3 December have been considered for calculation of the average period of payment to suppliers.

For the sole purpose of providing the information requested in the aforesaid Resolution, *suppliers* is understood to mean trade creditors for debts with suppliers of goods or services entered under the heads of "sundry suppliers and creditors" in current liabilities on the balance sheet.

The maximum legal payment period applicable to the Company in the 2022 financial year according to Act 3/2004 of 29 December that lays down measures to combat late payment in trade transactions and in compliance with the transitory provisions of Act 15/2010 of 5 July is 30 days from receipt unless there is an express agreement for payment at 60 days.

## NOTE 13. GOVERNMENT AGENCIES AND THE TAX POSITION

### *13.1 Balances with Government Agencies*

The following is the composition of the credit balances maintained with the government agencies at the end of the financial year:

| | Euros | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Assets | Liabilities | Assets | Liabilities |
| **Deferred tax assets (Note 13.4)** | **1,555,337** | | **1,092,394** | |
| Deferred tax asset for: | | | | |
| • VAT | 275,696 | | 171,540 | |
| • Others | 143 | | --- | |
| Other govt. agencies: Subsidies granted | 1,480,518 | | 239,041 | |
| **Other credits with govt. agencies** | **1,756,357** | | **410,581** | |
| **Deferred tax liabilities (Note 13.4)** | | **59,207** | | **21,999** |
| Debts with Social Security Organisations | | 254,679 | | 99,606 |
| Deferred tax liability for: | | | | |
| • Personal income tax withholdings | | 164,948 | | 90,720 |
| • VAT | | --- | | (10,381) |
| **Other debts with govt. agencies** | | **419,627** | | **179,944** |
| **Current tax assets/liabilities** | **(733)** | **---** | **---** | **---** |

### *13.2 Financial years pending verification and inspection*

In compliance with the currently applicable legislation, taxes are not considered finally settled until the returns have been inspected by the tax agency within the four-year limitation period. As at 31 December 2022, none of the Company's main tax returns since the 31 December 2018 have been inspected and are therefore open to examination by the Tax Agency.

Company Management considers that it has adequately settled all applicable taxes. However, in the event of an inspection, discrepancies could arise between Company management and the tax inspectorate on the interpretation of the regulations with respect to the fiscal treatment of certain transactions that could entail additional tax-related liabilities. Nevertheless, Management does not expect such liabilities, even if they do arise, to significantly affect the annual financial statements.

### *13.3 Reconciliation of the accounting result and current expense for income tax*

Corporation tax is calculated on the basis of the financial or accounting result obtained by applying generally accepted accounting principles, which does not necessarily have to coincide with the tax result understood as the taxable base of the tax in question.

The following shows the reconciliation of the accounting result with the corporation tax taxable base:

| | Euros | | | |
|---|---|---|---|---|
| | Increase | Reduction | 2022 | 2021 |
| Profit (loss) for the financial year before tax | | | 1,971,549 | (458,472) |
| Permanent differences: | | | | |
| • Other non-deductible expenses | 10,442 | --- | 10,442 | 9,419 |
| • Changes in the fair value of financial instruments (Note 11.1.a.1) | 677,308 | --- | 677,308 | 380,604 |
| • Impairment of holdings in and loans to gr. comps. (Note 8.1) | --- | --- | --- | (201,434) |
| **Income/(expenditure) allocated to Net Equity** | | | | |
| • Capital increase expenses (Note 11.1.c) | --- | 239,500 | (239,500) | (97,500) |
| • Compens. negative taxable bases in previous years | --- | 1,125,150 | (1,125,150) | --- |
| Compens. ECERTIC negative merger taxable bases | --- | 396,985 | (396,985) | --- |
| **Taxable base** | | | **897,664** | **(367,383)** |
| Tax rate on the payable base (25%) | | | 224,416 | (91,846) |
| Rebates for cross-border double taxation | | | | |
| • Current financial year | | | (224,416) | --- |
| • Previous financial years | | | --- | --- |
| **Payable tax** | | | --- | --- |
| Withholdings and payments on account | | | --- | --- |
| **Amount payable (refundable)** | | | **---** | **---** |

As at the end of the 2022 and 2021 financial years the permanent differences are confined to consideration of fiscal penalties and surcharges and variation in the fair value of financial instruments (derivatives) related to the various capital increases as non-deductible expenses in accordance with the information set forth in Note 11.1.

The accounting expense / (income) for Corporation Tax for the 2022 and 2021 financial years has been calculated as follows:

| | Euros | |
|---|---|---|
| | 2022 | 2021 |
| Recognition of deductions for withholdings at source | (97,648) | (316,078) |
| Application of deductions for the current year | 322,064 | 316,078 |
| Tax rate on the taxable base - current expense / (income) | --- | (91,846) |
| Application of tax credit for FacePhi negative taxable bases | 281,287 | --- |
| Recognition of 2022 donation deductions | (998) | --- |
| **Current tax expense / (income)** | **504,705** | **(91,846)** |
| Tax rebate for capital increase expenses | 59,875 | 24,375 |
| **Deferred tax expense / (income)** | **59,875** | **24,375** |
| Recognition of restatement of estimated R&D rebates (Note 13.4) | (645,585) | (232,009) |
| **Total expense / (income) for Corporation Tax** | **(81,004)** | **(299,479)** |

### *13.4. Deferred tax assets and liabilities*

Deferred tax assets

In accordance with the principle of prudence, deferred tax assets for deductible temporary differences, negative tax base and rebates and other unused tax rebates will only be recognised to the extent that it is probable that the Company will have future taxable profits that enable application of these assets.

*Tax rebates pending application*

The following table shows the breakdown of tax rebates pending application in accordance with the Company's corporation tax returns filed and the tax forecast for the current financial year as at 31 December 2022 and 2021:

As at 31 December 2022:

| Item | Year of origin | 2021 | Generated | Applied | Estimate changes | 2022 |
|---|---|---|---|---|---|---|
| Cross-border double tax. | 2018 | 57,862 | --- | --- | --- | 57,862 |
| R&D ECERTIC merger | 2018 | --- | --- | --- | 97,364 | 97,364 |
| Research and development (**) | 2019 | 25,740 | --- | --- | 64,349 | 90,089 |
| Cross-border double tax. | 2020 | 205,158 | --- | --- | --- | 205,158 |
| Research and development (**) | 2020 | 79,637 | --- | --- | 180,860 | 260,497 |
| Film production | 2020 | 126,632 | --- | --- | --- | 126,632 |
| Cross-border double tax. | 2021 | 316,078 | --- | --- | --- | 316,078 |
| Research and development (**) | 2021 | --- | --- | --- | 303,012 | 303,012 |
| Cross-border double tax. | 2022 (*) | --- | 322,064 | (224,416) | --- | 97,648 |
| Rebate for donations (35%) | 2022 | --- | 998 | --- | --- | 998 |
| | **Total** | **811,107** | **323,061** | **(224,416)** | **645,585** | **1,555,336** |

(*) 2022 corporation tax estimate (Note 13.3)

(**) 2021 rebates estimated at 12% of the taxable base (restatement of estimated 42% 2019 and 2020).

As at 31 December 2021:

| Item | Year of origin | 2020 | Generated | Applied | 2021 |
|---|---|---|---|---|---|
| Cross-border double tax. | 2018 | 57,862 | --- | --- | 57,862 |
| Research and development (**) | 2019 | --- | 25,740 | --- | 25,740 |
| Cross-border double tax. | 2020 | 205,158 | --- | --- | 205,158 |
| Research and development (**) | 2020 | --- | 79,637 | --- | 79,637 |
| Film production | 2020 | --- | 126,632 | --- | 126,632 |
| Cross-border double tax. | 2021(*) | --- | 316,078 | --- | 316,078 |
| | **Total** | **263,020** | **548,087** | **---** | **811,107** |

(*) 2021 corporation tax estimate (Note 13.3)

(**) Rebates estimated at 12% of the taxable base.

The definition of Research and Development (R&D) and Technological Innovation (TI) set forth in article 35 of the Corporation Tax Act that regulates the rebate for performance of said activities are indeterminate legal concepts that confer a high degree of legal uncertainty on application of the aforesaid rebate.

For the purposes of mitigating the legal uncertainty in application of the rebate, the Tax Act provides that taxpayers can obtain reasoned reports on compliance with the definitions of R&D and TI in accordance with the activities carried out the Ministry of Science and Innovation or its related bodies. These reports are binding on the Tax Agency and therefore mitigate the aforesaid legal insecurity.

In accordance with the following breakdown, during the 2021 financial year, the Company received the reasoned report that substantiates the calculation of expenses incurred during the 2019 and 2020 financial years in relation to research and development projects:

| ITEMS | 2019 | 2020 | TOTAL |
|---|---|---|---|
| Personnel | €117,423.15 | €501,809.08 | €619,232.23 |
| Amortisation of assets (tangible and intangible) | €0.00 | €0.00 | €0.00 |
| Fungible material: | €0.00 | €0.00 | €0.00 |
| External collaborations | €97,074.93 | €161,831.26 | €258,906.19 |
| Other expenses | €0.00 | €0.00 | €0.00 |
| Samples | €0.00 | €0.00 | €0.00 |
| Indirect costs | €0.00 | €0.00 | €0.00 |
| TOTAL EXPENSES FINANCIAL YEAR | €214,498.08 | €663.640,34 | €878.138,42 |
| Subsidies granted | €0.00 | €0.00 | €0.00 |
| Subsidies reduced | €0.00 | €0.00 | €0.00 |
| DEDUCTION BASE | €214,498.08 | €663,640.34 | €878.138,42 |
| Qualified researcher personnel amount | €0.00 | €0.00 | €0.00 |
| Qualified researcher personnel subsidised amount | €0.00 | €0.00 | €0.00 |
| Qualified researcher personnel base | €0.00 | €0.00 | €0.00 |
| Teams devoted exclusively to R&D | €0.00 | €0.00 | €0.00 |
| Mean base two previous years | 0.00 € | €107,249.04 | €107,249.04 |
| Excess over mean value | €214,498.08 | €556,391.30 € | €770,889.38 |
| Fiscal deduction calculation | | | |
| Deduction on mean R&D base | €0.00 | €26,812.26 | €26,812.26 |
| Deduction on excess R&D base | €90,089.19 € | €233,684.35 | €323,773.54 |
| Additional deduction for qualified researchers assigned exclusively to R&D activities | €0.00 | €0.00 | €0.00 |
| Investment intangible and intangible fixed assets devoted exclusively to R&D activities | €0.00 | €0.00 | €0.00 |
| TI deduction base | €0.00 | €0.00 | €0.00 |
| TOTAL DEDUCTION | €90,089.19 | €260,496.61 | €350,585.80 |

The provision for Corporation Tax for the financial year will be altered to include the associated rebate if a reasoned report is received for any of the projects between the drafting date of the financial statements and the tax return submission date. Consequently, the Company reported technological investment rebates for the sum of 105,377 euros in the corporation tax return for the 2020 financial year, having recognised the rebates during financial 2021 as an accounting estimate restatement. Subsequently, in September 2021, a reasoned report was received that qualified the tax rebates as research and development. This entails a change from a rebate of 12% to one of 42% of the investment associated with the R&D projects. The Company recognised the change in the estimate of the amount of these deductions for the sum of 245,208 euros in the 2022 financial year.

Along the same lines, in the 2022 financial year the Company has recognised the IT deductions generated in the 2021 financial year for the sum of 303,012 euros and those generated by ECERTIC, a company merged in 2022 (see Note 1.c) for 97,364 euros as a change in accounting estimate.

In the 2021 financial year the Company also considered the technological investment rebates for the sum of 126,632 euros in the corporation tax return for the 2020 financial year applicable to the investment in the film production company Ama Movie, A.I.E set forth in Note 9.1.

*Tax credits for negative taxable bases*

According to the 2022 financial forecast, the Company has the following negative taxable base items to offset with future tax rebates according:

| | Euros | | | | |
|---|---|---|---|---|---|
| **Year of origin** | **Pending bases 2021** | **Originated in 2022** | **Compensated in 2022** | **Pending bases 2022** | **Tax credit** |
| 2018 financial year (*) | --- | 30,596 | (30,596) | --- | --- |
| 2019 financial year (*) | --- | 272,047 | (272,047) | --- | --- |
| 2020 financial year (*) | --- | 9,013 | (9,013) | --- | --- |
| 2020 financial year | 757,767 | --- | (757,767) | --- | --- |
| 2021 financial year (*) | --- | 85,330 | (85,330) | --- | --- |
| 2021 Financial Year | 367,383 | --- | (367,383) | --- | --- |
| **Total** | **1,125,150** | **396,985** | **(1,522,135)** | **---** | **---** |

(*) Addition of negative taxable bases for merger with ECERTIC by absorption (Note 1.c)

Deferred tax liabilities

The temporary differences as at 31 December 2022 and 2021 derived from the subsidies received and transferred to the outcome for the financial year are set forth in this section.

The following is the breakdown of movements under this head during the 2022 and 2021 financial years:

| | Euros | |
|---|---|---|
| | 2022 | 2021 |
| **Initial balance** | **21,999** | **38,765** |
| Temporary differences created / (reversed) for: | | |
| - Capital subsidies granted | 46,624 | --- |
| - Capital subsidies transferred to profit/(loss) | (29,910) | (16,766) |
| - ECERTIC merger capital subsidies (Note 1.c) | 20,495 | --- |
| **Final balance** | **59,207** | **21,999** |

## NOTE 14. INCOME AND EXPENDITURE

### *a) Net turnover*

The following is the geographic spread of the Company's net turnover from ordinary activities:

| | % | |
|---|---|---|
| **Market** | **2022** | **2021** |
| Spain | 1.96 | 14.95 |
| Rest of the European Union | --- | --- |
| Other countries | 98.04 | 85.05 |
| **Total** | **100.00** | **100.00** |

Net turnover can also be analysed by business line:

| | % | |
|---|---|---|
| **Line** | **2022** | **2021** |
| Provision of services | 100 | 100 |
| **Total** | **100** | **100** |

The sum of 344,720 euros was recognised as at 31 December 2022 (562,924 euros as at 31 December 2021) under the head of Short-term accruals in current liabilities on the attached balance sheet for estimated revenue from support and maintenance activities, accrual of which takes place in the following financial year.

### *b) Supplies*

Costs accrued for licensed use of certain computer programs and software necessary to develop the products that the Company will subsequently market under license are set forth under this head in the income statement. The sum of 3,185,110 euros has been recognised as at 31 December 2022 (1,866,795 euros in 2021).

### c) Work carried out by the Company for its assets

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Work carried out by the Company for its assets | 3,818,608 | 2,100,208 |
| **Total** | **3,818,608** | **2,100,208** |

The amounts set forth in the above table originate in the improvements and new versions of its computer applications that the Company has continued to make and are capitalised in Intangible Assets (see Note 4).

### d) Operating grants entered in profit or loss

In accordance with the criteria set forth in Note 3.10, as at 31 December 2022 Company Management allocated the sum of 119,639 euros to the income statement (67,063 euros on 31 December 2021) (Note 11.2).

### e) Personnel expenses

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Wages, salaries and similar | 8,167,526 | 5,812,606 |
| Severance payments | 88,565 | 6,000 |
| Company social security payments | 1,496,722 | 900,515 |
| Other social expenses | 81,714 | 2,081 |
| **Total** | **9,834,527** | **6,721,202** |

As of 31 December 2022 the wages, salaries and similar item includes the sum of 1,134,000 euros for bonuses forecast and pending payment to the Company's personnel (426,000 euros at the end of the previous year).

The following table shows the average number of employees in the course of the year by job category:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Senior management | 1 | 1 |
| Scientific, intellectual and support technicians and professionals | 130 | 139 |
| Clerical workers | 33 | 6 |
| Sales force | 5 | 6 |
| **Total average employees** | **169** | **152** |

These employees were distributed by gender as follows at the end of the year:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Executive directors | 1 | --- | 1 | 1 | --- | 1 |
| Scientific, intellectual and support technicians and professionals | 110 | 27 | 137 | 106 | 33 | 139 |
| Clerical workers | 11 | 30 | 41 | 2 | 4 | 6 |
| Sales force | 3 | 4 | 7 | 5 | 1 | 6 |
| **Total workforce at the end of the financial year** | **125** | **61** | **186** | **114** | **38** | **152** |

As of 31 December 2022 and 2021 the Company employs 2 workers with a disability equal to or greater than 33%.

The average number of employees with a disability equal to or greater than 33% for fiscal year 2022 was 2 people (the same number during the 2021 financial year).

### *f) Other operating expenses*

The following is the breakdown of Other operating expenses by year:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| **External services:** | | |
| Research and development expenses | --- | 2,005 |
| Leases and royalties (nota 6) | 548,154 | 145,722 |
| Repairs and upkeep | 14,319 | 15,683 |
| Freelance professional services | 4,308,872 | 3,977,183 |
| Transport | 3,065 | --- |
| Insurance premiums | 95,565 | 36,050 |
| Banking and similar services | 129,422 | 94,908 |
| Advertising, promotion and public relations | 955,930 | 686,167 |
| Supplies | 19,976 | 62,985 |
| Other services | 876,848 | 507,256 |
| Taxes | 729 | 1,159 |
| Loss, impairment and variation of provisions for uncollectible trade transactions (Note 9) | 719,915 | 75,294 |
| Other losses from ongoing operations | 620,771 | --- |
| **Other operating expenses** | **8,293,566** | **5,604,412** |

### *g) Foreign currency: Exchange differences*

The overall value of assets denominated in foreign currency (f.c.) amounts to 9,473,835 euros (4,831,737 euros in 2021). The following are the most significant items:

| | | Euros | |
|---|---|---|---|
| **Item** | **Currency** | **2022** | **2021** |
| Clients (foreign currency) | USD | 16,033,069 | 7,779,460 |
| Treasury (c/c in f.c.) | USD | 826,760 | 713,755 |
| Treasury (cash f.c.) | USD | 112 | --- |
| Fixed-term deposits (f.c.) | USD | 31,344 | 40,173 |
| | **Total** | **16,891,285** | **8,533,388** |

The following is a breakdown of liabilities denominated in foreign currency:

| | | Euros | |
|---|---|---|---|
| **Item** | **Currency** | **2022** | **2021** |
| Creditors (f.c.) | USD | 524,652 | 420,184 |
| | **Total** | **524,652** | **420,184** |

The following transactions were performed in foreign currencies:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Services received (USD) | (4,351,105) | (3,284,492) |
| Rev. from services provided (USD) | 21,414,807 | 10,782,492 |
| **Total** | **17,063,701** | **7,498,000** |

The following table shows the amounts of the exchange differences recognised in the income statement for the period. The figures for transactions settled during the period are separated from those pending settlement as at 31 December 2022 and 31 December 2021:

| Financial instrument | Currency | Exchange differences 2022 | Exchange differences 2021 |
|---|---|---|---|
| Negative cash differences | USD | 14,423 | 17,998 |
| Positive cash differences | USD | (121,495) | (176,693) |
| Negative differences from trade collections | USD | 103,675 | 9,870 |
| Positive differences from trade collections | USD | (192,157) | (72,544) |
| Negative differences for payments to suppliers | USD | 165,240 | 28,234 |
| Positive differences for customer balances | USD | (267) | (254) |
| Positive differences for supplier payments | USD | (30,606) | (2,757) |
| **Total for transactions settled in the financial year** | | **(61,187)** | **(196,146)** |

| Financial instrument | Currency | Exchange differences 2022 | Exchange differences 2021 |
|---|---|---|---|
| Negative differences due to customer balances | USD | 32,176 | 14,961 |
| Positive differences due to trade balances | USD | (340,515) | (139,125) |
| Negative differences due to financial investment balances | USD | 55 | --- |
| Positive differences due to financial inv. balances | USD | --- | (1,874) |
| Negative differences for supplier balances | USD | 7,513 | 9,086 |
| Positive differences for supplier payments | USD | 27,669 | --- |
| **Total for transactions pending maturity: (+) -** | | **(328,440)** | **(116,952)** |
| **Total exchange differences allocated for the year: (+)-** | | **(389,626)** | **(313,099)** |

## NOTE 15. REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT.

In accordance with the proposal of the Appointments and Remuneration Committee on 20 April 2022, subsequently ratified by the General Meeting held on 21 June 2022, the Governing Bodies and the Board of Directors received the following remuneration for the 2022 financial year:

- For senior management remuneration: a total of 620,000 euros plus a variable payment subject to the variation in certain objective magnitudes.
- Remuneration of the Board of Directors: the sum of 360,000 euros for per diem allowances and 300,000 euros as remuneration for the Audit Committee and the Appointments and Remuneration Committee.

Pursuant to these agreements, the remuneration accrued as at 31 December 2022 and 2021 was the following:

***a) Remuneration of members of the Board of Directors and senior management.***

During the 2022 and 2021 financial years the members of the Board of Directors – some of whom are also senior managers – received the following statutory and salary remuneration including Board expenses and per diem allowances, remuneration in kind and insurance premiums of civil responsibility for managers and directors:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| **Remuneration:** | | |
| Remuneration-Senior Management | 620,000 | 656,830 |
| Variable remuneration-Senior Management | 350,000 | 90,000 |
| Board and Audit and Remuneration Committee Allowances | 360,000 | 300,000 |
| Other remuneration | 29,438 | 46,446 |
| Insurance premiums | 2,492 | 2,492 |
| **Total remuneration** | **1,361,930** | **1,095,768** |

As set forth in Note 5, a member of the Board of Directors has purchased, for 26,273 euros, a vehicle which had until then been leased by the Company under an operating lease contract.

Neither the members of the Board of Directors nor senior management have been granted financial credits or benefitted from pension-related schemes.

On 23 July 2021 the Company's Board of Directors accepted the resignation of its previous Chairman, Salvador Martí Varó.

On the same date the Board of Directors unanimously elected Javier Mira Miró, the current managing director, as its Chairman. the office of managing director is compatible with that of Chairperson of the Board of Directors. On the same date Fernando Orteso de Travesedo was appointed Vice-Chairman and David José Devesa Rodríguez Vice-Secretary of the Board of Directors.

***b) Directors in relation to conflicts of interest***

In compliance with the duty of avoiding situations that could entail a conflict of interest with the Company all directors who have held offices on the Board of Directors have fulfilled the obligations set forth in article 228 of the text of the Corporate Enterprises Act during the 2022 financial year. Furthermore, both the Directors and persons related to the same have refrained from incurring in the cases of conflict of interest which may be authorised by the governing body provided for in article 229 of said Act.

## NOTE 16. BALANCES AND TRANSACTIONS WITH GROUP COMPANIES AND OTHER TRANSACTIONS WITH RELATED PARTIES

In accordance with the financial reporting framework set forth in Note 2, for the purposes of drafting and submitting these annual financial statements the Company understands that another company forms part of the Company when the two undertakings are linked by a direct or indirect control relationship. An indirect relationship is held to be analogous to that provided for in article 42 of the Spanish Commercial Code for groups of companies or, in accordance with Rules 13 and 15 for drawing up the annual financial statements, the companies are controlled by any means by one or more natural or legal persons acting jointly or are under sole management by agreements or statutory clauses.

The following is the list of Group and associated companies that incur in these circumstances as set forth in Note 1:

| Group Company (Art. 42 Com. Code) | % holding | Address | Main activity |
|---|---|---|---|
| FacePhi Biometría, S.A. | Parent Company | Alicante- Spain | Marketing of biometric facial-recognition systems |
| FacePhi APAC Ltd | 100% | Pangyo (South Korea) | Marketing of biometric facial-recognition systems |
| Ecertic Digital Solutions, S.L. (1) | 100% | Madrid - Spain | Marketing of software |
| Celmuy Trading, S.A. | 100% | Montevideo (Uruguay) | Marketing of biometric facial-recognition system support services |
| Facephi Beyond Biometrics, Ltd. (2) | 100% | London (UK) | Marketing of biometric facial-recognition systems |

(1) This company was absorbed by the Company with accounting effect as of 1 January 2022 (see Note 1.c).

(2) A company incorporated in the United Kingdom on 26 May 2022 (see Note 8).

### *a) Financial investments in Group companies*

The breakdown of short-term and long-term financial investments made in Group companies is shown in Note 8.

### *b) Balances and trade transactions with Group and associated companies*

The following is a breakdown of the Company's dealings with related companies during the 2022 and 2021 financial years:

| | Euros (*) | |
|---|---|---|
| | Other services | |
| | 2022 | 2021 |
| **Group companies** | | |
| Celmuy Trading, S.A. | (620,771) | --- |
| FacePhi Beyond Biometrics, Ltd | 47,713 | --- |
| **Total for Group companies** | **(573,058)** | **---** |

(*) Income / (Expenditure)

On 31 December 2021 Ecertic Digital Solutions, S.L. invoiced the Company the sum of 100,000 euros for development and sale of computer applications and user packages for the same in addition to 91,277 euros for provision of services by its personnel.

All trade transactions performed with associated undertakings are negotiated on the basis of market prices.

The following is a breakdown of the balances maintained with Group companies (except for the financial investments set forth in Note 8) in 2022 and 2021:

| | Euros | | | |
|---|---|---|---|---|
| | Debit balances | | Credit balances | |
| | 2022 | 2021 | 2022 | 2021 |
| FacePhi Beyond Biometrics, Ltd | 47,713 | --- | --- | --- |
| Ecertic Digital Solutions, S.L | --- | --- | --- | 381,235 |
| **Total for Group companies** | **47,713** | **---** | **---** | **381,235** |

## NOTE 17. ENVIRONMENTAL INFORMATION

The Company does not have significant tangible fixed assets intended to mitigate the environmental impact of its activity. Nor has it incurred in significant expenses during the financial year for aimed at protecting and improving the environment.

At the present time there are no known contingencies related to protection and improvement of the natural environment or their potential impact on the Company's outcomes and equity position.

No subsidies of an environmental nature have been received.

## NOTE 18. PROVISIONS AND CONTINGENCIES

The Company has placed bonds to guarantee compliance with the service and licensing contracts entered into with some of its clients. The following is a breakdown of these bonds as at 31 December:

| | | | Euros | |
|---|---|---|---|---|
| **Issue** | **Maturity** | **F.C.** | **31.12.22** | **31.12.21** |
| 08/07/2021 | 20/09/2026 | USD (*) | 33,133 | 31,203 |
| 12/02/2020 | 24/02/2022 | USD (**) | --- | 8,829 |
| 04/01/2022 | 08/01/2024 | USD | 9,375 | --- |
| 31/01/2022 | 25/08/2024 | USD | 23,951 | --- |
| 12/05/2022 | 16/05/2023 | USD | 142,415 | --- |
| 14/09/2023 | 31/08/2023 | USD | 49,864 | --- |
| 15/10/2021 | Undefined | USD | --- | 80,594 |
| | | **Totals** | **258,739** | **120,626** |

(*) Said surety is pledged in a fixed-term deposit for USD 35,500 (Note 9).

(**) Said surety is pledged in a fixed-term deposit for USD 10,000 (Note 9).

## NOTE 19. SUNDRY INFORMATION

### a) Audit fees

On 24 July 2020 the Company's General Meeting agreed to renew the appointment of Auren Auditores SP, S.L.P. as auditors for the financial years ending on 31 December 2020, 2021, and 2022.

The following is a breakdown of the professional fees accrued under this head regardless of the date on which they were invoiced:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Audit services: | | |
| • Audit of individual annual financial statements | 24,650 | 22,450 |
| • Audit of the annual financial statements | 11,000 | 10,000 |
| Other services related to the audits: | | |
| • Review of the interim financial statements as at 30.06 | 14,190 | 11,000 |
| Other accounting verification services | 6,600 | 1,000 |
| **Total professional services** | **56,440** | **44,450** |

As at 31 December 2022 and 2021, no fees have been accrued by other companies of the Auren group for tax consultancy services, special reports, other verification services or other services of any nature whatsoever.

### b) Off-balance-sheet agreements

Provided that the information involved would be significant or helpful in determining the Company's financial position, there are no agreements or contracts or their potential financial impact that have not been included in the balance sheet and/or concerning which information has not been provided in other notes to the Report.

## NOTE 20. SUBSEQUENT EVENTS

*Issuance of the November 2022 equity warrants*

As reported in Note 11.1.a.3), as of 31 December 2022 there is an ongoing issue of equity warrants convertible into shares (the November 2022 EWs) for 2,500,000 euros. Of these, the sum of 1,000,000 euros had already been executed in the Company.

On 10 and 23 January 2023 Nice & Green requested conversion into shares of the amount pending execution as of 31 December 2022 for a total of 1,499,998 euros under the following conditions:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 10/01/2023 | 499,999 | 196,448 | 2.5452 | 0.04 | 2.5052 | 7,858 | 492,141 |
| 23/01/2023 | 999,999 | 394,104 | 2.5374 | 0.04 | 2.4974 | 15,764 | 984,235 |

With respect to the aforesaid notifications, the associated capital conversion and increase agreement was formalised on 19 and 26 January 2023 pursuant to instruments executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under numbers 62 and 95 of his journal record and registered in the Companies Registry of Alicante on 13 and 24 February 2023 respectively.

Variation in the fair value of the financial derivative during its life (i.e., from issuance of the equity warrants to the date of the conversions, at which time the *fixed-for-fixed* swap rule is fulfilled), has detected a net loss for a total amount of 53,694 euros. La variation in the fair value of the financial derivative as at 31 December 2022 entails a net loss of 99,903 euros due to these conversions (see Note 11.1).

The Directors consider that no other significant subsequent events have occurred that could affect the information contained in these annual financial statements in addition to the events described above.

Alicante 31 March 2023

# MANAGEMENT REPORT

**FacePhi, leader in digital identity systems**

FacePhi: secure, fast, easy-to-use technology. A company expert in digital user identity verification that specialises in digital onboarding and biometric authentication solutions. Our mission is to create more secure, accessible and fraud-proof digital processes. To do so, we rely on innovation with artificial intelligence, machine learning, application of blockchain technology and the introduction of decentralised digital identity.

With head offices in Spain and subsidiaries in South Korea and Uruguay, FacePhi is equipped with a multidisciplinary team determined to provide the best technology to its customers wherever they may be.

FacePhi develops its technology with the customer's prior knowledge and consent to achieve the best user experience possible. The corollary of this is the firm's strict ethical standards and its adhesion to the provisions of the KYC, AML and GDP Regulations. Today, the company that began life as the sector leader in the financial industry, one of the most demanding segments in terms of security, now operates in many others including insurance, healthcare, public administration, travel and transport, sporting events and collective mobility.

FacePhi now has more than 200 customers and a retention rate of over 95%.

Our new product, **FacePhi Identity Platform**, is a modular platform capable of combining different biometric solutions in the same tool. It is also available in several different architectures. It provides enhanced adaptability to needs in regulatory compliance-related aspects and to the idiosyncrasies of each country, industry or use case to which it is applied.

Users will be able to select and combine biometric solutions including facial, periocular, fingerprint, voice, digital signature and behavioural aspects, read official identity documents, validate their authenticity and provide proof of life by means of passive liveness on the platform in addition to verifying people's digital identity.

The development of this customisable, code-free platform represents an important leap forward for the company, from providing individual biometric solutions to facilitating a tool that enables each company or organisation to design a customised solution that meets their particular needs including their digital onboarding and authentication processes. This modular solution incorporates real-time operational control, a dashboard with the key performance indicators (KPIs) and transaction and statistical logging, among other functions.

In spite of the fact that FacePhi's QA Department conducts **regular internal audits** of its products and services, the Group has submitted its processes to various external audit and certification procedures that attest to our desire to improve and refine our technology.

External audits:

FacePhi's systems and technologies are subjected to regular audits in the General Data Protection Regulation (GDPR), information security (IS), cybersecurity and business continuity (BC) fields, thanks to which we have been granted the following internationally-recognised compliance standards:

- **ISO 30107-3 Information technology — Biometric presentation attack detection Level 1**: FacePhi is the only company in the sector that complies with the ISO 30107 standard both in terms of its Facial Recognition algorithm (Matcher) and its PAD algorithm through Passive Liveness. The standard stipulates the method for assessing the strength of a biometric algorithm against presentation attacks (attempted fraud). ISO 30107-3 is the most prestigious standard in biometrics at the international level.

  FacePhi was assessed by the independent testing laboratory iBeta, selected because it is the only organisation worldwide to date whose biometric laboratories have been endorsed by NIST/NVLAP.

- **ISO 30107-3 Information technology — Biometric presentation attack detection Level 2**: This instance of the standard focuses on attacks of greater complexity against the technology. It entails compliance with the highest standard to date in detection of presentation attacks in facial biometric technologies achieved by any company in the sector.

- **ISO 27001:2013 Information technology. Security techniques. Information Security Management Systems.** FacePhi is certified under the standard that ensures the security, confidentiality, integrity and availability of information and of the systems that process it. Its guarantees that FacePhi's information security management system assesses the risks to which it is exposed and applies the controls required to mitigate or eliminate them. This standard endows the Company with credibility and enables customers to differentiate us from the competition.

- **ISO 22301 - Security and resilience. Business continuity management system.** This is the international standard designed to help organisations to foresee, prepare for, respond to and recover from physical and/or logic-based disruptions.

- **National Security Scheme (ENS)**. This is a mandatory regulation for all public corporations in Spain and for private companies that provide services to public entities depending on the type of service they provide or the information they process. The ENS is composed of the basic principles and minimum requirements for proper protection of information. Its goal is to ensure the access, integrity, availability, authenticity, confidentiality, traceability and conservation of the data and services that are managed by electronic means.

- **PINAKES** is a qualification or rating that assesses an organisation's degree of compliance with 1,336 controls related to the physical security, cyber-resilience, risk management, GDPR-related, legal compliance, management and monitoring of systems, access control, information asset management, business continuity and human resources management domains, among others. It is promoted by the ICC (Interbank Cooperation Centre) of the Bank of Spain. The Company is rated AAA. Pinakes' controls entail compliance with parameters related to ISO 27017:2015 and ISO 27018:2019 on Information Security in Cloud environments and PII Protection in Cloud.

- **KISA** certifies the performance metrics of FacePhi's Verification algorithm with NIST methodology on the basis of the Korean government's databases. This certificate ensures the performance of verification algorithms for domestic use in the Korean market in any field of application. K-NTBC is the laboratory that assesses biometric solutions employed by KISA, the Internet and security agency of the South Korean government, certification by which endorses SelphID® as a reliable, secure biometric system for users in the Asian market.

FacePhi also complies with the guidelines set by the following standards:

- **ISO/IEC TR 24741:2018, ISO/IEC 2382-37:2012, ISO/IEC 29194:2015, ISO/IEC 19092:2008, ISO/IEC TR 24714-1:2008** that describe and assess the various biometric technologies, automatic recognition system architectures and processes that use biometric technologies and concepts, the security framework for use of biometrics to authenticate people in financial services and references concerning the accessibility and usability for biometric systems.

- **ISO 9001:2015, ISO/IEC 20000-1:2018** standards specify the requirements to set up, implement, maintain and improve quality management systems and define the internationally-recognised criteria in information technology (IT) service management.
- **ISO/IEC 19795-1** lays down the methods and metrics for assessment and documentation of the performance of a biometric system.
- **ISO 19794-1 and ISO 19794-5** specify general aspects and requirements for definition of biometric data exchange formats, saving, storage and transmission of facial images and the properties with which photographic images and their attributes must comply.

**Main risks and uncertainties facing the company**

The current main risk factors do not differ significantly from those set forth in the Market Incorporation Information Document (DIIM) submitted in June 2014 or from those included in the Reduced Extension Documents (DAR) submitted in March 2015 and February 2016, all of which have been suitably updated. It should be noted that these risks are not the only ones that the Company may have to face and that they could have an adverse material effect on the price of FACEPHI BIOMETRIA, S.A. shares, which could lead to a partial or total loss of investment. The following are the most significant risks, although there may be others less important or unknown at the drafting date of this management report.

**Risks linked to excessive exposure to technological innovation**

The sector to which FacePhi belongs is subject to intense research and technological innovation that entails constant upgrading of the product and, therefore, a high rotation or obsolescence rate of the products that the Company markets at all times. Said innovation requires investments in personnel, material and marketing that FacePhi must be in a position to tackle.

**Emergence of new companies or creation of new technologies that directly affect the Company**

Technology is constantly growing and evolving, which means that the creation of new, robust companies that provide a product with a competitive advantage or the emergence of new technologies or biometrics that are more effective or obtain a higher degree of social acceptance can never be ruled out.

In the event that these circumstances occur the market share these new companies acquire as competition increases would be subtracted from that of the companies that currently operate in the sector. In that case the latter could be forced to reduce their production, lose customers and suffer the consequent adverse effect on their share price. Despite this, FacePhi is committed to continuous research and development in which its own technology is developing and improving on a daily basis. This factor works in favour of enterprises already in the sector and acts as an entry barrier to those that attempt to penetrate the market.

**Intellectual property**

The Group to which the Company belongs holds the following registered trademarks:

| | |
|---|---|
| • FACEPHI BEYOND BIOMETRICS | • PHIVOX |
| • SELPHI, YOU BLINK, YOU´RE IN | • SELPHI ID |
| • LOOK & PHI | • SIGNPHI |

| |
|---|
| • INPHINITE |

FacePhi Biometría is the owner of the *Selphi You Blink You´re in* and *FacePhi Beyond Biometrics* trademarks (MUE 015106354 and MUE 015114853 respectively) in both the European Union and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126.

European Union trademark protection (MUE) is also provided by European trademark certificates with registration numbers MUE 017896710 LookΦ MUE 017948110 inPhinite; MUE 017948113 4Phingers; MUE 017948116 Phivox; MUE 017948119 SignPhi and MUE 017948878 SelphID.

International expansion and activity in LATAM has prompted the governing body to extend the geographical coverage of trademark protection. Consequently, the FacePhi Beyond Biometrics and SelphID Identity Validation trademarks are duly registered either as international trademarks with territorial designation or as domestic trademarks in all markets in which the Company carries out commercial activity in APAC, LATAM and EMEA.

In October 2022, anticipating what is now a reality in the digital user verification sector, the Company adopted a rebranding strategy consisting of adapting the brand image to the Company's development and track record, emphasizing its present and future brand values and benefits.

As a result, in addition to the trademarks already reviewed above, the protection of which continues to be a priority, the Company has applied for the following trademarks:

- FACEPHI PROTECTING IDENTITY TO BUILD THE FUTURE
- FACEPHI IDENTITY PLATFORM

**Intellectual property**

Entry into force of Act 1/2019 of 20 February, the Spanish Business Secrets Act, determines a scenario where legal certainty regarding knowledge considered to constitute business secrets (algorithms, know-how, etc.) is greater than before and consequently provides stronger protection against potential breaches of business secrets.

Notwithstanding, the legal doctrine and jurisprudence in the field agree that application of the Act will not be really effective unless the companies are equipped with tools capable of configuring an environment of security, protection, reliability and traceability.

The Company has recently obtained the following technical certifications:

- The ESQUEMA NACIONAL DE SEGURIDAD - ENS (the National Security Scheme) initially designed for the field of Spanish e-government and now extended to all service providers to public entities, lays down the security policy in the use of electronic media, the basic principles and minimum requirements for proper protection of information.
- ISO/IEC 30107-3: Level 1 and 2 - INTERNATIONAL LEVEL. This standard consists of a set of guidelines the purpose of which is to subject biometric technology to the most effective attacks possible in an attempt to break its security measures in order to assess the extent to which the application is reliable vis-à-vis identity-theft attacks.
- ISO 27001 - INTERNATIONAL LEVEL. The core mission of ISO 27001 is to protect the confidentiality, integrity and availability of the company's information. It does so by investigating issues that could potentially affect the information (i.e., risk assessment) and then determines what needs to be done to prevent these problems from occurring (i.e., risk mitigation or processing).

- ISO 22301: - Security and resilience. Business continuity management system. This is the international standard designed to help organisations to foresee, prepare for, respond to and recover from physical and/or logic-based disruptions.
- ISO/IEC 27017: Information technology — Security techniques. Code of practice for information security controls based on ISO/IEC 27002 for cloud services. The international standard that provides controls and implementation guidance for both cloud service providers and cloud service customers to help make cloud services as secure as the rest of the data contained in a certified information management system. It sets up the framework for the customer-service provider relationship in the cloud.

**Risks derived from loss of key personnel**

Since FacePhi is a young company that depends on its founders and managers, emphasising the risk derived from their dismissal or resignation from management of the Company is inevitable. Although occurrence the aforesaid risk is highly unlikely for voluntary reasons since they are still the majority shareholders, occurrence for reasons beyond their control cannot be ruled out and would obviously entail the aforesaid risk. The death or dereliction of key personnel could negatively affect the Company's business, its outcomes, prospects or financial, economic or equity-related position.

The Company has as a rule the adoption of post-contractual Non-Competition agreements in order to avoid the possible negative impact on the business of the abandonment of key personnel. These pacts are based on two premises:

- **Effective industrial or commercial interest** The employer must demonstrate that the grounds for enforcing the agreement are based on the company's authentic *industrial or commercial interest*. The lack of a real, legitimate interest can limit the employer's chances of achieving an effective non-compete agreement that could prevail over the right of all citizens to freely choose the profession or job they desire. Since it is a somewhat nebulous legal concept, its application in practice is subject to the deliberations of the law courts. In order to assess whether or not there is a true industrial interest, the activity of the former employer and the new competing company are compared to ascertain whether they have the same corporate purpose and compete in the same market or if they have the same customers.
- **The compensation:** The reason for establishing an adequate monetary compensation is to endow the worker with financial stability for a certain period after ending his/her employment contract ends for whatever reason, given that the non-compete agreement prevents workers from being able to "find work in the field in which they have been habitually providing services and where they can presumably offer their best skills and competencies".

**Risks linked to the share price**

Variation in share price. Basically as a consequence of their particular characteristics, FacePhi's shares have experienced high volatility ever since they were listed on the market. FacePhi is a *small cap* company. With a market capitalisation of just over 42.3 million euros at the end of 2022 (59.4 million at the end of 2021), FacePhi's capitalisation is modest considering its current size even compared to the other companies listed on BME Growth.

**Social acceptance risk**

Due to the fact that the technology sector is subject to constant variations, there could be changes in consumer trends and/or in the market itself that entail changes the use of facial biometrics to a greater or lesser degree compared to other biometric systems or security systems.

**Theft or hacking of essential information and technology code**

FacePhi is working to eliminate or mitigate this risk in several ways. First of all, all our code and software packages are subject to strategies of data integrity (preventing the code from being altered in a way that creates backdoors or other threats), availability (ensuring code recovery at all times) and confidentiality (rules of least privilege access to the code, "hashing" of closed source packages, constant review of access privileges, etc.). To complete the security cover, we only employ code repositories that comply with the ISO 27001 and ISO 22301 standards, in which FacePhi is also certified.

FacePhi also works under the strict S-SDLC (Secure Software Development Life Cycle) protocol based on OWASP methodology within the scope of our ISO 27001 certification.

Finally, our automated licensing system prevents the use of technology beyond the scope and life cycle for which it has been approved in the project or for delivery to a specific customer.

**Recurring revenues**

The Company's income type is segmented between sale of licences – which can be recurring or perpetual – and other related income such as support, maintenance, certification, consultancy, upgrades or specific developments. Recurring license sales currently represent more than 59% of the Company's revenue. FacePhi’s future success depends on renewal of recurring licences, acquisition of new customers, sale of new licences or products to existing customers, increasing sales of recurring licences and development of new products.

**Analysis of the variation and results of the businesses and the Company’s position**

The Company is a world leader in identity verification technology with a strong presence in the financial sector. Listed under the dual listing formula that involves trading on the Euronext Growth market in Paris and on the BME Growth – formerly the Alternative Stock Market (MAB) – in Spain, it has achieved revenues of 21,843,067 euros from the sale of licences, over 72% more than in 2021.

Its sale figures have been growing steadily in recent financial years. Latin America continues to be its main market.

Furthermore, its turnover can be analysed by service line in the following way:

| | % | |
|---|---|---|
| **Line** | **2022** | **2021** |
| Provision of services | 100.00 | 100.00 |
| | **100.00** | **100.00** |

The Company suffered losses before taxes of 0.5 million euros in the 2021 financial year. These losses were mainly due to the following circumstances:

- the increase in the workforce payroll due to recruitment of more than one hundred qualified specialists in software development on whom much of the Company's expansion plan depends.
- the financial risks deriving from issuance of own equity instruments to address its financing requirements and
- the extraordinary cost incurred during the last financial year due to the voluntary resignation one of the Company’s executive directors that involved a considerable financial compensation in exchange for a restrictive non-competition agreement for a period of three years.

Nevertheless, after consolidating the results of our efforts over the last two years the Company has generated a pre-tax profit of two million euros.

EBITDA stood at 5,371,464 euros as at 31 December 2022 compared to 750,143 euros the previous year. The aforesaid circumstances – recruitment of new personnel and the resignation of a director – must be taken into account. However, deducting the *Other outcomes* item and the director's resignation, EBITDA for the 2021 financial year would amount to 1,864,935 euros.

Net equity as at 31 December 2022 benefitted from the impact of the capital increases and issuance of equity warrants to reach 16.3 million euros compared to 9.4 the year before.

On 14 December 2020 the Company entered into an agreement for a syndicated financing line with a limit of 13 million euros differentiated into a loan of 6 million euros and the rest in revolving credit facilities. As at the end of 2022 the balance drawn down for these transactions amounts to 6,591,084 euros (5,116,156 euros in 2021).

The loan arranged in the 2020 financial year enabled us to meet the structural costs of expansion of the business and a significant increase in the workforce during financial 2021 and 2022. The Company has significantly increased the sale of licences during the 2022 financial year to the point where the short- and long-term trade balance as at 31 December 2022 amounts to 16,371,497 euros. The above trends, however, have pushed net bank debt (NBD) up significantly, but we expect a considerable improvement in the coming financial year.

| ***Euros*** | **2022** | **2021** |
|---|---|---|
| **Debts with credit institutions** | **(7,833,133)** | **(6,226,936)** |
| Treasury and financial inv. S/T | 1,967,575 | 1,409,416 |
| **Net debt** | **(5,865,558)** | **(4,817,520)** |

**Working capital**

The Company's working capital stood at 3,848,469 euros as at 31 December 2022 compared to 5,466,679 euros at the end of the previous year.

The Company's directors and main shareholders are committed to providing financial support that has materialised in the various capital increases carried out in recent years. The updated business plan is firmly supported by the directors and main shareholders.

**Information on issues related to regulatory compliance**

The governing body is firmly committed to excellence in service and prioritises results, while responsible management of the environment, interest in people, health and safety, social commitment and integrity and transparency are the main pillars of the corporate responsibility policy of FacePhi Biometría S.A.

Supervision of the Company's performance in this area ultimately falls on the Board of Directors as set forth in the recommendations of the Code of Ethics and the Regulations of the Board. The Board is responsible for approving FacePhi's Corporate Responsibility Policy and receives information on its implementation and general monitoring at least on an annual basis.

The Board of Directors is also charged with leading the effective integration of corporate responsibility into the company's strategy and in its day-to-day management, thus consolidating a robust corporate responsibility culture. Implementation of a Criminal Risk Prevention Plan is a result of the Board of Directors' compliance with this responsibility in its desire to ensure proper enforcement and monitoring of the commitments it has assumed.

Information on criminal compliance: FacePhi's Criminal Risk Prevention Plan. This *Compliance System* attests to the Company's will to foster a culture of compliance in the minds and acts of all FacePhi's employees. The FacePhi *Compliance System* is structured in three levels of action: Foresee, detect and respond.

**Information on issues related to R&D&i**

Research and development expenses capitalised as at the end of 2022 are linked to the following projects and milestones:

The Company continues to implement its investment policy and to improve its current facial biometric applications. Expenses capitalised during the financial year ended on 31 December 2022 are pegged to the following milestones:

| | Euros | |
|---|---|---|
| **R&D capitalisation costs** | **12.2022** | **12.2021** |
| Improvements to Software Development Kit (S | 3,423,366 | 1,641,621 |
| Platform as a service (PAAS) | 395,241 | 458,588 |
| **Total** | **3,818,608** | **2,100,209** |

Said expenses are recognised under the head of Development since there are good reasons to foresee commercial success on completion. They are entered under the head of Intangible assets in accordance with their nature on said date. If there were well-founded criteria to consider that the project was not completed successfully, the Company would write off these expenses and recognise them as losses in intangible fixed assets. Almost all the activity involved in development of new applications or improvements to current ones has been performed internally and recognised by capitalisation of production costs under the head of "Works performed by the company for its own assets" in the Income Statement.

The developments capitalised as of 31 December 2022 and 2021 mainly consisted of security improvements against fraud, interactive guides for the user when recording and tools for integration of technology in multiplatform applications. After conducting tests and trials the Company considers that the developments are operative and have been brought to a successful conclusion and will be placed on the market next year.

The Company's directors consider that the capitalised research and development expenses meet all the conditions set in the applicable regulations for capitalisation.

**Information on issues related to personnel**

**Corporate social responsibility** is an integral part of **FacePhi**'s identity. Consequently, it is implementing its own **social commitment plan** that devotes part of the workday to activities aimed at making society a better place.

During the year ended 31 December 2022 the Company has maintained an average workforce of 169 full-time equivalent employees and complies with the legal standards set forth in both the labour-related legislation and the applicable collective agreement (see note 14.e).

**Information on environmental issues**

The Company does not have significant tangible fixed assets intended to mitigate the environmental impact of its activity. Nor has it incurred in significant expenses during the financial year for aimed at protecting and improving the environment. Expenses derived from corporate activity aimed at protecting and improving the environment are recorded as an expense in the financial year in which they are incurred. These expenses are accounted for as increased value of the fixed assets in question when they involve additions to property, plant and equipment the purpose of which is to minimise our environmental impact and protect and improve the environment. At the present time there are no known contingencies related to protection and improvement of the natural environment or their potential impact on the Company's outcomes and equity position. No subsidies of an environmental nature have been received.

**Average period of payment to suppliers and the measures to be applied in the following year to reduce this parameter to the legal maximum provided for in the regulations to combat late payment**

The average period of payment to suppliers in the financial year ended 31 December 2022 was 26 days (see note 12.5). This average period of payment to suppliers is understood to represent the payment time or the delay in paying the trade debt.

**Important events subsequent to the end of the financial year**

Except for the following milestones, no events significant for the Company have occurred after the end of the financial year:

- As at 31 December 2022 there is an ongoing issue of equity warrants convertible into shares (the November 2022 EWs) for 2,500,000 euros. Of these, the sum of 1,000,000 euros had already been executed in the Company and at the drafting date of this management report Nice and Green had executed its right the pending shares for the sum of 1,500,000 euros. The associated capital increases were notarised in February 2023.

**The Company's foreseeable development**

The Company's forecast indicates consolidation in established markets and expansion in the banking sector of new countries and continents (America and Asia) and capture of new customers in sectors different from banking. In line with our business plan, we expect an increase in turnover and enhanced profitability in the coming months and years.

**Treasury stock Reasons for the acquisitions and disposals carried out during the financial year**

The total amount of treasury stock held as at 31 December 2022 is 454,079 euros (556,510 euros as at 31 December 2021) represented by 155,144 shares (126,903 shares at the end of the previous financial year), the equivalent of 0.89% (0.84% in 2021) of the Company's share capital. This is well below the maximum limit of 10% provided for in article 509 of the Spanish Corporate Enterprises Act.

Alicante, 31 March 2023

**FACEPHI BIOMETRÍA, S.A.**
**and subsidiaries companies**

**Auditor´s Report,**
**Consolidated Annual Accounts and**
**Consolidated Director's Report**
**for the year ended December 31, 2022**

*This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation or information, views opinions, the original language version of our report takes precedence over this translation.*

AUREN AUDITORES SP, S.L.P. Inscrita en el R.M. de Madrid. Tomo 33.829, Sección 8, Folio 89, Hoja M-608799, Inscripción 1. C.I.F.: B/87352357. Avda. General Perón, 38 – 28020 Madrid

# INDEPENDENT AUDITOR´S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of FacePhi Biometría, S.A.

## REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

### Opinion

We have audited the consolidated annual accounts of FacePhi Biometría, S.A. (the Parent Company) and its subsidiaries (the Group), which comprise the balance sheet as of December 31, 2022, and the income statement, statement of changes in equity, cash flow statement and related notes, all of them consolidated, corresponding to the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2022, as well as its financial performance and cash flows, all of them consolidated, for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2.a of the notes to the consolidated annual accounts), and, in particular, with the accounting principles and criteria included therein.

### Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated annual accounts section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that the matters described below are the key matters of our audit that should be communicated in our report:

### *Impairment of non-current assets*

| | |
|---|---|
| **Risk description** | As of December 31, 2022, the Group has registered, under the heading of “intangible fixed assets”, non-current assets amounting to 7,607 thousand euros. These assets correspond mainly to computer applications and development expenses, which, due to meeting the requirements established by applicable financial reporting framework, have been activated in the consolidated balance sheet. The Parent Company's Board have evaluated the recoverable value of these assets by calculating their value in use. We have considered this area a key audit matter due to the relevance of the amounts affected and the complexity of the estimates and assumptions made by the Group's Directors in the impairment analysis process.<br><br>The information regarding the criteria and valuation methods applied by the Parent Company's Board, and the main assumptions used in determining the recoverable value of these assets, can be found in notes 3.5 and 4.f of the attached consolidated annual report. |
| **Audit response** | Our audit procedures have included, among others:<br><br>• understanding of the criteria applied and review of the processes established by the Parent Company's Board in determining the value in use of non-current assets,<br><br>• review of the model used by the Parent Company's Board, covering its mathematical coherence, the reasonableness of projected cash flows, discount rates and long-term growth rates, as well as the results of the sensitivity analysis carried out by the Parent Company's Board,<br><br>• finally, we have evaluated the adequacy of the information disclosures included by the Group in the attached consolidated report in accordance with the applicable financial reporting framework. |

### *Revenue’s recognition*

| | |
|---|---|
| **Risk description** | As indicated in notes 3.15 and 14 of the attached consolidated report, almost all the Group's turnover is derived from the sale of the rights to use (licensing, maintenance and support) of the recognition technology software by facial biometrics.<br><br>Considering that the recognition and imputation of income to the consolidated profit and loss account depends on the various licensing modalities, the maintenance and support accrual periods, as well as the interpretation of the rest of the contractual conditions, based therefore on processes estimation, we have considered this area as a key audit matter. |

**Audit response**

Our main audit procedures included at the end of the year ended December 31, 2022, among others:

- understanding of the internal process related to revenue recognition,
- evaluation of controls over the process of generating and making licenses available to customers,
- We have examined the contracts signed with the different clients and based on their understanding, we have verified compliance with the contractual terms and evaluated the recognition of income in the corresponding period,
- obtaining external confirmations for a sample of clients pending collection, carrying out, where appropriate, alternative verification procedures using supporting documents for subsequent collection or supporting documentation for the provision of the service or the provision of licenses,
- based on a sample obtained from the management programs on the transfer of licenses as of December 31, 2022, we have verified the accrual basis and imputation of income in the appropriate period,
- we have evaluated the adequacy of the information disclosures included by the Group in the attached consolidated report in accordance with the applicable financial reporting framework.

## Other information: Consolidated Director´s report

Other information comprises only the Consolidated Director´s report for the 2022 financial year, the formulation of which is the responsibility of the Parent Company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the Consolidated Director´s report. Our responsibility regarding the Consolidated Director´s report, in accordance with legislation governing the audit practice, is to evaluate and report on the consistency between the Consolidated Director´s report and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements, and does not include information different to that obtained as evidence during our audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the Consolidated Director´s report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

Based on the work performed, as described in the previous paragraph, the information contained in the Consolidated Director´s report is consistent with that contained in the consolidated annual accounts for the 2022 financial year, and its content and presentation are in accordance with the applicable regulations.

## Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent's Company directors are responsible for issuing the attached consolidated annual accounts, in order to express the true image of the assets, the financial situation and the results of the Group, in accordance with the regulatory framework of financial information applicable to the Group in Spain, and of the internal control that they consider necessary to allow the preparation of consolidated annual accounts free of material misstatement, due to fraud or error.

In preparing the consolidated annual accounts, directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as appropriate, issues related to the going concern and using the going concern accounting principle except if the directors intend to liquidate the Group or to cease its operations, or there is no other realistic alternative.

The audit committee is responsible for supervising the process of preparing and presenting the consolidated annual accounts.

## Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent Company´s directors.

- Conclude on the appropriateness of the Parent Company´s directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate evidence in relation to the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for directing, supervising and conducting the audit of the Group. We are solely responsible for our audit opinion.

We communicate with the Parent Company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent Company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent Company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Additional report for the Parent Company’s audit committee

The opinion expressed in this report is consistent with that expressed in our additional report to the Parent Company's audit committee dated April 30, 2023.

### Appointment period

The Ordinary General Shareholders' Meeting held on July 24, 2020 appointed us as auditors for a period of 3 years, counted from the year ended on December 31, 2020.

Previously, we were appointed by decision of the General Shareholders' Meeting for a period of three years, and we have been carrying out the audit work without interruption since the year ended on December 31, 2017.

AUREN AUDITORES SP, S.L.P.
Registered in ROAC under Nº S2347

*Original signed in Spanish by*
Cristina Herráiz Linares
Registered in ROAC under Nº 10657
April 30, 2023

# Consolidated Annual Financial Statements and Consolidated Management Report
31 December 2022

# Table of Contents



## Consolidated Management Report

**Consolidated balance sheet**
**as at 31 December 2022**

(In euros)

| ASSETS | NOTES TO THE REPORT | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **A) NON-CURRENT ASSETS** | | **16,373,886** | **7,879,395** |
| **I. Intangible fixed assets** | **4** | **7,606,650** | **5,095,032** |
| 5. Other intangible fixed assets | | **7,606,650** | **5,095,032** |
| **II. Tangible fixed assets** | **5** | **1,813,748** | **422,064** |
| 2. Technical facilities and other tangible fixed assets | | 866,354 | **422,064** |
| 3. Fixed assets in progress and advances | | 947,394 | 0 |
| **IV. Long-term investments in group and associated companies** | **8** | **0** | **188** |
| 3. Other financial assets | | 0 | **188** |
| **V. Long-term financial investments.** | **9** | **170,371** | **244,187** |
| **VI. Deferred tax assets** | **13** | **1,558,878** | **1,093,506** |
| **VII. Non-current trade debtors** | **9** | **5,224,239** | **1,024,419** |
| **B) CURRENT ASSETS** | | **15,876,800** | **10,475,796** |
| **III. Trade debtors and other accounts receivable** | **9** | **13,100,287** | **8,436,474** |
| 1. Trade accounts, sales and provision of services | | 11,200,954 | 8,009,323 |
| 3. Deferred tax assets | **13** | (733) | 0 |
| 4. Other debtors | | 1,900,066 | 427,151 |
| **IV. Short-term investments in group and associated companies** | **18** | 0 | 0 |
| 2. Other financial assets | | 0 | 0 |
| **V. Short-term financial investments** | **9** | **155,553** | **44,207** |
| **VI. Short-term accruals** | | **448,792** | **297,787** |
| **VII. Cash and cash equivalents** | **10** | **2,172,169** | **1,697,327** |
| **TOTAL ASSETS (A+B)** | | **32,250,686** | **18,355,191** |

The attached consolidated management report forms an integral part of the consolidated balance sheet as at 31 December 2022.

**Consolidated balance sheet**
**as at 31 December 2022**

(In euros)

| NET EQUITY AND LIABILITIES | NOTES TO THE REPORT | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **A) NET EQUITY** | **11** | **15,213,200** | **8,706,650** |
| **A-1) Capital and reserves** | **11.1** | **15,031,547** | **8,582,504** |
| **I. Capital** | | **697,311** | **605,373** |
| 1. Authorised capital | | **697,311** | **605,373** |
| **II. Issue premium** | | **15,560,800** | **10,074,525** |
| **III. Reserves** | | (1,879,151) | (986,979) |
| 3. Other reserves | | **(1,879,151)** | **(986,979)** |
| **IV. (Parent company treasury stock)** | | **(454,079)** | **(556,510)** |
| **VI. Profit (loss) for fin. year attributed to the parent company** | | **1,106,667** | **(553,904)** |
| **A-2) Restatement for value changes** | **11.2** | **4,030** | **(3,335)** |
| **II. Conversion differences** | | **4,030** | **(3,335)** |
| **A-3) Grants, donations and bequests** | **11.3** | **177,622** | **127,480** |
| **B) NON-CURRENT LIABILITIES** | | **4,283,808** | **5,150,405** |
| **I. Long-term provisions** | | **86,661** | **66,660** |
| **II. Long-term debts** | **12** | **4,133,055** | **5,041,251** |
| 2. Debts with credit institutions | | 3,649,671 | 5,041,251 |
| 3. Financial leasing creditors | | **176,195** | **0** |
| 4. Other financial liabilities | | **307,189** | **0** |
| **IV. Deferred tax liabilities** | **13** | **64,092** | **42,493** |
| **C) CURRENT LIABILITIES** | | **12,753,678** | **4,498,137** |
| **III. Short-term debts** | **12** | **7,312,155** | **1,393,875** |
| 2. Debts with credit institutions | | 3,918,990 | 1,181,843 |
| 3. Financial leasing creditors | | 88,277 | 0 |
| 4. Other financial liabilities | | **3,304,888** | **212,032** |
| **V. Trade creditors and other accounts payable** | **12** | 5,096,803 | 2,541,337 |
| 1. Suppliers | | 574,252 | 415,152 |
| 3. Current tax liabilities | **13** | **87** | **0** |
| 4. Other creditors | | **4,522,464** | **2,126,185** |
| **VI. Short-term accruals** | **14.a** | **344,720** | **562,924** |
| **TOTAL NET EQUITY AND LIABILITIES (A + B + C)** | | **32,250,686** | **18,355,191** |

The attached consolidated management report forms an integral part of the consolidated balance sheet as at 31 December 2022.

| Consolidated income statement for the financial year ended on 31 December 2022 (In euros) | | | |
|---|---|---|---|
| | NOTES TO THE REPORT | (Debit) Credit | |
| | | 2022 | 2021 |
| **A) ONGOING OPERATIONS** | | | |
| **1. Net turnover** | **14.a** | **22,283,088** | **13,161,826** |
| b) Provision of services | | 22,283,088 | 13,161,826 |
| **3. Work performed by the Group for its assets** | **14.c** | **3,818,608** | **2,175,208** |
| **4. Supplies** | **14.b** | **(3,185,110)** | **(1,877,687)** |
| c) Works performed by other companies | | (3,185,110) | **(1,877,687)** |
| **5. Other operating revenue** | | **135,085** | **34,213** |
| **a) Non-core and other current operating revenue** | | **53,617** | **7,204** |
| **b) Operating subsidies entered to outcome of the financial year** | | **81,468** | **27,009** |
| **6. Personnel expenses** | **14.e** | **(11,031,711)** | **(7,265,310)** |
| a) wages, salaries and accessory exp. | | (9,353,906) | (6,294,288) |
| b) Social Security | | (1,675,045) | (968,941) |
| c) Provisions | | (2,761) | (2,082) |
| **7. Other operating expenses** | **14.f** | **(8,432,789)** | **(5,629,480)** |
| a) Losses, impairment and variation of provisions for trade transactions | **9.3** | (719,915) | (75,294) |
| b) Other operating expenses | | (7,712,874) | (5,554,186) |
| **8. Amortisation of fixed assets** | **4 - 5** | **(1,973,629)** | **(1,284,629)** |
| **9. Allocation of subsidies for non-financial fixed assets and others** | **11.3** | **119,639** | **103,520** |
| **11. Impairment and outcome for disposal of fixed assets** | **5** | **(1,987)** | **0** |
| **b) Outcome of disposals and others** | | **(1,987)** | **0** |
| **14. Other outcomes** | | **15,248** | **(19,513)** |
| **A.1) OPERATING PROFIT (LOSS) (1+2+3+4+5+6+7+8+9+10+11+12+13+14)** | | **1,746,441** | **(601,853)** |
| **15. Financial revenue** | | **946** | **285** |
| b) From negotiable securities and other financial instruments | | 946 | 285 |
| **16. Financial expenses** | | **(299,972)** | **(389,886)** |
| **17. Variation in fair value of financial instruments** | **11.1** | **(677,308)** | **(380,604)** |
| a) Negotiation portfolio and others | | **(677,308)** | **(380,604)** |
| **18. Exchange differences** | **14.g** | **380,492** | **317,241** |
| b) Other exchange differences | | **380,492** | 317,241 |
| **19. Impairment and outcome of disposal of financial instruments** | **8** | **(124,938)** | **201,434** |
| a) Impairment and losses | | **0** | 201,434 |
| b) Outcome of disposals and others | **9.3** | **(124,938)** | 0 |
| **A.2) FINANCIAL PROFIT (LOSS) (15+16+17+18+19+20)** | | **(720,778)** | **(251,530)** |
| **A.3) PROFIT (LOSS) BEFORE TAXES (A.1 + A.2 +21+22+23)** | | **1,025,663** | **(853,383)** |
| **24. Corporation tax** | **13.3** | **81,004** | **299,479** |
| **A.4) PROFIT (LOSS) FOR FIN. YR. FROM ONGOING OPERATIONS (A.3 +24)** | | **1,106,667** | **(553,904)** |
| **B) DISCONTINUED OPERATIONS** | | | |
| **A.5) CONSOLIDATED PROFIT (LOSS) FOR FIN. YR. (A.4 +25)** | | **1,106,667** | **(553,904)** |
| **Profit (loss) attributed to the parent company** | | **1,106,667** | **(553,904)** |
| **Profit (loss) attributed to external partners** | | **0** | 0 |

The attached consolidated management report forms an integral part of the consolidated income statement as at 31 December 2022.

**Consolidated statement of changes in net equity**
**A) Consolidated statement of recognised income and expenses for the financial year ended on 31 December 2022**

(In euros)

| | Notes to the report | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **A) CONSOLIDATED PROFIT (LOSS) FOR FIN. YEAR.** | | **1,106,667** | **(553,904)** |
| **Income and expenditure charged directly to net equity:** | | | |
| I. Changes in value of financial instruments | | | |
| II. Cash flow hedging instruments | | | |
| III. Grants, donations and bequests | 11.3 | 186,495 | 0 |
| IV. Actuarial earnings and losses and other restatements | | | |
| V. Non-current assets and related liabilities held for sale | | | |
| VI. Conversion differences | 11.2 | 9,820 | (4,447) |
| VII. Tax effect | 13.5 | (49,079) | 1,112 |
| **B) TOTAL INCOME AND EXPENDITURE CHARGED DIRECTLY TO CONSOLIDATED NET EQUITY (I +II III + IV + V + VI + VII)** | | **147,236** | **(3,335)** |
| **Transfer to the consolidated income statement:** | | | |
| VIII. Changes in value of financial instruments | | | |
| IX. Cash flow hedging instruments | | | |
| X. Grants, donations and bequests | 11.3 | (119,639) | (103,520) |
| XI. Non-current assets and related liabilities held for sale | | | |
| XII. Conversion differences | | | |
| XIII. Tax effect | 13.5 | 29,910 | 25,880 |
| **C) TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT (VIII + IX +X + XI +XII + XIII)** | | **(89,729)** | **(77,640)** |
| **TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENDITURE (A + B + C)** | | **1,164,176** | **(634,879)** |
| **Total income and expenditure attributed to the parent company** | | **1,164,176** | **(634,879)** |
| **Total income and expenditure attributed to external partners** | | | |

The attached consolidated management report forms an integral part of the consolidated statement of changes in net equity as at 31 December 2022.

B) Statement of total changes in net equity for the financial year ended on 31 December 2022

(In euros)

| | | | Parent Company's Reserves | | | | Reserves in cons. comps. | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Issue premium | Reserves | (Treasury stock) | P/L previous financial years | By full consolidation: | P/L of financial year attributed | RVC-Conversion difference | Grants, donations and bequests | TOTAL |
| **Initial balance as of 01.01.2021** | **577,141** | **7,222,153** | **1,208,969** | **(341,760)** | | | **(1,854,599)** | | **205,120** | **7,017,023** |
| I. Total consolidated recognised income and expenditure | | | | | | | (553,904) | (3,335) | (77,640) | (634,879) |
| II. Transactions with partners or proprietors | | | | | | | | | | |
| 1. Capital increases | 28,232 | 2,471,760 | (73,125) | | | | | | | 2,426,868 |
| 2. (-) Capital reductions | | | | | | | | | | |
| 3. (-) Allocation of dividends | | | | | | | | | | |
| 4. Net transactions with Parent Company's treasury stock | | | (73,670) | (214,750) | | | | | | (288,421) |
| 5. Conversion of financial liabilities to net equity (Note 11.1) | | 380,611 | | | | | | | | 380,611 |
| 6. Increase (reduction) of NE due to 1st consolidation of subsidiaries | | | | | | | (194,553) | | | (194,553) |
| III. Other changes in Net Equity | | | | | (1,682,335) | (172,265) | 1,854,599 | | | |
| **Final balance as of 31.12.2021** | **605,373** | **10,074,525** | **1,062,173** | **(556,510)** | **(1,682,335)** | **(366,818)** | **(553,904)** | **(3,335)** | **127,480** | **8,709,650** |
| I. Restatement for changes of criteria in fin. yr. | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| III. Restatement for errors in 2021 | | | | | | | | | | |
| **Initial balance as of 01.01.2022** | **605,373** | **10,074,525** | **1,062,173** | **(556,510)** | **(1,682,335)** | **(366,818)** | **(553,904)** | **(3,335)** | **127,480** | **8,706,650** |
| I. Total consolidated recognised income and expenditure | | | | | | | 1,106,667 | (4,750) | 50,142 | 1,152,058 |
| III. Transactions with partners or proprietors | | | | | | | | | | |
| 1. Capital increases | 91,938 | 4,908,007 | (179,625) | | | | | | | 4,820,320 |
| 2. (-) Capital reductions | | | | | | | | | | |
| 3. (-) Allocation of dividends | | | | | | | | | | |
| 4. Net transactions with Parent Company's treasury stock | | | (181,184) | 102,431 | | | | | | (78,753) |
| 5. Conversion of financial liabilities to net equity (Note 11.1) | | 578,268 | | | | | | | | 578,268 |
| 6. Increase (reduction) of NE due to 1st consolidation of subsidiaries | | | | | | | | 12,116 | | 12,116 |
| 7. Addition of business units to the consolidation perimeter (Note 1.c) | | | (592,985) | | | 530,197 | 85,330 | | | 22,541 |
| III. Other changes in Net Equity | | | | | (158,993) | (309,581) | 468,574 | | | |
| **Final balance as of 31.12.2022** | **697,311** | **15,560,800** | **108,379** | **(454,079)** | **(1,841,328)** | **(146,203)** | **1,106,667** | **4,030** | **177,622** | **15,213,200** |
| | | | | | | | | | | |

The attached consolidated management report forms an integral part of the consolidated statement of changes in net equity as at 31 December 2022.

## Consolidated cash flow statement for the financial year ended on 31 December 2022

(In euros)

| | 31/12/2022 | 31/12/2021 |
|---|---|---|
| **A) Operating Cash Flows** | | |
| **1. Profit (loss) for the financial year before tax** | **1,025,663** | **(853,383)** |
| **2. Restatements of outcome** | **235,955** | **1,945,613** |
| a) Amortisation of fixed assets (+) | 1,973,629 | 1,284,628 |
| b) Value restatements for impairment (+/-) | 719,915 | 75,294 |
| c) Variation in provisions (+/-) | 20,001 | 40,166 |
| d) Recognition of subsidies (-) | (201,107) | (103,520) |
| e) Outcome of deregistration and disposal of fixed assets (+/-) | 1,987 | 0 |
| f) Outcome of deregistration and disposal of financial instruments (+/-) | 124,938 | 0 |
| g) Financial revenues (-) | (946) | (285) |
| h) Financial expenses (+) | 299,972 | 389,886 |
| i) Exchange rate differences (+/-) | 438,857 | (121,168) |
| j) Variation in fair value of financial instruments (+/-) | 677,318 | 380,611 |
| k) Other income and expenditure (+/-) | (3,818,608) | 0 |
| **3. Changes in working capital** | **(6,797,376)** | **(3,985,121)** |
| b) Debtors and other accounts receivable (+/-) | (8,958,150) | (4,830,309) |
| c) Other current assets (+/-) | (151,004) | (124,164) |
| d) Creditors and other accounts payable (+/-) | 2,529,982 | 1,359,939 |
| e) Other current liabilities (+/-) | (218,205) | (196,034) |
| f) Other non-current assets and liabilities (+/-) | 0 | (194,553) |
| **4. Other operating cash flows** | **(282,840)** | **(711,082)** |
| a) Interest paid (-) | (283,634) | (395,289) |
| c) Interest collected (+) | 946 | 285 |
| d) Collection (payment) of corporation tax (+/-) | (340) | (316,078) |
| e) Other payments (collections) (-/+) | 188 | 0 |
| **5. Operating cash flow** | **(5,818,598)** | **(3,603,973)** |
| **B) Cash flows from investments** | | |
| **6. Investment outlays (-)** | **(2,237,064)** | **(2,614,831)** |
| a) In group and associated companies | 0 | (188) |
| b) Intangible fixed assets | (495,764) | (2,247,544) |
| c) Tangible fixed assets | (1,569,307) | (303,331) |
| e) Other financial assets | (171,993) | (63,768) |
| **7. Collection for divestment (+)** | **36,956** | **474,910** |
| c) Tangible fixed assets | 27,430 | 0 |
| e) Other financial assets | 9,526 | 474,910 |
| **8. Cash flows from investments (7-6)** | **(2,200,108)** | **(2,139,922)** |
| **C) Cash flows from financing activity** | | |
| **9. Collection and payments for equity instruments** | **4,708,743** | **2,114,072** |
| a) Issuance of equity instruments | 4,760,487 | 2,402,493 |
| c) Acquisition of treasury stock | (338,101) | (585,934) |
| d) Disposal of treasury stock | 259,348 | 297,513 |
| e) Grants, donations and bequests | 27,009 | 0 |
| **10. Collection and payments for financial liability instruments** | **3,894,130** | **(811,250)** |
| a) Issuance. | | |
| 2. Debts with credit institutions (+) | 1,604,229 | 0 |
| 4. Others (+) | 2,300,429 | 0 |
| b) Repayment and amortisation of | | |

| | | |
|---|---|---|
| 2. debts with credit institutions (-) | (10,528) | (809,652) |
| 4. Others (-) | 0 | (1,598) |
| **11. Outlays for dividends and remuneration of other equity instruments** | 0 | 0 |
| **12. Financing cash flows** | 8,602,874 | **1,302,822** |
| **D) Effect of exchange rate variations** | **(109,326)** | **158,695** |
| **E) Increase/decrease in cash and cash equivalents** | **474,841** | **(4,282,378)** |
| Cash and cash equivalents at start of fin. year | 1,697,327 | 5,979,705 |
| Cash and cash equivalents at end of fin. year | 2,172,169 | 1,697,327 |

The attached consolidated management report forms an integral part of the consolidated cash flow statement as at 31 December 2022.

# REPORT ON THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2022

## NOTE 1. NATURE AND MAIN ACTIVITIES OF THE GROUP

### *a) Parent company*

FACEPHI BIOMETRIA S.A. (hereinafter the Parent Company) was incorporated for an indefinite period on 26 September 2012 before the notary public Ignacio J. Torres López. Its registered address is Calle México 20, Alicante, Spain.

According to the Articles of Association, its corporate purpose is the following:

- Research, development and marketing of all kinds of information technology material: hardware, software and electrical appliances.
- Online sales by the Internet and/or similar distribution channels, import, export, representation, marketing, distribution, dealership, wholesale and retail sale, assembly, handling, manufacture and provision of related hardware, software services on physical support and through the sale of licenses for use, electronic products and components, electrical home appliances and telecommunications.
- Performance of Internet-based activities and provision of information and training services.
- Development, construction, acquisition, conveyancing, representation, leasing (except financial leasing), subleasing, installation or direct or indirect operation of consultancy services, urban land management, administration, custody and management of all kinds of real property, plots classified in any zoning category, buildings, single-family dwellings, apartments, condominiums, sports fields, residential buildings, premises and industrial or business facilities, hospitality establishments. All the above furnished or unfurnished, acting on its own behalf or that of third parties and with property of public and private ownership.

Currently, the main activity of FacePhi Biometría S.A. and subsidiaries (hereinafter FacePhi Group or the Group) consists of marketing and implementation of biometric facial recognition software developed by the Group itself and classified in category 845 of the National Classification of Economic Activities (CNAE).

The Group has been listed on BME Growth in the expanding enterprise segment since 1 July 2014 and on Euronext Growth in Paris since 25 February 2020.

Therefore, the Group is subject to the control and supervision regime provided for under Regulation (EU) 596/2014 on market abuse, the consolidated text of the Securities Market Act approved by Royal Legislative Decree 4/2015 of 23 October and concordant provisions and by the Circulars issued by BME Growth.

### *b) Subsidiary and associated companies*

Consolidation was performed by the full consolidation method to all subsidiaries, i.e. companies in which the Parent Company directly or indirectly exercises – or may exercise – its control, understood as the power to direct the financial and operating policies of a company in order to obtain economic benefits from its activities. This circumstance is evidenced (in general, but not exclusively) by direct or indirect ownership of more than 50% of the voting rights of the company in question. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from the consolidation perimeter on the date on which said control ceases.

The following table shows details, including the main activity and the registered address, of the companies that form part of FacePhi Group:

| Corporate Group Company (Art. 42 C. Code) | % holding | Address | Main activity |
|---|---|---|---|
| FacePhi Biometría, S.A. | Parent Company | Alicante- Spain | Marketing of biometric facial-recognition systems |
| FacePhi APAC Ltd | 100% | Pangyo (South Korea) | Marketing of biometric facial-recognition systems |
| Ecertic Digital Solutions, S.L.U. (1) | 100% | Madrid, Spain | Software development and marketing |
| Celmuy Trading, S.A. | 100% | Montevideo (Uruguay) | Marketing of biometric facial-recognition systems |
| Facephi Beyond Biometrics, Ltd. | 100% | London (UK) | Marketing of biometric facial-recognition systems |

(1) Ecertic Digital Solutions, S.L.U. was absorbed by the Parent Company by short-form merger for accounting purposes on 1 January 2022 (see section d) of this note.

The following was the equity position of the subsidiaries obtained from the unaudited accounting records as of 31 June 2022 and 31 December 2021 (as required):

| | Euros | | | | |
|---|---|---|---|---|---|
| | **FacePhi APAC Ltd (*)** | | **Celmuy (*)** | **Ecertic** | **Fp Beyond (*)** |
| | **31.12.22** | **31.12.21** | **31.12.22** | **31.12.21** | **31.12.22** |
| Called capital | 516,390 | 516,390 | 187 | 8,867 | --- |
| Issue premium | --- | --- | --- | 703,365 | --- |
| Reserves | (227,466) | (275,817) | --- | (327,603) | --- |
| Profit (loss) for the financial year | (66,428) | 48,351 | 43,450 | --- | (909,089) |
| Conversion differences | (8,086) | (3,335) | (2,539) | (85,330) | 14,654 |
| Subsidies | --- | --- | --- | 61,484 | --- |
| **Net equity** | **214,410** | **285,589** | **41,098** | **360,783** | **(894,435)** |
| % holding | 100% | 100% | 100% | 100% | 100% |
| **Theoretical value of holding** | **214,410** | **285,589** | **41,098** | **360,783** | **(894,435)** |

(*) Exchange value of the South Korean Won (KRW) and Uruguayan Peso UYU to Euro according to the conversion criteria set forth in Note 3.1.

### c) Changes to the consolidation perimeter

In accordance with the regulations applicable to drafting the consolidated annual financial statements, the Uruguayan subsidiary of Facephi – Celmuy Trading, S.A. – was excluded from the consolidation perimeter on 31 December 2021 due to the fact that it was an inactive entity that had not engaged in any transactions whatsoever during said financial year and because it was irrelevant to the Group's interests. Nevertheless, having begun its business transactions during the 2022 financial year it consolidated its financial statements with those of the other Group companies for the first time, taking 1 January 2022 as its first consolidation date.

Facephi Beyond Biometrics, Ltd., incorporated on 26 May 2022, has been added to the consolidation perimeter from its founding date.

### d) Incorporation of the Group companies and business combinations.

FacePhi APAC Ltd

The Parent Company holds 100% of the share capital of FacePhi APAC Ltd, – a subsidiary incorporated for an indefinite period on 15 October 2019 with registered office in Pangyo (South Korea) – as part of its internationalization and business development strategy. The Parent Company was incorporated with an initial capital of 100,000,000 KRW, equivalent to 81,264 euros, fully called and paid up by the Parent Company as the sole shareholder.

Acquisition of Ecertic Digital Solutions, S.L.

On 20 April 2020 the purchase agreement for acquisition of 100% of the share capital of the trading company Ecertic Digital Solutions, S.L. – until then a technology supplier – was executed for the sum of two (2) million euros. Group management considers that this transaction achieves the strategic objective of promoting the "digital on-boarding" service in its commercial portfolio and consolidating its leadership in the field of identification and authentication at both the domestic and the international levels. The transaction was settled by cash for the sum of 1,159,999 euros and provision of 164,706 of the Parent Company's treasury shares for 840,001 euros, the fair value of the transferred shares.

The fair value of the assets and liabilities of Ecertic together with their book value before the acquisition were entered as follows once the Company had been acquired:

| | Book value | Fair value |
|---|---|---|
| Intangible Assets | 293,666 | 1,920,360 |
| Tangible fixed assets | 13,456 | 13,456 |
| Trade debtors and other accounts receivable | 120,329 | 120,829 |
| Cash and cash equivalents | 7,474 | 7,474 |
| Deferred tax liabilities | (38,723) | (38,723) |
| Trade creditors and other accounts payable | (23,396) | (23,396) |
| **Identified net assets** | **372,806** | **2,000,000** |
| Goodwill arising from the transaction | | --- |
| **Total acquisition cost** | | **2,000,000** |

Therefore, the agreed acquisition price implies the existence of an implicit goodwill fund amounting to 1,627,194 euros that was attributed to the technology provided by said company for development of the digital “on-boarding” solutions that the Group markets at the present time and is recognised on the consolidated balance sheet as “Information Technology Applications” under the head of intangible assets.

The merger agreements signed on 2 November 2021 and the project issued by the governing bodies of the absorbing company FACEPHI BIOMETRÍA, S.A. and the absorbed entity ECERTIC DIGITAL SOLUTIONS, S.L. were executed and notarised on 3 March 2022 with the content and applicable requirements laid down for this purpose in articles 30 and 31 of Act 3/2009 of 3 April on structural changes to trading companies.

The governing bodies of the two companies approved the merger transaction in accordance with the project on 9 November 2021. The absorbed company was acquired and liquidated by universal succession of its assets and the respective merger balance sheets as at 30 September 2021 were also approved. The effective carrying date of the absorbed company’s transaction was 1 January 2022.

In compliance with Article 51 of the Structural Changes Act, it was not necessary to seek approval of the merger from the General Meeting of the absorbed company since the absorbing company was the direct owner of 100% of the share capital of the absorbed limited liability company.

The following is the merger entry recognised in the Parent Company’s accounting records on 1 January 2022:

| | **Euros** | |
|---|---|---|
| **Heads** | **Debit** | **Credit** |
| Intangible fixed assets | 1,267,704 | |
| Tangible fixed assets | 8,367 | |
| Trade debtors and other accounts receivable | 15,815 | |
| Trade with Group companies | 382,548 | |
| Treasury | 45,683 | |
| Merger reserves | 592,985 | |
| Subsidies | | 61,484 |
| Deferred tax liabilities | | 20,495 |
| Short-term debts | | (3,842) |
| Short term debts with Group companies | | 192,196 |
| Trade creditors | | 42,771 |
| Shares in Ecertic | | 2,000,000 |
| **Total** | **2,313,102** | **2,313,102** |

*Acquisition of Celmuy Trading, S.A.*

On 25 April 2021 the Parent Company acquired a 100% holding in the share capital of Celmuy Trading S.A. for an amount equal to its nominal value of 10,000 pesos, the equivalent to 187 euros valued at the exchange rate on the transaction date.

Celmuy Trading S.A. was incorporated under the laws of Uruguay on 11 August 2020 and registered in the Single Tax Registry of said country with number 218731960012. This company remained inactive until February 2022 and therefore did not form part of the consolidated Group on 31 December 2021.

Celmuy Trading began trade transactions on 1 March 2022. Its main activity is marketing of the Group's technological products in Latin America, the provision of technical assistance services and implementation of the solutions marketed by the Group.

### e) Consortiums and joint ventures

In the 2022 financial year the Parent Company acquired 21.08% of “UTE DH Healthcare Provider Software Spain, S.L.U – Facephi Biometria, S.A.”, a consortium domiciled in Madrid that has been incorporated to execute the object of the contract awarded by the Directorate of the National Institute of Health Management (INGESA) for installation and integration of a master system for hospital patients with biometric identification for the Melilla District Hospital, the Ceuta University Hospital and the Ceuta and Melilla primary attention system.

The estimated value of the contract is 711,490 euros and the execution period is 38 months. The works had not yet begun on the drafting date of these financial statements.

## NOTE 2. ANNUAL FINANCIAL STATEMENTS REPORTING CRITERIA

### a) Regulatory framework for financial information applicable to the Parent Company

The consolidated annual financial statements have been drawn up on the basis of the accounting records and individual annual financial statements of the Parent Company and the consolidated companies. They include the restatements and reallocations required for temporal and valuation homogenisation with the accounting criteria under which the Group reports its fiscal information.

These consolidated annual financial statements are presented in accordance with current commercial legislation included in the following regulations:

- the Commercial Code amended in accordance with Act 16/2007 of 4 July on the reform and adaptation of Spanish accounting-related commercial legislation for international harmonisation based on European Union regulations
- Royal Decree 1514/2007 of 16 November that adopts the General Accounting Plan and its subsequent modifications incorporated by Royal Decrees 1159/2010 of 17 September, 602/2016 of 17 December and 1/2021 of 12 January
- Royal Decree 1159/2010 of 17 September that approves the rules for drafting consolidated annual financial statements in all aspects that do not contradict other provisions of the financial information regulatory framework that may be applicable
- other provisions of the applicable regulatory financial reporting framework

### b) True and fair view

These consolidated annual financial statements have been drawn up on the basis of the Group’s accounting records in accordance with the regulatory financial reporting framework set forth above and with the accounting principles and criteria contained in the same in such a way that they provide a true image of the Group’s consolidated equity, financial position, accounting outcomes and the accuracy of the flows contained in the Consolidated Cash Flow Statement for the financial year in question.

The consolidated annual financial statements are presented in euros – the Group's functional and reporting currency – rounded to the nearest unit.

There are no exceptional reasons why accounting-related legal provisions have not been applied to show the true and fair view.

These consolidated annual financial statements, drawn up by the Parent Company's Board of Directors, will be submitted to the Ordinary General Meeting for approval and are expected to be approved without reservations or amendments. The annual financial statements for financial 2021 were approved by the General Meeting held on 21 June 2022.

### c) *Non-mandatory accounting principles*

No non-mandatory accounting principles have been applied. Additionally, the Board of Directors of the Parent Company has drawn up these consolidated annual financial statements taking all the mandatory accounting principles and standards that have a significant effect on said annual financial statements into consideration. No mandatory accounting criterion has been ignored.

### d) *Critical aspects of assessing and estimating uncertainty*

The Parent Company's directors are responsible for the information set forth in these annual financial statements.

When drawing up the annual financial statements, the Group's directors and senior managers are required to make certain estimates and assumptions that affect application of the regulations and valuation of assets, liabilities, revenues, expenses and commitments. These estimates and assumptions are based on historical experience and other factors that are considered reasonable under the current circumstances.

The following is a breakdown of the aspects that have entailed a greater degree of judgement and complexity or those for which the hypothetical assumptions and estimation have been most significant during drafting of the annual financial statements:

- *Impairment of non-current assets*: valuation of non-current assets other than financial assets requires making estimations to determine their recoverable value for the purposes of assessing their potential impairment. To determine this recoverable value, the Parent Company's directors estimate the expected future cash flows of the assets or the cash-generating units of which they form part and use an appropriate discount rate to calculate the present value of said cash flows. The cash flows depend on fulfilment of the projections included in the business plan for the next five financial years while the discount rates depend on the interest rate plus the risk premium (see Note 3.5).

- *Deferred tax assets* are recognised for all deductible temporary differences, negative tax bases pending compensation and deductions pending application for which it is probable that the Group will have future taxable earnings that enable application of these assets. Significant estimates must be made to determine the amount of deferred tax assets that can be recognised taking the amounts and dates on which future taxable profits will be obtained and the reversal period of taxable temporary differences into account. As at 31 December 2022, the Group has recognised deferred tax assets for a total amount of 1,558,878 euros for temporary differences, (1,093,506 euros at the end of the previous financial year) for temporary tax differences, taxable bases pending compensation and rebates pending application (see Note 13).

These estimates are made on the basis of the best information available on the events under analysis on the drafting date of the annual financial statements. Nevertheless, it is possible that future events may make it necessary to change them (upwards or downwards) in coming financial years. Said changes, if any, will always be made in a prospective manner in accordance with the provisions of Rule 22 of the General Accounting Plan, recognising the effects of any changes in the estimates in the associated income statement.

### e) The Group as a going concern

The Group has made a consolidated loss of 1,879,000 euros in previous financial years. It has made a consolidated profit of 1,107,000 euros in the 2022 financial year. Consolidated EBITDA generated during the 2022 financial year stands at 4.440,000 euros (758 thousand euros in financial 2021).

Moreover, consolidated net equity amounted to 15.2 euros as at 31 December 2022, an increase of 6.5 million euros mainly derived from the capital increase transactions conducted in the Parent Company during the 2022 financial year (see Note 11.1).

Under these circumstances the Parent Company's Board of Directors estimates that the cash flows generated by the business and the available financing lines will enable it to address its current liabilities and the Group's expansion plans. Therefore, these annual financial statements have been drawn up on the basis of the going concern principle.

### f) Comparison of the information

In addition to the figures for the 2022 financial year, for comparative purposes these consolidated annual financial statements present, with each item on the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and the quantitative information required in the notes to the consolidated financial statements for the 2021 financial year approved by the Parent Company's Annual General Meeting.

The Consolidated Management Report also contains comparative information from the previous year except when the accounting rules expressly state that it is not required.

### g) Changes in accounting criteria and correction of errors

The Group has not made any restatement for changes of accounting criteria during the financial year ended 31 December 2022 and nor has it been necessary to rectify any error from said financial year or from previous periods.

### h) Grouping of items

In order to facilitate understanding of the consolidated income statement, the consolidated statement of changes in net equity and the consolidated cash flow statement, certain accounting heads are grouped together in this document. The analyses required are provided in the noted to the consolidated management report.

### i) Items recognised in various entries

The consolidated report identifies and provides the amount of the equity items that are recognised in more than one entries on the consolidated balance sheet.

***j) Relative importance***

The Parent Company, in accordance with the Conceptual Framework of the General Accounting Plan, has taken the relative importance of the items in the financial statements or other matters in relation to the consolidated annual financial statements for the 2022 financial year into account when deciding which information shall be broken down in this consolidated report.

## NOTE 3. RECOGNITION AND VALUATION RULES

The following are the main recognition and valuation standards employed by the Facephi Group when drawing up these consolidated interim financial statements:

### *3.1 Consolidation principles*

The following are the main criteria used in consolidation of the financial statements:

Acquisition of control

Acquisitions by the Parent Company (or any other Group Company) to obtain a controlling interest in a subsidiary constitutes a business combination that is accounted for using the acquisition method. This method requires the acquiring company to recognise the acquired identifiable assets and liabilities at full fair value on the acquisition date in a business combination and as required, the associated goodwill or negative difference. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from the consolidation perimeter on the date on which said control ceases.

The acquisition cost is deemed to be the sum of the fair values at the acquisition date of the acquired assets, liabilities, the equity instruments issued by the acquirer and the fair value of any contingent consideration that depends on future events or fulfilment of certain conditions, which must be recognised as an asset, a liability or as net equity according to their nature.

Expenses related to the issuance of equity instruments or the financial liabilities assumed do not form part of the price of the business combination and are recognised in accordance with the regulations applicable to financial instruments. Fees paid to legal counsel or other professional persons involved in the business combination are recognised as expenses as they are incurred. Neither do internal costs incurred for these items form part of the cost of the business combination or any other applicable expenditure that the acquired entity would have incurred in any case.

The excess of the price of the business combination on the acquisition date over the proportional part of the value of the identifiable assets acquired minus that of the liabilities assumed that represents the holding in the acquired entity is recognised as goodwill. In the exceptional event that this amount exceeds the cost of the business combination, the excess shall be recognised as revenue in the income statement.

Since there effective control, the assets, liabilities, income, expenditure, cash flows and other items in the Group's annual financial statements are included in the Group's consolidated accounts using the full consolidation method.

Effective control is understood to exist in relation to subsidiaries in which the Parent Company has a direct or indirect holding in excess of 50% that entails control of the majority of the voting rights in the associated governing bodies.

This method requires the following:

Temporary homogenisation

The subsidiaries' individual annual financial statements shall be drawn up as on the same date and for the same period as the annual financial statements of the Parent Company required to consolidate.

The inclusion of companies with different financial year's end dates shall be consolidated on the basis of interim financial statements drawn up as at the consolidated balance sheet date.

Valuation homogenisation

Assets, liabilities, income, expenditure and other items in the Group companies' annual financial statements shall be valued by applying identical methods. The valuation of any asset, liability, income or expenditure assessed according to criteria different from those applied for consolidation must be valued again and the required restatements shall be made for the sole purpose of consolidation.

Aggregation

Items of the previously-harmonised individual annual financial statements may be aggregated according to their nature.

Elimination of investment-net equity

The book values representing the subsidiary's equity instruments directly or indirectly owned by the Parent Company are offset with the proportional part of the equity items of the aforesaid subsidiary attributable to these holdings. In general, this compensation will be made on the basis of the values resulting from applying the acquisition method as set forth above. In consolidations subsequent to the financial year in which control was acquired, the excess or shortfall of the equity generated by the subsidiary from the acquisition date shall be reported in the consolidated balance sheet under the head of reserves or restatements due to value changes, in accordance with their nature. The part of the excess or shortfall attributable to the external partners must be entered in the "External partners" item.

Holdings by external partners

There were no external partners as at 31 December 2022 or 2021.

Elimination of intragroup items

Credits and debts, income and expenditure and cash flows between Group companies have been totally eliminated. Furthermore, all outcomes produced by internal transactions are eliminated and deferred until they are charged to third parties outside the Group.

Conversion of the annual financial statements of the foreign subsidiaries

All assets and liabilities of companies the functional currency of which is different from the euro and that are included in the consolidation are converted to euros using the exchange rate at the end of each year.

Items in the income statement have been converted at the exchange rates on the dates on which the associated transactions were performed.

The difference between the amount of equity of foreign companies including the balance of the income statement calculated in accordance with the previous section, converted at the historical exchange rate and the net equity resulting from conversion of assets and liabilities in accordance with paragraph one are entered with a positive or negative sign, as required, in the net equity of the consolidated balance sheet under the head of Conversion Differences.

Goodwill and restatement of fair value of balance sheet items that arise when acquiring a holding in a foreign undertaking are treated as assets and liabilities of the acquired entity and are therefore converted at the interest rate at year's end and the exchange differences that arise in the aforesaid account are entered to Conversion Differences.

### *3.2 Business combinations and joint ventures*

Business combinations are considered to consist of transactions in which a Group company gains control of one or more undertakings – understood as an integrated group of activities and assets that can be managed to provide earnings or to lower costs or provide other benefits to the owners.

The merger, spin-off and non-monetary contribution transactions of a business between Group companies are recognised by valuing the equity instrument acquired at their book values in the consolidated annual financial statements of the last Spanish parent company on the date on which the transaction was performed. Any differences that may arise are entered against reserves. The effective accounting date is the start date of the financial year in which the transaction is approved.

Merger or spin-off transactions other than the above and business combinations arising from the acquisition of all the equity components of an undertaking or of a party that constitutes one or more businesses, are recognised by valuing the acquired equity components in accordance with the acquisition method. This means that these assets and liabilities will be valued as a general rule at their fair value on the date of the transaction provided that this can be reliably measured and, as required, the difference between the cost of the business combination and the value of said assets and liabilities will be entered as goodwill if it is positive or as income in the income statement if it is negative. The acquisition date is the date on which the acquiring company gains control of the target enterprise or enterprises.

In accordance with the currently applicable commercial legislation, for integration and accounting recognition of transactions carried out with consortiums (UTE) of which the Group is a member the proportional part of the UTE's balances shall be accounted for in the consolidated balance sheet and income statement as a function of the percentage holding. This addition shall be performed once the required homogenisation and elimination of the transactions between the Group and the UTE have been carried out in proportion to the associated holding, the asset and liability balances and the reciprocal income and expenditure.

### *3.3 Intangible fixed assets*

Assets entered under intangible fixed assets are recognised at their acquisition price or production cost. Intangible fixed assets are reported in the annual financial statements at cost minus depreciation and, as appropriate, minus any accumulated value restatements due to impairment.

Intangible fixed assets are assets with a defined useful life and therefore must be written off over the useful economic life defined as the time during which it is reasonably expected that the financial benefits inherent to the asset will produce returns for the Group.

These assets are written off over a period of ten years when their useful life cannot be reliably estimated.

a) Computer application development expenses

The *development expenses* of the information technology applications that are subsequently marketed are capitalised the moment in which all the following conditions are met:

- There is a specific, individualised project that enables reliable assessment of the disbursement attributable to completion of the same.
- The allocation, attribution and distribution over time of the costs of each project are clearly established.
- There are well-founded reasons for a technically successful conclusion to the project at all times, whether the Group intends to operate it directly or to sell resulting product to a third party if there is a market for the same once the project is concluded.
- The financial-commercial profitability of the project is reasonably assured.
- In addition to the availability of adequate technical or other resources to complete the project and to use or sell the intangible asset, financing to enable completion of the projects is reasonably assured.
- The UTE intends to finish the intangible asset in question in order to use or sell it.

Fulfilment of all the above conditions is verified over the entire period during which the project is developed. The amount capitalised is that applicable the moment all the aforesaid conditions are fulfilled.

Own personnel expenses and the costs of the services acquired from third parties that have participated in development of the applications and computer software are included as increased costs of the same with payment under the head of "Work carried out by the Group for its fixed assets" in the income statement.

Other development expenses are recognised as expenses when they are incurred. Development costs previously recognised as expenses are not restated as assets in subsequent years. In accordance with the conditions indicated above in this section, capitalised development costs are amortised on a straight-line basis during their estimated useful life – which shall not exceed five (5) years – for each project.

Estimates of impairment of intangible assets are based on calculation of the future cash flows derived from fulfilment of the business plan drawn up by Group management and updated at a market discount rate. Said plan supports the commercial success of capitalised development spending and the expectation that it will be recovered.

As at 31 December 2022 the Parent Company estimates that there is no indication of impairment of intangible assets since the directors are reasonably sure that the business plan will be fulfilled, which means that on the basis of their forecasts, all the intangible assets and tax credits will be fully recovered in the coming years.

b) Computer applications

Computer program licenses acquired from third parties are capitalised on the basis of the costs incurred for acquisition of the programs and for configuring them for use in specific applications. These costs are written off over their estimated useful lives on a straight-line basis over a period of six (6) years.

Expenses related to maintenance of computer programs are recognised as expenses when they are incurred. Costs directly related to the production of unique and identifiable computer programs controlled by the Group and which are likely to generate earnings in excess of costs for more than one year are recognised as intangible assets. Direct costs include the personnel costs of the software development and an appropriate percentage of overheads.

Computer program development costs recognised as assets are written off over their estimated useful lives (not exceeding 5 years).

c) Intellectual property

Intellectual property shall be valued at its acquisition cost or that of the right to use or to assign the use of the various versions of the program provided that, due to the contractual monetary conditions, said assets must be posted to the inventory of the acquiring company. Intellectual property includes but is not limited to: patents for inventions, utility model protection certificates, industrial design and other modalities consistent with the applicable legislation.

Intellectual property rights are valued at the acquisition price or production cost. The book value of development expenses capitalised at the time the associated patent or similar right is obtained – including the cost of registration and formalisation of the intellectual property – are recognised as such provided that the legal conditions required for registration in the appropriate registry are met and without prejudice to the amounts that could also be recognised for acquisition of the associated rights from third parties. Research expenses continue to be written off at the same rate and under no circumstances shall they be posted to the book value of the intellectual property. The useful life is estimated at between 10 and 20 years.

### *3.4 Property, plant and equipment*

Property, plant and equipment are recognised at acquisition price or production cost minus accumulated depreciation and the accumulated cost of recognised losses.

Costs of extension, modernisation or improvement of property, plant and equipment are posted to Assets as increased value of the property only when they entail an increase in its capacity, productivity or extension of its useful life and provided that it is possible to know or estimate the book value of items removed from the inventory due to having been replaced.

Major repair costs are capitalised and written off over their estimated useful life. Recurring maintenance expenses are charged to the income statement for the year in which they are incurred.

With the exception of land, which is not depreciated, depreciation of property, plant and equipment is calculated on a straight-line basis depending on the nature of the asset and taking the wear and tear actually suffered due to its operation, use and enjoyment into account.

The following are the estimated depreciation data of the main items:

| Item | Annual percentage | Years of useful life | Method |
|---|---|---|---|
| Machinery | 10% | 10 | Straight-line |
| Other facilities | 10% | 10 | Straight-line |
| Furnishings | 5% - 10% | 10 - 20 | Straight-line |
| Information processing equipment | 25% | 4 | Straight-line |
| Other tangible fixed assets | 10% - 20% | 5 - 10 | Straight-line |

The residual value and useful life of assets are reviewed and restated if necessary on the date of each balance sheet.

The value of an asset is immediately reduced to its recoverable amount whenever its book value is higher than its estimated recoverable amount.

Income and losses from the sale of property, plant and equipment are calculated by comparing the income obtained from the sale with the book value and are recorded in the income statement.

### *3.5 Impairment of non-financial assets*

The directors assess whether there are indications of impairment of non-current assets at least at the close of each financial year. Their recoverable values are estimated if such evidence is found.

The recoverable amount is the fair value minus the cost of sale or the value in use, whichever is higher. A loss by impairment is recognised if the book value is higher than the recoverable amount. Value in use is the net present value of expected future cash flows using risk-free market interest rates adjusted for the specific risks associated with the asset. The recoverable value of assets that do not generate cash flows largely independent of those derived from other assets or groups of assets is determined by the cash-generating units to which said assets belong.

Valuation restatements for impairment and reversal of the same are recognised in the income statement. Except for those associated with goodwill, valuation restatements for impairment are reverted when the circumstances that gave rise to them cease to exist. Reversion of impairment is limited to the book value of the asset that would be applicable if the associated impairment had not been previously recognised.

The Parent Company’s directors have updated their five-year business plan that forms the basis on which a new impairment test for non-financial assets will be conducted.

### *3.6 Financial assets*

**Classification of financial instruments**

Financial instruments are classified at the time of initial recognition as financial assets, financial liabilities or equity instruments depending on the definition of their financial nature in the contractual agreement and on the definitions of financial asset, financial liability or equity instrument.

The Group classifies financial instruments into one category or another depending on their characteristics and the governing body's investment strategy at the time of initial recognition.

**Compensation criteria**

Financial assets and liabilities are subject to compensation only when the creditor has an enforceable right to compensate the amounts recognised and intends to settle the net amount or to simultaneously liquidate the asset and cancel the liability.

**Assets at amortised cost**

If the Group holds an investment solely for the purpose of receiving cash flows arising from execution of the contract and the contractual conditions of the financial asset entail cash flows that are exclusively payments of capital and interest on the outstanding principal on specific dates, the financial asset shall be recognised in said category even when it is listed for trade on an organised market.

As a general rule, this category includes debits for both trade and non-trade transactions:

a. Credits for trade transactions: these are financial assets that originate in the disposal of goods and provision of services for the Group's trade transactions with deferred payment, and

b. Credits for non-trade transactions: these are financial assets which – not being equity instruments or derivatives do not originate in trade transactions and the collection of which is a specific or specifiable amount – arise from transactions involving loans or credits granted by the Group.

Initial valuation

Financial assets classified in this category are initially recognised at fair value which, unless there is evidence to the contrary, will be the transaction price which in turn is equal to the fair value of the consideration plus any transaction costs directly imputable to the asset in question.

Notwithstanding the above, credits for trade transactions with maturity at no more than one year that do not have a contractual interest rate, credits to personnel, dividends pending collection and demand disbursements on equity instruments may be valued at their face value when the effect of not updating the cash flows is not significant.

Subsequent valuation

Financial assets recognised in this category are valued at their amortised cost. Accrued interest is charged to the income statement on the basis of the effective interest rate method.

Nevertheless, credits with a maturity of no more than one year which – in accordance with the provisions of the above section are initially recognised at face value – will continue to be valued at said amount unless they have been impaired.

The Group will consider whether an impairment loss should be recognised if the contractual cash flows of a financial asset change due to the issuer's financial difficulties.

Value impairment

The required valuation restatements must be made at least at the end of each financial year if there is objective evidence that the value of a financial asset or a group of financial assets with similar collectively-assessed risk characteristics has suffered impairment as a result of one or more events having occurred after their initial recognition and which cause a reduction or delay – that may be due to the debtor's insolvency – in the estimated future cash flows.

Losses due to value impairment of these financial assets shall be the difference between their book value and the net present value of their estimated future cash flows, including any flows originating in the estimated outcome of execution of real or personal guaranties, discounted at the effective interest rate at the time of initial recognition of the asset. The effective interest rate on the closing date of the annual financial statements shall be used for financial assets with variable interest rates in accordance with the contractual conditions. Models based on statistical formulas or methods may be used to calculate impairment losses on a group of financial assets.

Impairment losses and reversal of the same shall be recognised as expenses or revenue respectively in the consolidated income statement if the amount of such losses decreases for reasons related to a subsequent event. Reversal of the impairment is recognised as income and is limited to the book value of the financial asset that would be recognised on the reversal date if the impairment had not been posted.

Notwithstanding the above, provided there is a sufficiently reliable estimate of the recoverable amount, the Group may take the market value of instruments traded on an open market as a substitute for calculation of the present value of future cash flows.

Recognition of interest on financial assets with credit impairment will follow the general rules, without prejudice to the fact that at the same time the Group must assess whether said amount will be recovered and, if necessary, account for the associated impairment loss.

**Financial assets at cost**

The following securities shall be included in this category:

a) Investments in the equity of group, multi-group and associated companies as defined in rule 13 on drafting annual financial statements in the Spanish General Accounting Plan.

b) All other investments in equity instruments the fair value of which cannot be determined by reference to a quoted price on an active market for an identical instrument or cannot be estimated reliably and all derivatives for which said instruments are the underlying security.

c) Hybrid financial assets the fair value of which cannot be reliably estimated unless the requirements for their recognition at amortised cost are met.

d) Contributions made as a consequence of an equity account or similar contract.

e) Equity loans the interest of which is contingent in nature, either because a fixed or variable interest rate is conditional upon the borrowing company achieving a milestone (for example, making a profit) or because said interest is calculated exclusively by reference to variations in the activity of the company in question.

f) All other financial assets that would initially be classified in the fair value portfolio with changes in the income statement when a reliable estimate of their fair value cannot be obtained.

Initial valuation

Investments in this category will be initially valued at cost, which will be equivalent to the fair value of the consideration paid plus the transaction costs directly attributable to them. In the case of transactions between Group companies, the applicable criteria set forth in section 2 of Recognition and Valuation rule 21 and the criteria for determining the cost of the combination set forth in the Business Combination rule of the General Accounting Plan must be applied.

Nevertheless, in the event of an investment made prior to classification of the entity as a group, multi-group or associate company, the cost of said investment will be considered to be its book value immediately before the company became a member of the group.

The value of the any preferential subscription rights and any similar items acquired will form part of the initial valuation.

Subsequent valuation

Financial assets recognised in this category are valued at cost minus the accumulated amount of value restatements due to impairment, if any.

If a value is to be assigned to these assets due to deregistration from the balance sheet or any other reason, the weighted average cost method by homogeneous groups – understood as securities with equal rights – shall be applied.

The cost of preferential subscription and other similar rights will decrease the book value of the respective assets in the event of sale or separation of the same in order to exercise them. Said cost shall be determined by applying a generally-accepted valuation formula.

Payments made as a result of a joint venture or similar agreement will be valued at cost, increased or decreased by any profit or loss attributable to the company as a non-managing partner and minus any accumulated impairment valuations as required.

The same criteria shall be applied to equity loans the interest of which is contingent in nature, either because a fixed or variable interest rate conditional upon the borrowing company achieving a milestone (for example, making a profit) is agreed or because said interest is calculated exclusively by reference to variations in the activity of the company in question. If, in addition to contingent interest, an irrevocable fixed interest rate is agreed, the latter shall be entered as financial income as it accrues. The transaction costs shall be attributed to the income statement on a straight-line basis throughout the life of the equity loan.

**Value impairment**

The required valuation restatements must be made at least at the end of each financial year if there is objective evidence that the book value of an investment will not be recovered.

The amount of the valuation restatement will be the difference between its carrying value and the recoverable amount understood as the fair value minus cost of sale or the present value of the future cash flows from the investment, whichever is greater. In the case of equity instruments, the amount of the restatement shall be calculated either by estimating the expected cash flows as a result of allocation of dividends by the investee and disposal or write-off of the investment in the same or by estimating the Group’s share of the cash flows expected to be generated by the investee from both its ordinary activities and from disposal or write-off of the same.

In the absence of better evidence of the recoverable amount of investments in equity instruments, the impairment loss estimate for this class of assets will be calculated on the basis of the equity of the investee and the tacit capital gains existing at the valuation date net of tax effect. Provided that the investee has invested in another company in turn, this value shall be calculated by taking the equity set forth in the consolidated financial statements into account and applying the criteria of the Commercial Code and its development rules.

If the investee is domiciled outside Spanish territory, the equity to be taken into account will be annotated according to the rules set forth in this provision. However, if high inflation rates are involved, the values to be considered will be those resulting from the adjusted financial statements as set forth in the foreign currency rule.

As a general rule, the indirect equity-based estimation method may be used in cases where it can be applied to demonstrate a minimum recoverable amount without the need for a more complex analysis when it can be inferred that no impairment has occurred.

Recognition of value impairment restatements and their reversal, if any, will be entered respectively as an expense or as revenue in the income statement. The reversal of the impairment will be limited to the carrying value of the investment that would have been recognised on the reversal date if the impairment had not occurred.

However, in the event of an investment in the company prior to its classification as a group, multigroup or associate company, and valuation restatements have been made directly attributable to the equity resulting from said investment prior to the aforesaid classification, these restatements shall be maintained after the classification until the investment is disposed of or written off – at which time they shall be recognised in the income statement – or until the following circumstances occur:

a) In the case of prior valuation restatements for increases in value, valuation impairment restatements will be entered against the item of equity that includes the previously-made valuation restatements up to the amount of the same and the excess, if any, will be recognised in the income statement. Value impairment restatements imputed directly to net equity shall not be reversed.

b) In the case of prior valuation restatements due to write-downs that result in a recoverable amount greater than the carrying value of the investments, the latter will be increased up to the limit of the write-down against the item to which the valuation restatements were imputed. From that point on the resulting balance will be considered to constitute the cost of the investment. However, in the event of objective evidence of impairment in the value of the investment, the losses accumulated directly in equity will be recognised in the income statement.

**Interest and dividends**

Interest and dividends on financial assets accrued after acquisition are recognised as revenues in the consolidated income statement. Interest from financial assets valued at cost must be recognised on the basis of the effective interest rate method and dividends when they are allocated to the shareholder entitled to receive them.

For these purposes, taking into account the maturity of the financial assets, the sum of the explicit interest accrued and not due at that moment and the sum of the dividends agreed by the competent body up to the time of acquisition are independently recognised in the initial valuation of said assets. “Explicit interest rate” is understood to mean that obtained by applying the contractual interest rate of the financial instrument.

**Cancellation of financial assets**

The Group will write off a financial asset, or part of it, when the contractual rights to the cash flows of the financial asset expire or have been assigned. For this to happen, the risks and benefits inherent in ownership of the asset must have been substantially transferred. Said risks and benefits are assessed by comparing the exposure of the Group to variation in the amounts and timing of the net cash flows of the assigned asset before and after transfer of the same.

The risks and benefits of ownership of the financial asset shall be understood to have been substantially assigned when their exposure to said variation is no longer significant with respect to the total variation in the present value of the future net cash flows associated with the financial asset.

If the Group has not substantially assigned or retained the risks and benefits of ownership, the financial asset will be deregistered when the Group has failed to retain control of it. Occurrence of this circumstance will depend on the capacity of the transferee to unilaterally transfer the entire asset to an unrelated third party without imposing conditions. The transferring company will continue to recognise the transferred asset for the amount to which the Group is exposed to variations in the value of the same (i.e. the company is still involved with the asset) and will recognise an associated liability if the former retains control of it.

The gain or loss arising from derecognition when the financial asset is written off forms part of the revenue for the year in which it occurs and is determined by the difference between the consideration received net of any attributable transaction costs, taking any new asset acquired minus any liability assumed and the book value of the financial asset plus any accumulated earnings already recognised directly in equity into account.

The above criteria shall also be applied to transfers of a group of financial assets or a part of the same.

***3.7 Financial liabilities***

Financial liabilities are classified into the following valuation categories: amortised cost financial liabilities and fair value financial liabilities with changes in the income statement.

**Amortised cost financial liabilities**

Financial liabilities are classified into the following valuation categories: amortised cost financial liabilities and fair value financial liabilities with changes in the income statement.

As a general rule, this category includes debits for both trade and non-trade transactions:

a) Debits for trade transactions: these are financial liabilities that originate in acquisition of goods and services for the company's trade transactions with deferred payment, and

b) Debits for non-trade transactions: these are financial liabilities which – not being derivative instruments – do not originate in trade transactions but in transactions involving loans or credits received by the company.

**Initial valuation**

Financial liabilities classified in this category are initially recognised at fair value which, unless there is evidence to the contrary, will be the transaction price which in turn is equal to the fair value of the consideration plus any transaction costs directly imputable to the liability in question.

Notwithstanding the above, debits for trade transactions with maturity at no more than one year that do not have a contractual interest rate and disbursements required by third parties on holdings the amount of which is expected to be paid in the short term, may be valued at their face value when the effect of not updating cash flows is negligible.

**Subsequent valuation**

Financial liabilities recognised in this category are valued at their amortised cost. Accrued interest is charged to the income statement on the basis of the effective interest rate method.

Nevertheless, debits with a maturity of no more than one year which – in accordance with the provisions of the above section are initially recognised at face value – will continue to be valued at said amount.

**Deregistration and modification of financial liabilities**

The Group will deregister a financial liability, or part of it, when the associated obligation has extinguished; i.e., when it has been settled, cancelled, or has expired. It will also write off any of its own financial liabilities that it may acquire even when the intention is to reallocate them in the future.

The difference between the book value of the financial liability – or the part of it that has been written off and that also includes any assigned assets other than the assumed cash or liability – and the consideration paid including directly attributable transaction costs, is recognised in the income statement for the year in which it occurs.

### *3.8 Net equity*

The capital stock is represented by shares. Incremental costs directly attributable to the issuance of new shares or options are reported in net equity as a deduction, net of taxes, from the amounts obtained.

a) <u>Own equity instruments held by the Parent Company (treasury shares)</u>

Acquisition of equity instruments by the Parent Company is recognised separately at the acquisition cost as a reduction of the equity on the balance sheet. No result is recognised in the income statement for transactions capitalised with treasury stock.

Transaction costs related to treasury stock are recorded as a reduction in reserves once any tax effect has been considered.

b) Capital increases by issuance of options convertible into own equity instruments

The Parent Company uses the stock option issuance method (equity warrants (EW)) in order to obtain financing for its expansion plans. A financial derivative is created if the fixed-for-fixed swap rule is not observed in accordance with the conditions of the options issue. The fixed-for-fixed swap rule is met if the only possible settlement of the instrument is by delivery of a fixed number of treasury shares for a fixed price.

Since the financial derivative created is not considered to constitute a hedging instrument, it is recognised at its fair value in the income statement at its valuation time at each accounting closure date.

The fair value of the derivative is determined using option pricing models that take the life of the option, the market price of the underlying assets, the expected volatility of the shares and the risk-free interest rate during the life of the option into account.

Variations in the fair value of the derivative during its life (that is, from the date of signature to exercise of the option), are recognised in the consolidated financial statements as a financial cost/revenue. The derivative is written off the balance sheet on the conversion date of the options into shares and the cash received for the conversion – plus/minus the accumulated fair value of the derivative until that moment – is charged to capital and reserves (capital plus issue premium).

As set forth in Note 11.1.a.3, there are equity warrant issues pending maturity at close of the financial year ended 31 December 2022. The associated financial derivative liability for the sum of 99,093 euros has been recognised. At the close of the financial year ended 31 December 2021 there were no options issues pending expiration and therefore there was no derivative recognised on the balance sheet on said date.

### *3.9 Cash and cash equivalents*

Cash and cash equivalents include cash on hand and demand bank deposits with credit institutions. Other highly-liquid short-term investments are also included under this head provided that they are easily convertible into specified amounts of cash and that their time to maturity does not exceed three months.

The Group reports payments and receipts from high-turnover financial assets and liabilities for their net value in the cash flow statement. For these purposes, the rotation period is considered high when the period between the acquisition and the expiration dates does not exceed six months.

### *3.10 Classification of assets and liabilities as current or non-current*

Assets and liabilities reported on the balance sheet are classified into current or non-current. For these purposes, current assets or liabilities are those that meet the following criteria:

- Assets are classified as current when they are expected to be capitalised, are held for sale or consumption in the course of the normal operating cycle, are held fundamentally for trading purposes, are expected to be capitalised within twelve months after the closing date or are composed of cash and cash equivalents except in cases where they cannot be exchanged or used to settle a liability within at least the twelve months following the accounting closure date.

- Liabilities are classified as current when they are expected to be settled within the normal operating cycle, are held primarily for trading, must be settled within twelve months of the closing date or there is no unconditional right to postpone cancellation of the liabilities during the twelve months following the closing date.

- Financial liabilities are classified as current when they must be settled within the twelve months following the closing date even if the original term is for a longer period and there is a refinancing or restructuring agreement for long-term payments that has concluded after the closing date and before the annual financial statements are drawn up.

All other assets and liabilities that fail to meet the conditions set forth above are classified as "non-current."

### *3.11 Subsidies, donations and bequests*

Reimbursable grants are recognised as liabilities until they meet the conditions to be considered non-reimbursable, while non-reimbursable subsidies are recognised directly in equity as income on a systematic, rational basis in a manner correlated with expenses deriving from the subsidy. Non-refundable grants received from partners are recognised directly in equity.

For these purposes, a grant is considered non-refundable when there is an individualized agreement to grant the subsidy, all the conditions established for its award have been met and there are no reasonable doubts that it will be collected.

Monetary grants are valued at the fair value of the amount granted and non-monetary grants at the fair value of the asset received. These values are referenced to the recognition date.

Non-refundable grants related to the acquisition of intangible fixed assets, property, plant and equipment and real estate investments are charged as income for the year in proportion to the amortisation of the associated assets or, as appropriate, when they are disposed of, their value is restated due to impairment or they are written off the balance sheet. Non-refundable grants related to specific expenses and those granted to compensate for the operating deficit in the financial year in which they are granted are recognised in the income statement in the same year in which the associated expenses are accrued, except when they are used to compensate for operating deficits in future financial years, in which case they are allocated in said years.

### *3.12 Corporation tax*

In view of the fact that the companies included within the consolidation perimeter are taxed individually for corporation tax, the consolidated tax expense is obtained by adding the expenses that the consolidated companies have estimated for said item, corrected by the consolidation restatements. Said expenses are calculated on the companies' individual economic results corrected by tax criteria and taking any applicable bonuses and deductions into account.

Therefore, the corporation tax expense (income) for the financial year is calculated as the current tax – calculated by applying the tax rate to the taxable base for the financial year – minus any rebates and deductions and the variations produced in the deferred tax assets and liabilities recognised during the financial year in question.

Corporation tax is recognised in the consolidated income statement except when it refers to transactions recognised directly in equity (in which case the associated tax is also recognised in equity) and in business combinations (in which case it is recognised in the same accounts as the other assets of the acquired undertaking).

Deferred taxes are recorded for the temporary differences existing on the date of the consolidated balance sheet between the tax base of assets and liabilities and their book values. The taxable base of an asset is considered to be the amount attributed to it for tax purposes.

The tax effect of temporary differences is posted under the heads of "deferred tax assets" and "deferred tax liabilities" on the balance sheet.

Deferred tax liabilities are recognised for all taxable temporary differences except those derived from initial recognition of goodwill or other assets and liabilities in a transaction that does not affect fiscal or accounting outcomes and is not a business combination.

Deferred tax assets, on the other hand, are only recognised to the extent that it is considered probable that each individual company will have future taxable profits against which the deferred asset can be used.

The Group assesses the recognised deferred tax assets and any that have not been previously recognised on the closing date of each financial year. On the basis of this assessment the Group will then write off a previously-recognised asset if its recovery is no longer probable or enter any previously-unrecognised deferred tax asset provided that it is probable that the Group will have future taxable earnings against which it can be applied.

Deferred tax assets and liabilities are valued at the expected tax rates at the time of their reversal in accordance with the currently applicable regulations and with the manner in which the deferred tax asset or liability is rationally expected to be recovered or paid.

Deferred tax assets and liabilities originating in transactions with direct charges or credits in equity accounts are also accounted for with a balancing entry in consolidated net equity.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities regardless of their expected capitalisation or settlement date.

### *3.13 Employee benefits*

a) Severance payments

Severance payments are paid to employees as a result of Group management's decision to terminate their employment contracts before the normal retirement age. These benefits are recognised when a demonstrable commitment has been made to dismiss workers in accordance with a detailed regulatory plan of mandatory compliance. Benefits that will not be paid during the twelve months following the balance sheet date are discounted to their current value.

b) Payments based on equity instruments

Transactions which, in exchange for receiving goods or services including services provided by employees, are settled by the Group using its own equity instruments or with an amount based on the value of its own equity instruments (such as share options or share appreciation rights) are considered to constitute payments based on equity instruments.

*Recognition*

On the one hand, the Group will recognise goods or services received as assets or as expenses depending on their nature at the time of receipt, and on the other, the associated increase in equity if the transaction is settled using equity instruments or the associated liability if the transaction is settled with a sum based on the value of equity instruments.

If the Group can choose between making the payment with equity instruments or in cash, it shall recognise a liability to the extent to which it has incurred a present obligation to settle in cash or with other assets. Otherwise, it will recognise an entry in net equity. If it the goods or services supplier that exercises the option, the Group will recognise a compound financial instrument that will include a liability component due to the other party's right of to demand payment in cash, and a net equity component, due to the holder's right to receive remuneration with equity instruments.

Transactions that require provision of services for a certain period will be recognised as these services are provided throughout said period.

*Valuation*

Transactions with employees settled using equity instruments will be recognised on the date of the agreement to grant said instruments. Both the services rendered and the increase in equity to be recognised shall be valued at the fair value of the equity instruments so assigned.

Transactions settled with equity instruments the consideration of which consists of goods or services other than those provided by employees will be valued at the fair value of the goods or services on the date they are received provided that said value can be reliably estimated. If the fair value of the goods or services received cannot be reliably estimated, the goods or services received and the increase in equity will be valued at the fair value of the equity instruments assigned on the date on which the Group obtains the goods or the other party provides the services.

Pursuant to the provisions of the preceding paragraphs, no additional restatements will be made to net equity after the vesting date once the goods and services received and the associated increase in net equity have been recognised.

The goods or services received and the liability to be recognised in transactions settled in cash will be valued at the fair value of the liability on the date on which the requirements for their recognition are met.

Subsequently, the associated liability will be valued at fair value on the closing date of each financial year until settlement and any valuation change that occurs during the financial year will be charged to the income statement.

The Parent Company's General Meeting held on 21 June 2022 approved the Stock Option Plan for directors, managers, employees and business partners. The aim of this Plan is to achieve the Group's corporate objectives, control its processes, stimulate its expansion, improve its management, focus on optimising all aspects required to enhance its long-term value, align the interests of employees and shareholders and to ensure that the Group's key employees are retained.

As of 31 December 2022 the Plan has not met any of its goals and therefore no provision has been recognised on the balance sheet at said date.

c) Commitments to pay for retirement policies

One of the group companies makes periodic provisions charged to the outcome of the financial year to allocate the associated provisions in order to meet the payment commitments for retirement premiums and/or bonuses (Note 14.e). As at 31 December

2022 the provision provided for this item amounts to 49,757 euros (29,756 euros at the end of the previous year) and is recognised under the head of Long-term provisions in Non-current liabilities.

d) Exclusivity clause

The Group has entered into various employment contracts that include exclusivity clauses. The directors deem that the circumstances do no warrant recognition of an associated liability or expense since the probability of occurrence is negligible.

### *3.14 Provisions and contingencies*

Provisions for responsibilities, restructuring costs and litigation are recognised when they arise from a present legal or implicit obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions for restructuring include penalties for cancellation of the lease and severance payments to employees. Provisions for future operating losses are not recognised.

Provisions are valued at the present value of the disbursements expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the obligation. Any restatement of the provision due to updating are recognised as financial expenses as they accrue.

Provisions with an insignificant financial effect and a maturity period shorter than or equal to one year are not discounted.

When it is expected that part of the disbursement required to settle the provision will be paid by a third party, said reimbursement is recognised as an independent asset provided that receipt of the same is practically assured.

Potential obligations arising as a result of past events the occurrence of which is conditioned by the occurrence or not of one or more future events beyond the Group's control are considered to constitute contingent liabilities.

Said contingent liabilities are not subject to accounting records and details concerning them are set forth in the consolidated management report.

### *3.15 Recognition of revenue from the provision of services*

Operating revenue derived from contracts with customers are posted at the time transfer of control of the goods and services committed to said customers occurs. Control of goods or services refers to the ability to fully decide on the use of the item involved and to substantially obtain all its remaining benefits.

A process consisting of the following stages is implemented to apply this criterion:

- Identification of the contract with the customer.
- Identification of the contractual obligation to be met.
- Determination of the transaction price.
- Allocation of the transaction price to the obligations to be fulfilled based on the sale price of each good or service or by estimating the sale price when it cannot be otherwise ascertained.
- Recognition of the revenue from ordinary activities at the time the Group fulfils each acquired commitment

Income from the sale of goods or services is recognised at the fair value of the consideration received or to be received deriving from the same Discounts for prompt payment, volume or other kinds of discount and interest added to the face value of the loans are posted as a reduction thereof. Notwithstanding the above, the interest added to trade credits with maturity at no more than one year that do not have a contractual interest rate are included when the effect of not updating the cash flows is not significant.

Revenue is recognised when its value can be reliably measured, it is probable that future economic benefits will accrue to the Group and the specific conditions for each activity are met as set forth below. The amount of the income cannot be reliably valued until all contingencies related to the sale have been resolved. The Group bases its estimates on historical results taking the type of customer, the kind of transaction and the specific terms of each agreement into account.

The Group recognises income derived from licensing of software for biometric facial recognition technology once all the risks and benefits of the product have been transferred to the purchaser and the conditions set forth in the above paragraph have been met. It is then charged to the income statement on the basis of the licensing term (which may be in perpetuity or for periods defined in the contract). Income from services not yet provided is represented in the balance sheet as short-term accruals.

Income from maintenance and support services is recognised on the basis of accrual of the provision of the service.

### *3.16 Leases*

Leases in which the Group assumes a significant proportion of the risks and benefits derived from ownership are classified as financial leases. Assets acquired by means of financial leasing are recognised in accordance with their nature at the fair value of the assets or the current value of the agreed minimum payments at the beginning of the lease, whichever is lower, and a financial liability is entered for the same amount. Leasing payments are distributed between financial expenses and reduction of liabilities. The assets are subject to the same amortization, impairment and write-off criteria as other assets of the same nature.

Leases in which the lessor retains a significant proportion of the risks and benefits derived from ownership are classified as operating leases. When the lessee is a Group company, the leasing expenses are charged to the income statement on a straight-line basis during the term of the contract regardless of the contractual form of payment.

### *3.17 Foreign currency transactions*

Transactions in foreign currency are converted into the functional currency using the exchange rates prevailing on the date of the transactions. Gains and losses in foreign currency resulting from settlement of these transactions and from conversion of the monetary assets and liabilities denominated in foreign currency at the spot rates at the close of the fiscal year are recognised in the income statement.

### *3.18 Equity items of an environmental nature*

Assets used on a long-term basis in the Group's activities the main purpose of which is to prevent, reduce or repair the damage that its activities may cause to the environment are considered to constitute assets of an environmental nature. Expenses deriving from environmental activities are recognised as “other operating expenses" during the financial year in which they are incurred.

The Administrators consider that as of 31 December 2022 there are no contingencies of an environmental nature that could significantly affect the Group's equity, financial situation or consolidated outcomes and therefore no provisions or contingencies have been recognised under this head.

### *3.19 Balances and transactions with Group companies and other related parties*

The Group performs all its transactions with related parties at market values. The transfer prices are properly substantiated and therefore the Parent Company's governing body considers that there are no significant risks from which substantial liabilities may arise in the future due to these transactions.

This valuation rule affects the related parties set forth in rule 15 on drafting of the annual financial statements of the Spanish General Accounting Plan. A party is considered to be related to another when one of them exercises or has the capacity to exercise – directly or indirectly or pursuant to pacts or agreements between shareholders or investors – control over the other or a significant influence over its financial and operating decisions.

The following are deemed to constitute parties related to the Group: natural persons who directly or indirectly hold a stake in the voting rights of the Parent Company or of its subsidiaries in such a way that enables them to exercise significant influence over one or the other, close relatives of the same, the Group’s key personnel including directors and executives together with their close relatives and legal persons over which the aforesaid persons may exercise significant influence.

## NOTE 4. INTANGIBLE FIXED ASSETS

The following are the breakdown and movement of the items included under the head of *Intangible fixed assets*:

**Cost:**

| | Euros | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Item** | **Cost as at 31.12.20** | **Additions for bus comb.** | **Additions** | **Transfers** | **Cost as at 31.12.21** | **Additions for bus comb.** | **Additions** | **Transfers** | **Cost as at 31.12.22** |
| Research | 56,958 | --- | --- | --- | 56,958 | --- | --- | --- | 56,958 |
| Development | 930,592 | --- | 2,100,208 | (2,983,775) | 47,026 | --- | 4,242,399 | (3,571,563) | 717,861 |
| Intellectual property | 54,447 | --- | 11,544 | --- | 65,992 | --- | 19,006 | --- | 84,998 |
| Computer applications | 5,388,582 | --- | 135,791 | 2,983,775 | 8,508,148 | --- | 78,108 | 3,571,563 | 12,157,820 |
| **Total cost** | **6,430,580** | **---** | **2,247,544** | **---** | **8,678,124** | **---** | **4,339,513** | **---** | **13,017,637** |

**Amortisation:**

| | Euros | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Item** | **Balance as at 31.12.20** | **Additions for bus comb.** | **Additions** | **Transfers** | **Balance as at 31.12.21** | **Additions for bus comb.** | **Additions** | **Transfers** | **Balance as at 31.12.22** |
| Research | 56,958 | --- | --- | --- | 56,958 | --- | --- | --- | 56,958 |
| Development | --- | --- | 66,654 | (64,584) | 2,070 | --- | 376,269 | --- | 378,339 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Intellectual property | 4,133 | --- | 9,471 | ---- | 13,604 | --- | 11,376 | --- | 24,980 |
| Computer applications | 2,311,047 | --- | 1,134,829 | 64,584 | 3,510,460 | 2,600 | 1,437,650 | --- | 4,950,709 |
| **Total amortisation** | **2,372,138** | **---** | **(1,210,954)** | **---** | **3,583,092** | **2,600** | **1,825,295** | **---** | **5,410,987** |

**Net book value:**

| | Euros | |
|---|---|---|
| **Item** | **Balance as at 31.12.21** | **Balance as at 31.12.22** |
| Research | --- | --- |
| Development | 44,956 | 339,522 |
| Intellectual property | 52,388 | 60,018 |
| Computer applications | 4,997,688 | 7,207,110 |
| **Net book value** | **5,095,032** | **7,606,650** |

### *a) Research and Development*

The Parent Company continues to implement its investment policy and to improve its current facial biometric applications. The capitalised expenses during the financial year ended 31 December 2022 and 2021 are associated with the following milestones:

| | Euros | |
|---|---|---|
| **Description: Project** | **2022** | **2021** |
| Improvements to Software Development Kit (SDK) | 3,423,366 | 1,641,621 |
| Platform as a Service (PAAS) | 395,241 | 458,588 |
| **Total** | **3,818,608** | **2,100,209** |
| Development acquired from third parties | 423,791 | --- |
| **Total** | **4,242,399** | **2,100,209** |

Said expenses are recognised under the head of Development since there are good reasons to foresee commercial success on completion, at which time they are reclassified under the head of Intangible assets in accordance with their nature (computer applications). If there were well-substantiated reasons to consider that the project will not be successful, the Group would write off these expenses and recognise them as losses in intangible fixed assets. Almost all the activity involved in development of new applications or improvements to current ones has been performed internally and recognised by capitalisation of production costs under the head of *Works performed by the Company for its own Assets* in the income statement.

As at 31 December 2022 the sum of 3,571,563 euros (2,983,775 euros in 2021) has been transferred to the Computer applications account as a consequence of the start of marketing of the facial biometric improvements and new products.

### *b) Intellectual property*

**Intellectual property**

The group holds the following registered trademarks:

| | |
|---|---|
| • FACEPHI BEYOND BIOMETRICS | • PHIVOX |
| • SELPHI, YOU BLINK, YOU´RE IN | • SELPHI ID |
| • LOOK & PHI | • SIGNPHI |
| • INPHINITE | |

FacePhi Biometría is the owner of the *Selphi You Blink You´re in* and *FacePhi Beyond Biometrics* trademarks (MUE 015106354 and MUE 015114853 respectively) in both the European Union and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126.

European Union trademark protection is also provided by European trademark certificates with registration numbers MUE 017896710 LookΦ MUE 017948110 inPhinite; MUE 017948113 4Phingers; MUE 017948116 Phivox; MUE 017948119 SignPhi and MUE 017948878 SelphID.

International expansion and activity in LATAM has prompted the governing body to extend the geographical coverage of trademark protection. Consequently, the FacePhi Beyond Biometrics and SelphID Identity Validation trademarks are duly registered either as international trademarks with territorial designation or as domestic trademarks in all markets in which the Group carries out commercial activity in APAC, LATAM and EMEA.

In October 2022, anticipating what is now a reality in the digital user verification sector, the Group adopted a rebranding strategy consisting of adapting the brand image to the Parent Company’s development and track record, emphasizing its present and future brand values and benefits.

As a result, in addition to the trademarks already reviewed above, the protection of which continues to be a priority, the Parent Company has applied for the following trademarks:

- FACEPHI PROTECTING IDENTITY TO BUILD THE FUTURE
- FACEPHI IDENTITY PLATFORM

**Intellectual property**

Entry into force of Act 1/2019 of 20 February, the Business Secrets Act, determines a scenario where legal certainty regarding knowledge considered to constitute business secrets (algorithms, know-how, etc.) is greater than before and consequently provides stronger protection against potential breaches of business secrets.

Notwithstanding, the legal doctrine and jurisprudence in the field agree that application of the Act will not be really effective unless the companies are equipped with tools capable of configuring an environment of security, protection, reliability and traceability.

The Group has recently obtained the following technical certifications:

➢ The ESQUEMA NACIONAL DE SEGURIDAD - ENS (the National Security Scheme) initially designed for the field of Spanish e-government and now extended to all service providers to public entities, lays down the security policy in the use of electronic media, the basic principles and minimum requirements for proper protection of information.

- ISO/IEC 30107-3: Level 1 and 2 - INTERNATIONAL LEVEL. This standard consists of a series of guidelines the purpose of which is to subject biometric technology to the most effective attacks possible in an attempt to break its security measures in order to assess the extent to which the application is reliable vis-à-vis identity-theft attacks.
- ISO 27001 - INTERNATIONAL LEVEL. The core mission of ISO 27001 is to protect the confidentiality, integrity and availability of the company's information. It does so by investigating issues that could potentially affect the information (i.e., risk assessment) and then determines what needs to be done to prevent these problems from occurring (i.e., risk mitigation or processing).
- ISO 22301: - Security and resilience. Business continuity management system. This is the international standard designed to help organisations to prevent, prepare for, respond to and recover from physical and/or logic-based disruptions when they arise.
- ISO/IEC 27017: Information technology — Security techniques. Code of practice for information security controls based on ISO/IEC 27002 for cloud services. The international standard that provides controls and implementation guidance for both cloud service providers and cloud service customers to help make cloud services as secure as the rest of the data contained in a certified information management system. It sets up the framework for the customer-service provider relationship in the cloud.

### *c) Computer applications*

The Group, in accordance with the identifiability criteria of intangible assets, transfers the production cost of internally-developed software improvements and utilities according to their nature (computer applications) that have entered the marketing phase for generation of income inherent in the activity.

### *d) Fully-amortised intangible fixed assets*

The Group held the following fully-amortised tangible fixed assets as of 31 December 2022 and 2021:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Research | 56,958 | 56,958 |
| Computer applications | 1,717,155 | 1,358,715 |
| **Total cost** | **1,774,113** | **1,415,673** |

### *e) Sundry information*

As set forth in Note 11.3, during the year ended 31 December 2022 the Group received subsidies related to intangible assets for capitalised development expenses.

As at 31 December 2022 and 2021 the Group has no firm intangible asset investment or sale commitments to third parties.

No financial expenses have been capitalised and there are no intangible fixed assets in foreign countries. All intangible fixed assets are subject to operating conditions and they are not affected by encumbrances or liens. Neither has the Group made or reversed value restatements for impairment of any item of its intangible fixed assets.

### *f) Non-current asset impairment test*

The recoverable value of non-current assets has been assessed by considering all the Group companies as a single cash-generating unit by estimating their value in use using cash-flow projections based on the business plan and estimates made by management for the next 5 years. The discount rate applied to the cash flow projections was 9.2% and the cash flows after the five-year period are extrapolated using a growth rate of 2%. No impairment has been detected in the value of the assets.

Key assumptions for calculating value in use

Calculation of value in use was based on the following hypotheses:

- Growth: based on its forecasts, the Group expects to boost its growth by 90% in 2023 and maintain a growth rate of 25% for the financial projection period (2024-2027) and of 2% per annum as of 2027. The Group continues to invest in human resources aimed at the sales and marketing activity, developing the business in countries where it already operates and by opening new offices and developing sales channels that will enable it to increase its turnover.
- EBITDA: the Group estimates that its EBITDA will undergo a progressive increase obtaining new contracts and optimising its human resource structure.
- Discount rate: a WACC in accordance with that calculated by analysts who follow the Parent Company has been used.
- CAPEX: the Group estimates that its investments in intangible assets, mainly for development of and improvements to its technology will continue to grow in line with the growth in turnover and the human resource structure.

Sensitivity to changes in hypotheses

In view of the differences between the book values of the net assets of the Group under analysis and their value in use, management considers it highly unlikely that any reasonably predictable or probable variation in any of the hypotheses set forth above (e.g., a 1% increase in WACC and/or 1% decrease in the growth rate) would mean that the book value of the assets would exceed their recoverable value.

## NOTE 5. TANGIBLE FIXED ASSETS

The following is the breakdown and movement of the items that comprise tangible fixed assets:

**Cost:**

| Item | Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost as at 31.12.20 | Addition for bus. comb. | Additions | Cost as at 31.12.21 | Additions | Disposals | Cost as at 31.12.22 |
| Technical facilities | 1,347 | --- | --- | 1,347 | --- | --- | 1,347 |
| Machinery | --- | --- | --- | --- | 698 | --- | 698 |
| Other facilities | 32,167 | --- | --- | 32,167 | --- | --- | 32,167 |
| Furnishings | 74,986 | --- | 8,094 | 83,080 | 13,711 | (3,599) | 93,192 |
| Information processing equipment | 139,062 | 3,081 | 295,938 | 438,081 | 581,231 | --- | 1,019,312 |
| Transport vehicles | --- | --- | --- | --- | 26,273 | (26,273) | --- |
| Other tangible fixed assets | 9,213 | --- | --- | 9,213 | --- | --- | 9,213 |
| Fixed assets in progress and advances | --- | --- | --- | --- | 947,394 | --- | 947,394 |
| **Total cost** | **256,773** | **3,081** | **304,032** | **563,887** | **1,569,307** | **(29,871)** | **2,103,322** |

**Amortisation:**

| Item | Euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance as at 31.12.20 | Addition for bus. comb. | Addition s | Balance as at 31.12.21 | Additions | Disposals | Transfers | Balance as at 31.12.22 |
| Machinery | --- | --- | --- | --- | 59 | --- | --- | 59 |
| Other facilities | 3,628 | --- | 3,217 | 6,845 | 3,217 | --- | --- | 10,062 |
| Furnishings | 22,079 | --- | 6,705 | 28,784 | 7,169 | (455) | 5. | 35,494 |
| Information processing equipment | 38,303 | (700) | 62,604 | 101,606 | 137,178 | --- | (123) | 238,661 |
| Other tangible fixed assets | 3,438 | --- | 1,150 | 4,587 | 712 | --- | --- | 5,299 |
| **Total amortisation** | **67,448** | **700** | **73,675** | **141,823** | **(148,334)** | **(455)** | **(128)** | **289,574** |

**Net book value:**

| Item | Euros | |
|---|---|---|
| | Balance as at 31.12.21 | Balance as at 31.12.22 |
| Technical facilities | 1,347 | 1,347 |
| Machinery | --- | 639 |
| Other facilities | 25,322 | 22,105 |
| Furnishings | 54,296 | 57,698 |
| Information processing equipment | 336,475 | 780,651 |
| Other tangible fixed assets | 4,625 | 3,913 |
| Fixed assets in progress and advances | --- | 947,394 |
| **Net book value** | **422,064** | **1,813,748** |

Additions for investments in tangible fixed assets during the 2022 and 2021 financial years mainly involve information technology equipment for newly-recruited personnel.

During the 2022 financial year the Company acquired, for 26,273 euros, a motor vehicle that it had been using under an operating lease. Following acquisition it was sold to the Secretary of the Board of Directors for the same amount without affecting the income statement.

### *a) Fully written-off assets*

The following are the Group's fully-amortised tangible fixed assets still in use at the end of the 2022 and 2021 financial years:

| | Euros | |
|---|---|---|
| **Item** | **2022** | **2021** |
| Furnishings | 4,235 | --- |
| Information processing equipment | 28,715 | 25,132 |
| Other tangible fixed assets | 4,036 | 2,716 |
| **Total** | **36,986** | **27,848** |

### *b) Insurance:*

The Group has taken out insurance policies to cover the risks to which property, plant and equipment are subject. The coverage of these policies is considered sufficient.

### *c) Sundry information*

No financial expenses have been capitalised, there are no tangible fixed assets in other countries and there are no encumbrances or liens on the items under this head. Neither has the Group made or reversed value restatements for impairment of any item of its intangible fixed assets.

As at 31 December 2022, the Parent Company has made advances on account of property, plant and equipment for the sum of 947,394 euros, mainly in connection with adaptation works for the new offices in downtown Alicante that are expected to be finished by May 2023, the estimated cost of which amounts to 1.5 million euros.

## NOTE 6. LEASES AND OTHER TRANSACTIONS OF A SIMILAR NATURE

### *a) Operating leases*

The following is the sum of the minimum future payments for non-cancellable operating leases:

| | Euros | | | |
|---|---|---|---|---|
| | Facephi | | Rest of Group | |
| **Minimum future payments** | **31.12.22** | **31.12.21** | **31.12.22** | **31.12.21** |
| Up to one year | 120,886 | 101,738 | 74,880 | 23,400 |
| Between one and five years | 203,499 | 20,109 | 18,363 | --- |
| More than five years | --- | --- | --- | --- |
| **Total** | **324,385** | **121,848** | **93,243** | **23,400** |

The most significant features of the leasing contracts are the following lease payments recognised as expenses for the financial year in question:

| Description of the lease | Expense 2022 fin. year | Expense 2021 fin. year | Due date | Renewal | Price update criteria |
|---|---|---|---|---|---|
| Offices, garages and storage | 77,886 | 79,153 | 06/05/2025 | N/A | YES (CPI) |
| Madrid Office | 18,787 | --- | 30/06/2023 | N/A | NO |
| Branch offices | 76,582 | 23,052 | 30/09/2023 | N/A | NO |
| Computer hardware | 1,842 | 833 | 21/05/2024 | N/A | NO |
| Computer hardware | 984 | 2,026 | 18/06/2022 | N/A | NO |
| Computer hardware | 1,009 | 825 | 18/12/2023 | N/A | NO |
| Transport vehicles | --- | 16,439 | 03/01/2022 | N/A | NO |
| Transport vehicles | 58,015 | 46,446 | 08/01/2023 | N/A | NO |
| Rentals, software, cloud and others | 389,632 | --- | N/A | N/A | N/A |
| **Total** | **624,736** | **168,774** | | | |

The Group entered into two operating lease contracts during the 2017 financial year for vehicles initially intended for use by members of the Board of Directors. The monthly payment amounts to 1,256 euros per vehicle and expired on 3 January 2022. Both contracts were classified as operating leases due to the fact that exercising the purchase option at maturity was not considered at the time of initial recognition. Moreover, on 8 January 2020 the Parent Company entered into two operating rental contracts for vehicles intended for the use of members of the Board of Directors. The monthly fee amounts to 2,223 euros per vehicle and expires in 3 years. One of the two vehicles was subleased to a third party on 5 October 2021 for a fee of 2,223 euros per month for a period of 15 months. Nevertheless, this vehicle was sold to a member of the Board during the 2022 financial year as set forth in Note 5.

Since 1 October 2017 an operating lease contract has been in force for the offices in which the Parent Company conducts its activity. This contract has a term of five years and the rent is 2,842 euros per month. Two months' prior notice and compensation of three month's rent payment are required for early cancellation. The Group has placed the sum of 5,600 euros as a rental bond and an additional guarantee of 2,800 euros.

Due to the fact that the Parent Company has implemented teleworking measures for employees whose functions so enable, this lease contract was terminated by mutual agreement as of 30 September 2022.

In order to extend the Parent Company's head office and the corporate headquarters, a new lease agreement was signed in May 2020 for a period of five years and a monthly rent of 2,493 euros. This contract can be terminated with two months' prior notice after the first three years of the contract have elapsed and three months' rent as compensation for withdrawal. The Group has placed a rental bond of 4,986 euros.

Moreover, due to the fact that the Parent Company is taking measures to modernise its work model, on 4 March 2022 it entered into a new lease contract in a business centre in the city of Alicante for a period of 10 years counting from the end of the conditioning works or from 31 December 2022, whichever occurs first, including a 3-year mandatory permanence period. The lessor grants a 12-month grace period counting from the end of the conditioning works or from 31 December 2022. The Parent Company has placed a rental bond of 34,000 euros, the equivalent of two monthly rent payments.

### *b) Financial leasing*

During the 2022 financial year the Group acquired an information processing server by entering into a financial year leasing contract for a total of 275,000 euros. In order to comply with the conditions of substantial transfer of the risks and benefits inherent in ownership of the asset, the recognition and valuation rule set forth in Note 3.4 was activated under the head of "machinery" in the tangible fixed assets account.

The following is a breakdown of the most important conditions of the financial loan contract in effect during the financial year and its position as at 31 December 2022:

| | | | Euros | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Object of the contract** | **Start** | **Term (months)** | **Cost Asset** | **Instalments paid as at 31.12.22** | **Amount pending payment as at 31.12.22** | | | **Purchase option** |
| | | | | | **Capital** | | **Interest pending payment** | |
| | | | | | **S/T** | **L/T** | | |
| Information processing equip. | 15/11/2022 | 36 | 275,000 | 12,556 | 88,277 | 176,195 | 17,758 | --- |
| | | **Total** | **275,000** | **12,556** | **88,277** | **176,195** | **17,758** | **---** |

In relation to said contract, during the year ended 31 December 2022, the Group paid the sums of 10,528 euros and 2,028 euros in principal and interest respectively.

The financial lease transaction in effect as of 31 December 2022 accrued interest at an average rate of 4.54%.

Furthermore, the following is the breakdown of the book value of the asset acquired under the financial lease contract as at 31 December 2022:

| | Euros | | |
|---|---|---|---|
| | 31.12.22 | | |
| **Item** | **Cost** | **Accumulated amortisation** | **Net book value** |
| Information processing equip. | 275,000 | 11,458 | 263,542 |
| **Total** | **275,000** | **11,458** | **263,542** |

## NOTE 7. INFORMATION ON THE NATURE AND RISK LEVEL OF FINANCIAL INSTRUMENTS

Risk management is aimed at establishing the required mechanisms to control the Group's exposure to different types of risk: market risk (including exchange rate risk, interest rate risk and price risk), credit risk and liquidity risk. Risk management is monitored by the Board of Directors of the Parent Company with the support of the Management Control Departments.

Credit risk

Credit risk arises from potential losses caused by infringement of contractual obligations by the Group's counterparties, i.e., by failure to collect financial assets in compliance with the established amounts and timeframes. To minimise this risk, the Group only works with credit institutions of recognised solvency and reputation.

Due to their excellent credit standing, the Group's main debtors do not pose specific credit risks of cancellation of the balances pending collection at the end of the financial year. The following is the breakdown by seniority of the trade debtors and other accounts receivable as at 31 December:

| | Euros | |
|---|---|---|
| | **31.12.22** | **31.12.21** |
| Long-term debts not due | 5,224,239 | 1,024,419 |
| Short-term debts not due | 10,996,804 | 7,323,333 |
| Past due but not doubtful | 204,150 | 685,990 |
| Doubtful | 1,897,511 | 1,177,596 |
| **Total** | **18,322,704** | **10,211,338** |
| **Restatements due to impairment (Note 9.3)** | **(1,897,511)** | **(1,177,596)** |
| **Total** | **16,425,193** | **9,033,742** |

Liquidity risk

Prudent management of liquidity risk entails maintaining sufficient cash and highly-liquid securities, the availability of financing through a sufficient number of committed credit facilities and the ability to liquidate market positions. Liquidity risk is considered sufficiently mitigated by the expansion of our credit lines with financial institutions (Note 12) and the convertible debt issuance financing agreements entered into with the investment fund Nice & Green, S.A. (hereinafter "Nice & Green") (see Note 11).

Market-related financial risks

a. Interest rate risk on cash flows and fair value

Income and cash flows from the Group's operating activities are for the most part independent of changes in market interest rates.

The interest rate risk arises from long-term borrowings. Borrowing issued at variable rates exposes the Group to the cash flow interest rate risk. Borrowing at fixed interest rates exposes the Group to fair value interest rate risk. The Group's policy consists in diversifying its long-term borrowings between variable interest rate instruments and fixed interest rate instruments (see Note 12).

b. Exchange rate risk

The Group operates internationally and is therefore exposed to exchange rate risks due to its foreign currency transactions. The exchange rate risk arises from recognised assets and liabilities. The breakdown of financial assets and liabilities and transactions denominated in foreign currency is reported in Note 14.

The Group's financial management cannot predict the effects of exchange rates on future operating results due to the potential volatility of the foreign exchange markets. The company does not currently use hedging derivatives to hedge its exposure to other currencies.

c. Price risks

There are no significant price risks.

Fair value estimate

The Group assumes that the book value of credits and debits for trade transactions is close to fair value. The fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

## NOTE 8. FINANCIAL INVESTMENTS IN GROUP COMPANIES

### *Equity instruments in group companies*

The following is the information on the non-consolidated Group companies as at 31 December 2021:

*Celmuy Trading, S.A.*

On 25 April 2021 the Parent Company acquired a 100% holding in the share capital of Celmuy Trading S.A. for its nominal value of 10,000 pesos, the equivalent to 188 euros valued at the exchange rate on the transaction date. As set forth in Note 1, this company has been excluded from the consolidation perimeter as at 31 December 2021 due to lack of activity.

It was included within the consolidation perimeter as at 31 December 2022.

## NOTE 9. FINANCIAL ASSETS

### *9.1 Analysis by category*

The following table shows the book value of each category of financial instrument provided for in Rule nine of the Spanish General Accounting Plan's (PGC) recognition and valuation rules in accordance with the information set forth in Note 3.6 except investments in Group and associated companies (see Note 8). and cash and cash equivalents (see Note 10):

| | Euros | | | |
|---|---|---|---|---|
| | Credits, derivatives and others | | | |
| | Short-term | | Long-term | |
| | 2022 | 2021 | 2022 | 2021 |
| *Assets at cost* | | | | |
| • Equity instruments (Note 9.4) | --- | --- | --- | 125,063 |
| *Assets at amortised cost* | | | | |
| • Trade debtors and other accounts receivable (Note 9.3) (*) | 11,283,754 | 8,009,335 | 5,224,239 | 1,024,419 |
| • Loans to personnel | --- | 100 | 1,700 | 1,700 |
| • Other financial assets (Note 9.3) | 155,553 | 44,207 | 168,671 | 117,424 |
| **Total** | **11,439,306** | **8,053,642** | **5,394,610** | **1,268,606** |

(*) Does not include balances with government agencies.

There are no significant differences between the book value and the fair value of financial assets recognised at cost or amortised cost.

### *9.2 Analysis by maturity*

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as at 31 December2022:

| | Financial assets | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | Subsequent years | Total |
| **Financial asset** | | | | | | |
| • Debtors and other accounts receivable (*) | 11,283,754 | 2,247,575 | 1,401,640 | 677,828 | 897,197 | 16,507,992 |
| • Other financial assets | 155,553 | 42,714 | 79,315 | --- | 48,342 | 325,924 |
| **Total** | **11,439,306** | **2,290,289** | **1,480,955** | **677,828** | **945,539** | **16,833,916** |

(*) Does not include balances with government agencies.

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as at 31 December 2021:

| | Financial assets | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | Subsequent years | Total |
| **Financial asset** | | | | | | |
| • Equity instruments | --- | --- | --- | --- | 125,063 | 125,063 |
| • Debtors and other accounts receivable (*) | 8,009,335 | 1,024,419 | --- | --- | --- | 9,033,754 |
| • Other financial assets | 44,307 | 10,100 | --- | 79,315 | 29,709 | 163,431 |
| **Total** | **8,053,642** | **1,034,519** | **---** | **79,315** | **154,772** | **9,322,248** |

(*) Does not include balances with government agencies.

### *9.3 Loans and accounts receivable*

| | Euros | |
|---|---|---|
| | 2022 | 2021 |
| **Long-term loans and receivables:** | | |
| • Loans to personnel | 1,700 | 1,700 |
| • Other financial assets | 168,671 | 117,424 |
| • Trade credits | 5,224,239 | 1,024,419 |
| **Total** | **5,394,610** | **1,143,543** |

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| **Short-term loans and receivables:** | | |
| • Loans to personnel | 2,150 | 2,600 |
| • Other financial assets | 153,403 | 41,607 |
| **Subtotal** | **155,553** | **44,207** |
| • Trade credits and other short-term accounts receivable | | |
| ➢ Trade receivables for provision of services | 13,098,465 | 9,186,919 |
| ➢ Impairment of trade credits | (1,897,511) | (1,177,596) |
| ➢ Sundry debtors | 82,725 | 755 |
| ➢ Personnel | 75 | --- |
| ➢ Deferred tax assets (Note 13.1) | (733) | --- |
| ➢ Other credits with government agencies (Note 13.1) | 1,817,267 | 426,396 |
| **Total** | **13,100,287** | **8,436,473** |

The Group's collection conditions allow its customers up to one year to pay for goods and services. This is normal business practice in the sector in which it operates and particularly in technology assignment and licensing agreements.

The Group's Management considers that the credit risk is sufficiently guaranteed in view of the solvency of the debtors with whom it works (mainly financial institutions).

*Impairment of trade credits*

The following are the movements of provisions for impairment:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| **Initial balance** | **1,177,596** | **1,102,302** |
| Provision for impairment of accounts receivable | 719,915 | 75,294 |
| Reversal of unused amounts | --- | --- |
| **Final balance** | **1,897,511** | **1,177,596** |

Recognition and reversal of valuation restatements for impairment of accounts receivable from customers has been included under heading A.7.c) "Losses, impairment and variation in provisions for trade transactions" in the consolidated income statement.

*Other short and long-term financial assets*

As at 31 December 2022 the *Other long-term financial assets account* includes the rental bonds for the offices for the sum of 94,342 euros (43,095 euros as of 31 December 2021), 74,329 euros (same amount as of 31 December 2021) as a final good-faith bond for the public tender awarded by AENA in financial 2021 for supply and upgrading of a facial biometrics system.

These bonds have not been valued at amortised cost due to the negligible effect they would have on the Parent Company's net equity.

Moreover, on 31 December 2022 the *Other short-term financial assets* account includes the sum of 31,344 euros (same amount as at 31 December 2021) for a fixed-term deposit (F.T.D.) for a nominal value of $US 35,500 and maturity on 8 February 2023 as a guarantee placed with a customers for provision of licencing, support and consultancy.

Furthermore, on 31 December 2021 the *Other short-term financial assets* account includes the sum of 8,829 euros for a fixed-term deposit for a nominal value of $US 10,000 with maturity on 14 February 2022 as a guarantee placed with a customers for provision of licencing, support and consultancy. Said deposit was capitalised on maturity.

This short-term item also includes the sum of 1,265 euros placed on 10 May 2022 as a contribution to the UTE DH Healthcare Provider Software Spain, S.L.U. – Facephi Biometrics, S.A. set forth in Note 1.e).

### 9.4 Investment in long-term equity instruments

On 21 December 2020 the Group called 125,000 shares with a par value of one euro (€ 1) representing 21.04% of the share capital of Ama Movie, A.I.E., a company incorporated for an indefinite period on 15 March 2018. It is domiciled in Madrid and its tax I.D number is V-88067806. Its corporate purpose is the production, edition, distribution and marketing of theatrical, cinematographic and audio-visual productions.

In view of the impossibility of intervening in the entity's financial and operating policy decisions despite holding more than 20% of the voting rights, the Group has classified it as an equity instrument valued at cost.

The Group has sold said investment for the sum of 125 euros, having incurred a loss of 124,938 euros, entered under the head of "Impairment of outcome for disposal of financial instruments" in the attached income statement as at 31 December 2022.

## NOTE 10. CASH AND CASH EQUIVALENTS

The following breakdown shows the movements in the cash and cash equivalents account as at 31 December:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Cash, euros | 1,549 | 1,424 |
| Cash, foreign currency (Note 14.g) | 117 | --- |
| Banks and credit inst. demand c/c, euros | 1,083,361 | 982,149 |
| Banks and credit inst. demand f.c. (Note 14.g) | 1,087,142 | 713,755 |
| **Total** | **2,172,169** | **1,697,327** |

The treasury item under the head of *Banks and financial institutions* includes an entry of 277,758 euros (355,264 euros at 31 December 2021) for financial deposits in the trading and settlement entities of Euronext and BME Growth securities respectively, the funds of which are not freely available to the Parent Company unless the liquidity provider estimates that the cash or shares at its disposal are excessive.

Except for those mentioned above, at the close of the financial year there are no restrictions on the availability of the balances kept in demand current accounts.

As a result of the financial restructuring agreement entered into on 14 December 2020, the Parent Company had established a pledge right over the current accounts and other available liquid assets for the sum of 1,608,374 euros (see Note 12.3.a).

## NOTE 11. NET EQUITY

The attached statement of changes in net equity shows the breakdown and movement of the various accounts under the head of Net Equity during the financial periods ended on 31 December 2022 and 2021.

### *11.1 Capital and reserves*

#### *a) Share capital and share premium*

The following is the composition of the Parent Company's share capital and share premium as at 31 December 2022 and 2021:

| | Euros | | | |
|---|---|---|---|---|
| | **2022** | | **2021** | |
| | **Capital** | **Issue premium** | **Capital** | **Issue premium** |
| Authorised | 697,311 | 15,560,800 | 605,373 | 10,074,525 |
| **Total** | **697,311** | **15,560,800** | **605,373** | **10,074,525** |

The following is a breakdown of movements of share capital and share premiums recognised as at 31 December 2022 and 2021:

| | Number of shares | Par value | Share capital | Issue premium |
|---|---|---|---|---|
| **Opening balance as at 1 January 2022** | **15,134,322** | **0.04** | **605,373** | **10,074,525** |
| Capital increase 21.03.2022 | 209,045 | 0.04 | 8,362 | 649,258 |
| Capital increase 02.06.2022 | 773,886 | 0.04 | 30,955 | 2,110,353 |
| Capital increase 14.07.2022 | 809,498 | 0.04 | 32,380 | 1,627,091 |
| Capital increase 01.12.2022 | 260,811 | 0.04 | 10,432 | 550,311 |
| Capital increase 23.12.2022 | 245,206 | 0.04 | 9,808 | 549,261 |
| **Balance at 31 December 2022** | **17,432,768** | **0.04** | **697,311** | **15,560,800** |

| | Number of shares | Par value | Share capital | Issue premium |
|---|---|---|---|---|
| **Opening balance as of 1 January 2021** | **14,428,519** | **0.04** | **577,141** | **7,222,153** |
| Capital increase 25.03.2021 | 237,456 | 0.04 | 9,498 | 1,011,551 |
| Capital increase 29.04.2021 | 281,001 | 0.04 | 11,240 | 1,138,281 |
| Capital increase 01.06.2021 | 187,346 | 0.04 | 7,494 | 702,540 |
| **Closing balance as at 31 December 2021** | **15,134,322** | **0.04** | **605,373** | **10,074,525** |

On 14 December 2020 the Parent Company entered into a new financing agreement with similar conditions and features as the previous one with Nice & Green, for which reason the Extraordinary General Meeting held on 25 January 2021 agreed, in compliance with article 297.1.b of the Corporate Enterprises Act (LSC) to delegate the power to issue convertible equity warrants (EW) in shares of the Parent Company for a maximum conversion sum of 20 million euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. In accordance with art 417 of the LSC, the pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green S.A. Said delegated power was limited by the condition that the total amount of the increases in share capital agreed on one or more occasions may not exceed the equivalent of half of the share capital at the time, i.e. 288,570.38 euros under any circumstances.

The price of conversion into shares considered in the financing agreement may not be lower than 130% of the nominal value of the Parent Company's shares, i.e., at a lower price per equity warrant than 0.052 euros, or higher than the conversion price resulting from 92% of the lowest weighted average price during the six trading days prior to the date on which the conversion right is exercised. The investment commitment ended on 31 December 2022.

The funds obtained will be used to boost the organic growth the Group is experiencing in areas such as Latin America, the United States and Asia, among others, and to drive its international expansion, reinforce and enlarge the workforce in the search for excellence and commitment to achieving the Parent Company's goals and thus foster product excellence in response to an increasingly demanding market.

*Issuance of the February 2022 equity warrants*

On 16 February 2022 the Board of Directors adopted a resolution to conduct an issue of 48,076,923 equity warrants convertible to the Parent Company's shares for a maximum of 2,500,000 euros. The only recipient of the (February 2022) Equity Warrants was Nice & Green.

The following were the EW-to-shares conversion notifications made by Nice & Green between 16 February and 21 March 2022 for the sum of 599,996 euros:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 25/02/2022 | 99,999 | 32,290 | 3.0969 | 0.04 | 3.0569 | 1,291.60 | 98,707.30 |
| 28/02/2022 | 299,998 | 95,849 | 3.1299 | 0.04 | 3.0899 | 3,833.96 | 296,163.83 |
| 09/03/2022 | 200,000 | 80,906 | 2.4720 | 0.04 | 2.4320 | 3,236.24 | 196,763.39 |
| **Totals** | **599,996** | **209,045** | | | | **8,362** | **591,635** |

With respect to the aforesaid notifications, the associated capital conversion and increase agreement was formalised on 21 March 2022 pursuant to an instrument executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 331 of his journal record and registered in the Companies Registry of Alicante on 6 April 2022.

Furthermore, between 21 March and 2 June 2022 Nice & Green made the following EW-to-shares conversion notifications for a total of 1,899,994 euros:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 01/04/2022 | 99,999 | 38,172 | 2.6197 | 0.04 | 2.5797 | 1,526.88 | 98,472.31 |
| 03/05/2022 | 249,998 | 104,558 | 2.3910 | 0.04 | 2.3510 | 4,182.32 | 245,815.86 |
| 13/05/2022 | 549,999 | 237,642 | 2.3144 | 0.04 | 2.2744 | 9,505.68 | 540,492.96 |
| 19/05/2022 | 499,999 | 212,983 | 2.3476 | 0.04 | 2.3076 | 8,519.32 | 491,479.57 |
| 27/05/2022 | 499,999 | 180,531 | 2.7696 | 0.04 | 2.7296 | 7,221.24 | 492,777.42 |
| **Totals** | **1,899,994** | **773,886** | | | | **30,955** | **1,869,038** |

The associated capital conversion and increase agreement was formalised on 2 June 2022 pursuant to an instrument executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 645 of his journal record and registered in the Companies Registry of Alicante on 16 June 2022.

*Issuance of the June 2022 equity warrants*

On 8 June 2022 the Board of Directors adopted a resolution to conduct an issue of 48,076,923 equity warrants convertible to Parent Company shares for a maximum of 2,500,000 euros. The only recipient of the (June 2022) Equity Warrants was Nice & Green.

The following is the only EW-to-shares conversion notification made by Nice & Green on 8 July 2022 for the sum of 1,500,000 euros:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 08/07/2022 | 1,500,000 | 809,498 | 1.853 | 0.04 | 1.813 | 32,380 | 1,467,620 |
| **Totals** | **1,500,000** | **809,498** | | | | **32,380** | **1,467,620** |

With respect to the aforesaid notifications, the associated capital conversion and increase agreement was formalised on 14 July 2022 pursuant to an instrument executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 829 of his journal record and registered in the Companies Registry of Alicante on 4 August 2022.

Moreover, Nice & Green did not finally execute the sum of 1,000,000 euros for the issuance of the "June 2022" EW. However, the parties entered into separate loans for the aforesaid amount as indicated in Note 12.3.b).

*Issuance of the November 2022 equity warrants*

On 7 November 2022 the Board of Directors adopted a resolution to conduct an issue of 48,076,923 equity warrants convertible to Parent Company shares for a maximum of 2,500,000 euros. The only recipient of the (November 2022) Equity Warrants was Nice & Green.

The following were the EW-to-shares conversion notifications made by Nice & Green between 22 November and 12 December 2022 for the sum of 999,998 euros:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 22/11/2022 | 499,998 | 260,811 | 1.9171 | 0.04 | 1.8771 | 10,432 | 489,566 |
| 12/12/2022 | 500,000 | 245,206 | 2.0391 | 0.04 | 1.9991 | 9,808 | 490,191 |
| **Totals** | **999,998** | **506,017** | | | | **20,241** | **979,757** |

With respect to the aforesaid notifications, the associated capital conversion and increase agreements were formalised on 1 and 22 December 2022 pursuant to instruments executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under numbers 1358 and 1453 of his journal record and registered in the Companies Registry of Alicante on 23 and 31 January 2023.

*Effect on the income statement and on equity as of 31 December 2022 of the convertible EW issues and their conversion into treasury shares*

Since the fixed-for-fixed swap rule was not met in accordance with the valuation criteria and standards set forth in Note 3.8.b, according to the EW issuance conditions a financial derivative is created during the life of the warrant issue until the time it is converted into shares.

Variations in the fair value of the derivative during its life (that is, from the date of signature to exercise of the option), were recognised on 31 December 2022 for a total of 578,215 euros (380,604 euros during the 2021 financial year) under the head of *17. Variation in the fair value of financial instruments* in the consolidated income statement as a financial cost and recognised as a balancing entry in consolidated net equity as a higher share premium equivalent to the sum of the cash received for the conversion, minus the fair value accumulated by the derivative until that moment as set forth in the following breakdown:

**As at 31 December 2022**

| | Number of shares | Conversion price | Fair value | Share premium/cost |
|---|---|---|---|---|
| Capital increase 21.03.2022 | 32,290 | 3.0969 | 3.41 | 10,110 |
| Capital increase 21.03.2022 | 95,849 | 3.1299 | 3.45 | 30,681 |
| Capital increase 21.03.2022 | 80,906 | 2.4720 | 2.68 | 16,828 |
| Capital increase 02.06.2022 | 38,172 | 2.6197 | 2.94 | 12,226 |
| Capital increase 02.06.2022 | 104,558 | 2.3910 | 2.53 | 14,534 |
| Capital increase 02.06.2022 | 237,642 | 2.3144 | 2.56 | 58,365 |
| Capital increase 02.06.2022 | 212,983 | 2.3476 | 2.75 | 85,704 |
| Capital increase 02.06.2022 | 180,531 | 2.7696 | 3.16 | 70,479 |
| Capital increase 14.07.2022 | 809,498 | 1.853 | 2.05 | 159,471 |
| Capital increase 10.11.2022 | 260,811 | 1.9171 | 2.15 | 60,745 |
| Capital increase 01.12.2022 | 245,206 | 2.0391 | 2.28 | 59,070 |
| | | | | **578,215** |

**As at 31 December 2021**

| | Number of shares | Conversion price | Fair value | Share premium/cost |
|---|---|---|---|---|
| Capital increase 25.03.2021 | 237,456 | 3.5796 | 4.2999 | 171,052 |
| Capital increase 29.04.2021 | 281,001 | 3.5586 | 4.0908 | 149,523 |
| Capital increase 01.06.2021 | 187,346 | 3.4695 | 3.7899 | 60,037 |
| | | | | **380,611** |

## *a.2) Share capital and share premium formalised in previous financial years*

The conditions of the share capital issues executed and formalised in previous financial years and performed pursuant to the financing framework agreement entered into on 16 September 2019 with Nice & Green S.A. were reported in detail in the reports to the Parent Company's individual Annual Financial Statements for the relevant financial years. Section a.1) above also contains a breakdown of the impact of the share issues and capital increases in the 2022 and 2021 financial years on net equity.

### ***a.3) Issue of convertible warrants and capital increases in progress***

Under the delegation by the Extraordinary General Meeting held on 25 January 2021, on 7 November 2022 the Board of Directors adopted a resolution to conduct an issue of 48,076,923 equity warrants convertible to Company shares for a maximum of 2,500,000 euros. The only recipient of the (November 2022) Equity Warrants was Nice & Green.

The (November 2022) Equity Warrant issue agreement was formalised on 10 November 2022 before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 1,228 of his journal record.

As at 31 December 2022, issuance of the (November 2022) Equity Warrants is in progress, pursuant to which a variation of 99,093 euros in the fair value of the derivative was recognised under the head of *17. Variation in the Fair Value of Financial Instruments* in the consolidated income statement on said date and charged to the Liabilities for Short-term Financial Derivatives account (see Note 12.1).

Furthermore, as reported in Note 20 on Events Subsequent to Closure, as of the drafting date of these consolidated annual financial statements, the capital increases associated with issuance of the (November 2022) Equity Warrants have been implemented by means of an issue premium for the sum of 1,500,000 euros to complete subscription of the issue in progress on 31 December 2022.

### ***a.4) Significant holdings***

Pursuant to Article 228 of the Consolidated Text of the Securities Market Act adopted by Royal Legislative Decree 4/2015 of 23 October and to Circular 3/2020 of BME Growth, as at 31 December 2022 the following shareholders held a percentage of the Parent Company's share capital equal to or greater than 5%:

| | **%** | **%** |
|---|---|---|
| | **12.2022** | **12.2021** |
| Banque Cantonale Vaudoise (Nice & Green) | 11.06 | --- |
| Salvador Martí Varó | 7.40 | 8.69 |
| Javier Mira Miró (*) | 6.02 | 7.46 |
| Juan Alfonso Ortiz Company (**) | 6.45 | 7.66 |
| José Cristóbal Callado Solana | 5.31 | 6.10 |

**(*)** 7.26% taking into account 141,470, 35,196 and 33,000 shares deposited with Nice & Green as collateral pursuant to the material fact published on 18 September 2019, propriety information published on 15 December 2020 and other material information published on 1 July 2022, respectively.

**(**)** 6.92% taking into account 150,586, 26,080 and 43,666 shares deposited with Nice & Green as collateral pursuant to the material fact published on 18 September 2019, propriety information published on 15 December 2020 and other material information published on 1 July 2022 respectively.

All shares issued are fully paid up. There are no restrictions on their free transferability, except those provided as a guarantee to Nice & Green.

### b) *Treasury stock*

The total amount of treasury stock held as at 31 December 2022 is 454,079 euros (556,510 euros at 31 December 2021) represented by 155,144 shares (126,903 shares at the end of the previous financial year), the equivalent of 0.89% (0.84% in 2021) of the Parent Company's share capital. This is well below the maximum limit of 10% provided for in article 509 of the Corporate Enterprises Act.

On 27 February 2020 the General Meeting approved a motion to authorise the Board of Directors to acquire treasury stock in the following terms:

- For a maximum of five (5) years from adoption of the agreement.
- Up to a maximum of 10% of the share capital.

When the shares are acquired for a consideration the price may vary by +/- 10% of the market value on the acquisition date.

The following are the share movements during the 2022 financial year:

| | **2021** | **Purchases** | **Sales** | **2022** |
|---|---|---|---|---|
| **Cost of treasury shares** | 556,510 | 338,101 | 440,533 | 454,079 |

The Parent Company sold treasury shares during the 2022 financial year for a loss of 181,184 euros (a loss of 73,670 euros as at 31 December 2021) recognised against Voluntary Reserves.

### c) *Parent Company's Reserves*

The following is a breakdown of reserves at the end of the 2021 and 2022 financial years:

| | **Euros** | |
|---|---|---|
| | **2022** | **2021** |
| Legal reserve | 108,553 | 108,553 |
| Voluntary Reserve | 592,811 | 953,620 |
| Ecertic merger reserves (Note 1.d) | (592,985) | --- |
| **Total** | **108,379** | **1,062,173** |

Legal reserve

In accordance with the provisions of article 274 of the Corporate Enterprises Act, companies that obtain liquid profits net of taxes during the financial year shall be obliged to allocate 10% of said profit to a reserve fund that shall reach an amount equal to at least one fifth of the share capital. This reserve may only be used to cover a debit balance on the income statement (if any) and must be replenished when it falls below the stipulated level.

Voluntary reserves

Voluntary reserves, as of 31 December 2022 and 2021, include profits from previous years that were neither distributed nor assigned to mandatory reserves.

These reserves are freely available.

As set forth in the attached consolidated statement of changes in net equity, during the 2022 financial year the sum of 179,625 euros (73,125 euros in previous years) net of taxes has been recognised against these reserves for the cost of issuance and expenses incurred as a result of the capital increases carried out during the year. A negative sum of 181,184 euros (73,670 euros in profits during the 2021 financial year) was also recognised for the outcome of the treasury stock sale-purchase transactions (see Note 11.1.b).

Losses from previous financial years

As of 31 December 2022 this item includes losses made in the 2020 and 2021 financial years for a total of 1,841,328 euros (1,682,335 euros at the end of the previous year) which will be offset with future profits.

### *d) Reserves in consolidated companies*

In accordance with the criteria set forth in Note 3.1, this entry in *Capital and Reserves* on the consolidated balance sheet represents undistributed profits generated by the subsidiaries from the date of their incorporation into the Group. The following is a breakdown of this item as at 31 December 2022 and 2021

| | **Euros** | |
|---|---|---|
| | **2022** | **2021** |
| **By full consolidation:** | | |
| • Ecertic Digital Solutions, S.L. | --- | 172,265 |
| • Facephi Apac | 146,202 | 194,553 |
| **Total** | **146,202** | **366,818** |

### *e) Contribution to consolidated outcome*

The following table shows the contribution of each company in the consolidation perimeter to the consolidated outcome:

| | Profit (Loss) | |
|---|---|---|
| **Subsidiary** | **2022** | **2021** |
| Facephi – Parent company | 2,052,553 | (158,993) |
| Ecertic – Subsidiary | --- | (85,330) |
| Facephi APAC – Subsidiary | (66,428) | 48,351 |
| Celmuy – Subsidiary | 43,450 | --- |
| Facephi Beyond UK – Subsidiary | (909,089) | --- |
| Consolidation restatements | (13,819) | (357,932) |
| **Total** | **1,106,667** | **(553,904)** |

## *11.2. Restatement for value changes - conversion differences*

In compliance with the conversion criteria for annual financial statements of foreign companies that use a functional currency other than the euro set forth in Note 3.1, the Group has recognised a negative conversion difference amounting to 4,030 euros net of the associated tax effect (negative conversion difference amounting to 3,335 euros in the 2021 financial year) on the consolidated balance sheet in net equity. Said amount represents the difference between the amount of the net equity of the subsidiaries converted at the historical exchange rate and the net equity position deriving from the conversion of assets, rights and debentures at the closing exchange rate of all local currencies in which each member of the Group operates.

The following is the breakdown of conversion differences during the 2022 and 2021 financial years:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Balance at start of financial year | **(3,335)** | **---** |
| Variation in equity for conversion differences | (4,750) | (3,335) |
| Conversion diff. addition to consolidation perimeter | 12,116 | |
| **Profit (loss) at end of financial year** | **4,030** | **(3,335)** |

## *11.3. Subsidies*

The following are the amounts and features of the subsidies that appear on the balance sheet as at 31 December 2022 and 2021 under the head of *Subsidies, donations and bequests* and movements during this and the previous financial year:

**Fin. yr. ended 31 December 2022**

| Granting body | Year granted | Amount granted | Balance as at 31.12.21 | Additions for year | Transferred to profit (loss) 31.12.22 | Tax effect | Balance as at 31.12.22 |
|---|---|---|---|---|---|---|---|
| Europe (H2020) | 2016 | 1,692,600 | 65,997 | --- | (67,063) | 16,766 | 15,699 |
| CDTI | 2018 | 180,390 | 61,484 | | (36,456) | 9,114 | 34,141 |
| IMIDCA | 2021 | 110,884 | --- | 110,884 | (11,088) | (24,949) | 74,847 |
| IMINOD | 2021 | 25,154 | --- | 25,154 | (5,031) | (5,031) | 15,092 |
| Red.es | 2022 | 50,457 | --- | 50,457 | --- | (12,614) | 37,843 |
| | | **2,059,485** | **127,480** | **186,495** | **(119,639)** | **(16,714)** | **177,622** |

**Fin. year ended 31 December 2021**

| Granting body | Year granted | Amount granted | Rest pend amort. 31.12.20 | Additions for year | Transferred to 2021 profit (loss) | Tax effect | Rest pend. amort. 31.12.21 |
|---|---|---|---|---|---|---|---|
| Europe (H2020) | 2016 | 1,692,600 | 116,294 | --- | (67,063) | 16,766 | 65,997 |
| CDTI | 2018 | 180,390 | 88,826 | --- | (36,456) | 9,114 | 61,484 |
| | | **1,872,990** | **205,120** | **---** | **(103,519)** | **25,880** | **127,480** |

H2020 is the largest European funding program for research and innovation projects. It has a total budget of roughly 80,000 million euros for the 2014 to 2020 period. The *SME Instrument* program was specifically designed to promote highly innovative SMEs with a great ambition for growth and international projection, in order to boost their success in the market.

In 2016, the Group entered into an agreement with the European Commission to obtain aid to finance investment in development over a period of 2 years in the execution of an identification project known as *Facial Recognition in bank security FACCES*.

This agreement contained a clause whereby the subsidy would be awarded for a maximum of 1,692,600 euros, the equivalent of 70% of the development budget of 2,418,000 euros.

The associated costs incurred with the eligible project, on the one hand, corresponded to R&D personnel costs that were capitalised in intangible assets and, on the other, to operating costs. Therefore the subsidy has both a capital component and an operations component that were was distributed between the two in proportions of 19.81% and 80.19% respectively in accordance with the costs incurred by the Parent Company in previous years.

Furthermore, in financial 2020 on the occasion of acquisition of the subsidiary Ecertic Digital Solutions, S.L.U., the Group has recognised grants for a net amount of 116,168 euros as a result of a grant awarded in 2018 for a gross amount 180,390 euros to finance the project to develop a platform for accreditation of digital identity using biometric technology (Note 4.d).

The Group received the following subsidies in the 2021 financial year:

- On 27 January 2021, the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy for *Digitisation Projects in SMEs (Digitaliza-CV Teletrabajo)* for eligible costs totalling 67,523 euros and a grant of 27,009 euros. Due to the fact that the Group had already complied with the eligible expenses investment commitment, said subsidy was fully allocated under the head of *Other operating revenue* on the attached 2021 consolidated income statement.

- On 30 November 2021 the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy for *SME Innovation Projects. Innovation in Electronic, Information and Communication Technologies (EICTs) 2021* for an eligible cost of 162,500 euros and a subsidy of 70,663 euros. The eligible expenses period runs from 1 January 2021 to 30 June 2022. Subsequently, on 25 February 2022, the IVACE notified the grantee of extension of the execution period until 31 December 2022. As at 31 December 2021 the Group's management considers that it complies with the investment activity deadlines. Nevertheless, the entire project has been executed in 2022 and for that reason the subsidy has been recognised under *Short-term debt convertible into subsidies* (Note 12.3.b).

- On 23 December 2021 the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy for *R&D projects in Cooperation (PIDCOP-CV) 2021* for eligible costs totalling 235,615 euros and a grant of 141,369 euros. The eligible expenses period runs from 11 March 2021 to 30 June 2022. Subsequently, on 25 February 2022, the IVACE notified the grantee of extension of the execution period until 31 December 2022. As at 31 December 2021 the Group's management considers that it complies with the investment activity deadlines. Nevertheless, the entire project has been executed in 2022 and for that reason the subsidy has been recognised under *Short-term debt convertible into subsidies* (Note 12.3.b).

Moreover, during the 2022 financial year the Group has benefitted from a RED.ES, M.P subsidy under the 2021 call for aid aimed at design engineering for research and development in artificial intelligence and other digital technologies and their integration into value chains for the sum of 1,270,090 euros for investment in personnel costs and a collaboration grant amounting to 1,587,519 euros. As at 31 December 2022 this subsidy is pending collection and has been recognised under the following heads:

| | **Euros** |
|---|---|
| | **31/12/2022** |
| **Consolidated balance sheet**: | |
| Capital subsidies | 50,457 |
| ST debts convertible to subsidies | 905,366 |
| LT debts convertible to subsidies | 307,189 |
| **Consolidated income statement** | |
| Operating subsidies: | 7,078 |
| **Total** | **1,270,090** |

## NOTE 12. FINANCIAL LIABILITIES

### *12.1 Analysis by category*

The following is the classification of financial liabilities by category and class as at 31 December 2022 and 2021:

| | Euros | | | |
|---|---|---|---|---|
| | Debts with credit institutions | | Derivatives and others | |
| | 2022 | 2021 | 2022 | 2021 |
| **Long-term financial liabilities** | | | | |
| Valued at amortised cost: | | | | |
| - Bank loans and credit lines | 3,649,671 | 5,041,251 | --- | --- |
| - Financial leasing creditors (Note 6) | 176,195 | --- | --- | --- |
| Other financial liabilities | --- | --- | 307,189 | --- |
| **Total long-term** | **3,825,866** | **5,041,251** | **307,189** | **---** |
| **Short-term financial liabilities** | | | | |
| Valued at amortised cost: | | | | |
| - Bank loans and credit lines | 3,918,990 | 1,181,843 | --- | --- |
| - Financial leasing creditors (Note 6) | 88,277 | --- | --- | --- |
| - Trade creditors and other accounts payable (*) | --- | --- | 4,574,990 | 2,300,458 |
| Other financial liabilities | --- | --- | 3,205,796 | 212,032 |
| Entered at fair value with restatement in the IS: | | | | |
| - Derivatives (Note 11.1.a.3) | --- | --- | 99,093 | --- |
| **Total short-term** | **4,007,267** | **1,181,843** | **7,879,879** | **2,512,490** |

(*) Does not include balances with government agencies.

### *12.2 Analysis by maturity*

The following are the amounts of the financial liability instruments with a specific or determinable maturity classified by year of maturity as at 31 December 2022:

| | Non-current financial liabilities | | | | |
|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | Subsequent years | Total |
| Debts with credit institutions | 1,543,635 | 1,700,227 | 171,183 | 234,625 | 3,649,671 |
| Creditors for fin. leasing | 92,287 | 83,908 | --- | --- | 176,195 |
| Other financial liabilities | 307,189 | --- | --- | --- | 307,189 |
| **Total** | **1,943,111** | **1,784,135** | **171,183** | **234,625** | **4,133,054** |

As at 31 December 2021:

| | Financial liabilities | | | | |
|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | Subsequent years | Total |
| Debts with credit institutions | 1,391,850 | 1,543,504 | 1,700,089 | 405,808 | 5,041,250 |
| Other financial liabilities | --- | --- | --- | --- | --- |
| **Total** | **1,391,850** | **1,543,504** | **1,700,089** | **405,808** | **5,041,250** |

### *12.3. Debits and accounts payable*

| | Euros | |
|---|---|---|
| | 2022 | 2021 |
| **Long term debts:** | **4,133,055** | **5,041,251** |
| • Debts with credit institutions | 3,649,671 | 5,041,251 |
| • Financial leasing creditors | 176,195 | --- |
| • Other financial liabilities | 307,189 | --- |
| **Short term debts:** | **7,312,155** | **1,393,875** |
| • Debts with credit institutions | 3,918,990 | 1,181,843 |
| • Financial leasing creditors | 88,277 | --- |
| • Other financial liabilities | 3,304,888 | 212,032 |
| **Trade creditors and other accounts payable:** | **5,096,803** | **2,541,337** |
| • Suppliers | 574,252 | 415,152 |
| • Various creditors | 2,468,018 | 1,344,695 |
| • Trade advances | 26,091 | 17,826 |
| • Personnel (salaries pending payment) | 1,506,629 | 522,785 |
| • Current tax liabilities | 87 | --- |
| • Other debts with government agencies (Note 13.1) | 521,726 | 240,879 |
| **Debits and payables** | **16,542,013** | **8,976,463** |

The following is a breakdown of the debts with credit institutions as at 31 December 2022 and 2021:

| | Euros | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Short-term | Long-term | Short-term | Long-term |
| Bank loans | 3,837,170 | 3,649,671 | 1,141,964 | 5,041,251 |
| Debts for drawn credit (debtor) | --- | --- | (3,842) | --- |
| Credit cards | 50,268 | --- | 28,509 | --- |
| Uncollected accrued interest | 31,551 | --- | 15,213 | --- |
| **Total** | **3,918,990** | **3,649,671** | **1,181,843** | **5,041,251** |

### a) *Loans with credit institutions*

The following is a breakdown of the most important conditions of the financial loans in effect as at 31 December 2022 and 2021:

| | | | Euros | | | |
|---|---|---|---|---|---|---|
| | | | 31.12.22 | | 31.12.21 | |
| Type of transaction | Maturity | Limit | Short-term | Long-term | Short-term | Long-term |
| Loan (1) | 20.11.22 | 200,000 | --- | --- | 67,059 | --- |
| Loan (2) | 03.04.28 | 1,000,000 | 159,502 | 736,255 | 104,243 | 895,757 |
| Syndicated loan A | 30.06.25 | 6,000,000 | 1,231,169 | 2,913,416 | 970,662 | 4,145,494 |
| Syndicated loan B | 21.04.23 | 5,000,000 | 1,999,999 | --- | --- | --- |
| Syndicated loan C | 13.02.23 | 2,000,000 | 446,500 | --- | --- | --- |
| | | **Total** | **3,837,170** | **3,649,671** | **1,141,964** | **5,041,251** |

**(1)** The investment loan, the purpose of which is commercial establishment in the South Korean subsidiary, financing of personnel expenses, rentals and promotion.

**(2)** ICO PYMES loan On 3 May 2021 the Group obtained an extension of the grace period for repayment of the principal and the associated extension of maturity.

As at 31 December 2022, the Group has a credit card limit of 183,200 euros (209,022 euros as the end of the previous year) of which 50,268 euros has been drawn down as at said date (28,509 euros as at 31 December 2021).

During the 2022 financial year the Group has also entered into an invoice factoring agreement maturing on 31 October 2023 with a financial institution. This facility has not been used as at the end of the 2022 financial year.

The interest rate for debts with credit institutions is the Euribor plus a margin considered to be consistent with market costs. As at 31 December 2022, the Group has recognised the sum of 31,551 euros as accrued interest pending collection (15,213 euros as at 31 December 2021).

The average interest rate on long-term debts with credit institutions as at 31 December 2022 is 4.40% (4.90% in the previous year).

*Syndicated financial restructuring agreement*

On 14 December 2020 the Parent Company reached a syndicated credit line agreement with a limit of 13 million euros with the Banco Santander, CaixaBank, Banco Sabadell and Deutsche Bank structured in three tranches:

- TRANCHE A, nominal sum of € 6 million for 5 years with half-yearly amortisation.
- TRANCHE B, Ordinary revolving credit. Nominal sum of € 5 million for three years plus two potential 1-year renewals.
- TRANCHE C, Revolving credit (bilateral contracts). Nominal sum of € 2 million over 3 years with two annual renewals up to 5 years.

The interest rate applicable to each settlement period will be Euribor + an initial 3% margin. This margin will vary depending on the variation in the net financial debt/EBITDA ratio at the end of each established review period.

Without prejudice to the net-worth personal liability of the Parent Company for its participation in the aforesaid contracts, pledge rights in rem have been constituted on the credit rights of the operating current accounts and the transitory amortisation account associated with the loan (See Note 10). Along the same lines, as a guarantee for the above obligations the Group has established a movable property mortgage on the Parent Company's trademarks, valued at 2,244,829 euros.

Based on the estimates of its cash flows set forth in the business plan, Management considers that the Group will be capable of meeting all its contractual obligations deriving from the loans and financial credits into which it has entered as at the end of the financial year.

The debt issuance conditions related to the syndicated loan entail compliance with various annual ratios determined on the basis of net financial debt and financial expenses, both with respect to EBITDA, calculated using the information set forth in the Parent Company's financial statements. As at 31 December 2022 the Parent Company meets the ratios set in the aforesaid financing agreements.

### b) Other short-term financial liabilities

The following is a breakdown of other short-term financial liabilities as at the end of the 2022 and 2021 financial years:

| | Euros | | | |
|---|---|---|---|---|
| | Short-term | | Long-term | |
| **Type of transaction** | **2022** | **2021** | **2022** | **2021** |
| Debts convertible to subsidies | 905,366 | 212,032 | 307,189 | --- |
| Nice & Green loans | 2,300,002 | --- | --- | --- |
| Others | 99,520 | --- | --- | --- |
| **Total** | **3,304,888** | **212,032** | **307,189** | **---** |

Since the investment had not yet been made at the drafting date of the consolidated annual financial statements, the Group has recognised the amount considered to be repayable of the capital subsidies granted to the Parent Company under the head of Debts convertible to short- and long-term subsidies (see Note 11.3).

At the end of the 2022 financial year the amount of the subsidies granted and deemed to be refundable and pending substantiation amounted to 1,212,555 euros (212,032 euros at the end of the 2021 financial year) recognised in the short term.

As at 31 December 2022, the Parent Company is involved in three financial transactions with Nice & Green for a total of 2.3 million euros as shown in the following breakdown:

- Provision of 1.5 million euros for capital increases derived from the framework financing agreement signed on 14 December 2020. As set forth in Note 20 of Events Subsequent to the Closure, at the drafting date of these consolidated annual financial statements this amount has been applied to the two capital increases and share premium implemented in January 2023 for a total amount of 1,500,000 euros.

- An interest-free financial loan granted on 13 May 2022 for 800,000 euros that has been partially applied to the capital increase and share premium implemented in June 2022 for the sum of 499,999 euros maturing on 31 January 2023, of which the sum of 100,000 euros is pending payment at the end of the 2022 financial year.

- An interest-free financial loan for 700,000 granted on 23 June 2022 euros and maturing on 23 June 2023. On 17 November 2022 this transaction was renewed and extended until 10 November 2023 with 5% per annum fixed interest and repayment in a single instalment at maturity.

Moreover, as set forth in Note 11.1.a.3), as of 31 December 2022 the issuance of the (November 2022) Equity Warrants is in progress. For that reason the variation in the fair value of the derivative has been recognised for a total of 99,093 euros in the Liabilities for Short-term Financial Derivatives account.

### c) *Information on the average period of payment to suppliers. Additional provision three, "Duty of information," Act 15/2010 of 5 July.*

In compliance with the duty of information provided for in Act 15/2010 (amended by Final Provision Two of Act 31/2014 of 3 December) that sets up measures to combat late payment in trade transactions, the following is a breakdown of the information on average supplier payment interval for trade transactions drawn up in accordance with the resolution of the Accounting and Auditing Institute (ICAC) dated 29 January 2016:

| | 2022 | 2021 |
|---|---|---|
| **Item** | **Days** | **Days** |
| Average period of payment to suppliers | 24.58 | 19 |
| Paid transaction ratio | 23.76 | 19 |
| Past-due transaction ratio | 49.54 | 26 |
| | **Euros** | |
| Total payments made | 12,139,430 | 7,266,275 |
| Total pending payments | 1,451,967 | 842,452 |

| | 2022 |
|---|---|
| **Number of invoices** | |
| Total number of invoices paid | 2,474 |
| Number of invoices paid before the legal deadline | 2,376 |
| **%** | 96% |
| **Amount in euros** | |
| Total amount of paid invoices | 12,139,430 |
| Amount of invoices paid within the legal deadline | 11,289,670 |
| % | 93% |

In compliance with the ICAC Resolution, trade transactions associated with the delivery of goods or provision of services accrued from the date of entry into force of Act 31/2014 of 3 December have been considered for calculation of the average period of payment to suppliers.

For the sole purpose of providing the information requested in the aforesaid Resolution, *suppliers* is understood to mean trade creditors for debts with suppliers of goods or services entered under the heads of “sundry suppliers and creditors" in current liabilities on the consolidated balance sheet.

The maximum legal payment period applicable to the Group in the 2022 financial year according to Act 3/2004 of 29 December that lays down measures to combat late payment in trade transactions and in compliance with the transitory provisions of Act 15/2010 of 5 July is 30 days from receipt unless there is an express agreement for payment at 60 days.

## NOTE 13. GOVERNMENT AGENCIES AND THE TAX POSITION

### *13.1 Current balances with government agencies*

The following is the composition of the credit balances maintained with the government agencies at the end of the financial year:

| | Euros | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Assets | Liabilities | Assets | Liabilities |
| **Deferred tax assets (Note 13.4)** | **1,558,878** | | **1,093,506** | |
| Deferred tax asset for: | | | | |
| • VAT | 336,265 | | 187,355 | |
| • Others | 483 | | --- | |
| Other govt. agencies: Subsidies granted | 1,480,518 | | 239,041 | |

| | | | | |
|---|---|---|---|---|
| **Other credits with govt. agencies** | **1,816,267** | | **426,396** | |
| **Deferred tax liabilities (Note 13.4)** | | **64,092** | | **42,493** |
| Debts with Social Security Organisations | | 328,035 | | 143,987 |
| Deferred tax liability for: | | | | |
| • VAT | | 10,153 | | 6,172 |
| • Personal income tax withholdings | | 183,538 | | 90,720 |
| **Other debts with govt. agencies** | | **521,726** | | **240,879** |
| **Current tax assets/liabilities** | **(733)** | **87** | **---** | **---** |

### *13.2 Financial years pending verification and inspection*

In compliance with the currently applicable legislation, taxes are not considered finally settled until the returns have been inspected by the tax agency within the four-year limitation period. As at 31 December 2022, none of the Group companies' main tax returns since 31 December 2018 have been inspected and are therefore open to examination by the Tax Agency.

Group Management considers that it has adequately settled all applicable taxes. However, in the event of an inspection, discrepancies could arise between Group management and the tax inspectorate on the interpretation of the regulations with respect to the fiscal treatment of certain transactions that could entail additional tax-related liabilities. However, Management does not expect such liabilities, even if they do arise, to significantly affect the Group's consolidated annual financial statements.

### *13.3 Reconciliation of the accounting result and current expense for income tax*

Corporation tax is calculated on the basis of the economic or accounting result obtained by applying generally accepted accounting principles, which does not necessarily have to coincide with the tax result understood as the taxable base of the tax in question.

The following is the reconciliation of the accounting result with the corporation income tax base as at 31 December 2022 is as follows:

| | Euros | | | | | |
|---|---|---|---|---|---|---|
| | **Facephi** | **Celmuy Trading** | **FacePhi Beyond Biometrics** | **FacePhi APAC** | **Total 2022** | **Total 2021** |
| **Consolidated profit/(loss) before tax** | **1,971,549** | **43,450** | **(922,908)** | **(66,428)** | **1,025,663** | **(853,383)** |
| **Consolidation offsets and restatements** | | | | | | |
| • Offsetting sales margin of computer applications | --- | --- | --- | --- | --- | 22,400 |
| • Amortization of the fair value of intangibles (I.T. applications) attributed to the business combination (Note 1.c) | --- | --- | --- | --- | --- | 335,532 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Individual result before tax for the financial year Profit/(loss)** | **1,971,549** | **43,450** | **(922,908)** | **(66,428)** | **1,025,663** | **(495,451)** |
| Permanent differences: | | | | | | |
| • Other non-deductible expenses | 10,442 | | | | - | 9,419 |
| • Changes in the fair value of financial instruments | 677,308 | | | | | 380,604 |
| • Impairment of holdings and credits to Group companies | --- | | | | | (201,434) |
| **Income/(expenditure) allocated to Net Equity** | | | | | | |
| • Capital increase expenses | (239,500) | | | | | (97,500) |
| **Prior taxable base** | **2,419,799** | **43,450** | **(922,908)** | **(66,428)** | **1,025,663** | **(404,362)** |
| • Compens. negative taxable bases in previous years | (1,125,150) | | | | (1,125,150) | |
| • Compens. ECERTIC negative merger taxable bases | (396,985) | | | | (396,985) | |
| • Compensation deduction expenses at industrial origin of software. (Uruguay). | --- | (43,450) | | | (43,450) | |
| **Payable tax base** | **897,664** | **---** | **(922,908)** | **(66,428)** | **---** | **---** |
| Tax rate on the payable base (25%) | (224,416) | --- | --- | --- | (224,416) | (91,846) |
| Rebates for cross-border double taxation | 224,416 | --- | --- | --- | 224,416 | --- |
| **Amount payable/(refundable)** | **---** | **---** | **---** | **---** | **---** | **---** |

As at the end of the 2022 and 2021 financial years the permanent differences are confined to consideration of fiscal penalties and surcharges and variation in the fair value of financial instruments (derivatives) related to the various capital increases as non-deductible expenses in accordance with the information set forth in Note 11.1.

The accounting expense / (income) for Corporation Tax has been calculated as follows:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Recognition of deductions for withholdings at source | (97,648) | (316,078) |
| Application of deductions for the current year | 322,064 | 316,078 |
| Tax rate on the taxable base - current expense / (income) | --- | (91,846) |
| Application of tax credit for FacePhi negative taxable bases | 281,287 | --- |
| Recognition of 2022 donation deductions | (998) | --- |
| **Current tax expense / (income)** | **504,705** | **(91,846)** |
| Temporary deductible diff. for capital increase expenses | 59,875 | 24,375 |
| **Deferred tax expense / (income)** | **59,875** | **24,375** |
| Recognition of restatement of estimated R&D rebates (Note 13.4) | (645,585) | (232,009) |

| Total expenditure / (income) for Corporation Tax | (81,004) | (299,479) |
|---|---|---|

### *13.4. Deferred tax assets and liabilities*

Deferred tax assets

In accordance with the principle of prudence, deferred tax assets for deductible temporary differences, negative tax base and deductions and other unused tax rebates will only be recognised to the extent that it is probable that the Parent Company will have future taxable profits that enable application of these assets.

*Tax rebates pending application*

The following table shows the breakdown of tax rebates pending application in accordance with the Group's corporation tax returns filed and the tax forecast for the current financial year as at 31 December 2022 and 2021:

As at 31 December 2022:

| Item | Year of origin | 2021 | Generated | Applied | Estimate changes | 2022 |
|---|---|---|---|---|---|---|
| Cross-border double tax. | 2018 | 57,862 | --- | --- | --- | 57,862 |
| R&D ECERTIC merger | 2018 | --- | --- | --- | 97,364 | 97,364 |
| Research and development (**) | 2019 | 25,740 | --- | --- | 64,349 | 90,089 |
| Cross-border double tax. | 2020 | 205,158 | --- | --- | --- | 205,158 |
| Research and development (**) | 2020 | 79,637 | --- | --- | 180,860 | 260,497 |
| Film production | 2020 | 126,632 | --- | --- | --- | 126,632 |
| Cross-border double tax. | 2021 | 316,078 | --- | --- | --- | 316,078 |
| Research and development (**) | 2021 | --- | --- | --- | 303,012 | 303,012 |
| Cross-border double tax. | 2022 (*) | --- | 322,064 | (224,416) | --- | 97,648 |
| Rebate for donations (35%) | 2022 | --- | 998 | --- | --- | 998 |
| **Total** | | **811,107** | **323,061** | **(224,416)** | **645,585** | **1,555,336** |

**(*)** 2022 corporation tax estimate (Note 13.3)

**(**)** 2021 rebates estimated at 12% of the taxable base (restatement of estimated 42% 2019 and 2020).

As at 31 December 2021:

| Item | Year of origin | 2020 | Generated | Applied | 2021 |
|---|---|---|---|---|---|
| Cross-border double tax. | 2018 | 57,862 | --- | --- | 57,862 |
| Research and development (**) | 2019 | --- | 25,740 | --- | 25,740 |
| Cross-border double tax. | 2020 | 205,158 | --- | --- | 205,158 |
| Research and development (**) | 2020 | --- | 79,637 | --- | 79,637 |

| | | | | | |
|---|---|---|---|---|---|
| Film production | 2020 | --- | 126,632 | --- | 126,632 |
| Cross-border double tax. | 2021[(*)] | --- | 316,078 | --- | 316,078 |
| | **Total** | **263,020** | **548,087** | **---** | **811,107** |

(*) 2021 corporation tax estimate (Note 13.3)

(**) Rebates estimated at 12% of the taxable base.

The definition of Research and Development (R&D) and Technological Innovation (TI) set forth in article 35 of the Corporation Tax Act that regulates the rebate for performance of said activities are indeterminate legal concepts that confer a high degree of legal uncertainty on application of the aforesaid rebate.

For the purposes of mitigating the legal uncertainty in application of the rebate, the Tax Act provides that taxpayers can obtain reasoned reports on compliance with the definitions of R&D and TI in accordance with the activities carried out the Ministry of Science and Innovation or its related bodies. These reports are binding on the Tax Agency and therefore mitigate the aforesaid legal insecurity.

In accordance with the following breakdown, during the 2021 financial year, the Parent Company received the reasoned report that substantiates the calculation of expenses incurred during the 2019 and 2020 financial years in relation to research and development projects:

| ITEMS | 2019 | 2020 | TOTAL |
|---|---|---|---|
| Personnel | €117,423.15 | €501,809,08 | €619,232.23 |
| Amortisation of assets (tangible and intangible) | €0.00 | €0.00 | €0.00 |
| Fungible material: | €0.00 | €0.00 | €0.00 |
| External collaborations | €97,074.93 | €161,831.26 | €258,906.19 |
| Other expenses | €0.00 | €0.00 | €0.00 |
| Samples | €0.00 | €0.00 | €0.00 |
| Indirect costs | €0.00 | €0.00 | €0.00 |
| **TOTAL EXPENSES FINANCIAL YEAR** | **€214,498.08** | **€663,640.34** | **€878,138.42** |
| Subsidies granted | €0.00 | €0.00 | €0.00 |
| Subsidies reduced | €0.00 | €0.00 | €0.00 |
| **DEDUCTION BASE** | **€214,498.08** | **€663,640.34** | **€878,138.42** |
| Qualified researcher personnel amount | €0.00 | €0.00 | €0.00 |
| Qualified researcher personnel subsidised amount | €0.00 | €0.00 | €0.00 |
| Qualified researcher personnel base | €0.00 | €0.00 | €0.00 |
| Teams devoted exclusively to R&D | €0.00 | €0.00 | €0.00 |
| Mean base two previous years | €0.00 | €107,249.04 | €107,249.04 |
| Excess over mean value | €214,498.08 | €556,391.30 | €770,889.38 |
| Fiscal deduction calculation | | | |
| Deduction on mean R&D base | €0.00 | €26,812.26 | €26,812.26 |
| Deduction on excess R&D base | €90,089.19 | €233,684.35 | €323,773.54 |
| Additional deduction for qualified researchers assigned exclusively to R&D activities | €0.00 | €0.00 | €0.00 |
| Investment in tangible and intangible fixed assets devoted exclusively to R&D activities | €0.00 | €0.00 | €0.00 |
| TI deduction base | 0.00 € | 0.00 € | 0.00 € |

| TOTAL DEDUCTION | 90,089.19 € | €260,496.61 | €350,585.80 |
|---|---|---|---|

The provision for Corporation Tax for the financial year will be altered to include the associated rebate if a reasoned report is received for any of the projects between the drafting date of the financial statements and the tax return submission date. Consequently, the Parent Company reported technological investment rebates for the sum of 105,377 euros in the corporation tax return for the 2020 financial year, having recognised the rebates during financial 2021 as an accounting estimate restatement. Subsequently, in September 2021, a reasoned report was received that qualified the tax rebates as research and development. This entails a change from a rebate of 12% to one of 42% of the investment associated with the R&D projects. The Group recognised the change in the estimate of the amount of these deductions for the sum of 245,208 euros in the 2022 financial year.

Along the same lines, in the 2022 financial year the Parent Company has recognised the IT deductions generated in the 2021 financial year for the sum of 303,012 euros and those generated by ECERTIC, a company merged in 2022 (see Note 1.c) for 97,364 euros as a change in accounting estimate.

In the 2021 financial year the Parent Company also considered the technological investment rebates for the sum of 126,632 euros in the corporation tax return for the 2020 financial year applicable to the investment in the film production company Ama Movie, A.I.E set forth in Note 9.4.

*Tax credits for negative taxable bases*

According to the forecast for fiscal year 2022 the Parent Company has the following negative tax bases to offset with future tax benefits:

| | Euros | | | | |
|---|---|---|---|---|---|
| **Year of origin** | **Pending bases 2021** | **Originated in 2022** | **Compensated in 2022** | **Pending bases 2022** | **Tax credit** |
| 2018 financial year (*) | --- | 30,596 | (30,596) | --- | --- |
| 2019 financial year (*) | --- | 272,047 | (272,047) | --- | --- |
| 2020 financial year (*) | --- | 9,013 | (9,013) | --- | --- |
| 2020 financial year | 757,767 | --- | (757,767) | --- | --- |
| 2021 financial year (*) | --- | 85,330 | (85,330) | --- | --- |
| 2021 Financial Year | 367,383 | --- | (367,383) | --- | --- |
| **Total** | **1,125,150** | **396,985** | **(1,522,135)** | **---** | **---** |

**(*)** Addition of negative taxable bases for merger with ECERTIC by absorption (Note 1.c)

Deferred tax liabilities

The temporary differences as at 31 December 2022 and 2021 derived from the subsidies received and transferred to the outcome for the financial year are set forth in this section.

The following is the breakdown of movements under this head during the 2022 and 2021 financial years:

| | Euros | |
|---|---|---|
| | 2022 | 2021 |
| **Initial balance** | **42,493** | **68,373** |
| Temporary differences created / (reversed) for: | | |
| - Capital subsidies granted | 46,624 | --- |
| - Capital subsidies transferred to profit/(loss) | (29,910) | (25,880) |
| - Conversion differences | 4,885 | --- |
| **Final balance** | **64,092** | **42,493** |

## NOTE 14. INCOME AND EXPENDITURE

### *a) Net turnover*

The following is the geographic spread of the consolidated net turnover for the ordinary activities of the Group:

| | % | |
|---|---|---|
| **Market** | **2022** | **2021** |
| Spain | 1.96 | 14.40 |
| Other countries | 98.04 | 85.60 |
| **Total** | **100.00** | **100.00** |

Furthermore, 100% of net turnover is for provision of services to the Group companies.

The Group recognised the sum of 344,720 euros as at 31 December 2022 (562,924 euros as at 31 December 2021) under the head of Short-term Accruals in current liabilities on the attached consolidated balance sheet for estimated revenue from support and maintenance activities, accrual of which takes place in the following financial year.

### *b) Supplies*

Costs accrued for licensed use of certain computer programs and software necessary to develop the products that the Group will subsequently market under license are set forth under this head in the income statement. The sum of 3,185,110 euros has been recognised as at 31 December 2022 (1,877,687 euros in 2021).

### c) Work performed by the Group for its assets

| | % | |
|---|---|---|
| | 2022 | 2021 |
| Work carried out by the company for its assets | | |
| • Facephi | 3,818,608 | 2,100,208 |
| • Ecertic | - | 75,000 |
| **Total** | **3,818,608** | **2,175,208** |

The amounts set forth in the above table, capitalised in intangible assets, originate in the improvements and new versions of its computer applications that the Group has continued to make and are (see Note 4).

### d) Operating grants entered in profit or loss

In accordance with the criteria set forth in Note 3.11 as of 31 December 2022, the Group's Management has allocated the amount of 119,639 euros to the income statement (103,519 as at 31 December 2021) (see Note 11.3).

### e) Personnel expenses

| | Euros | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Facephi | Rest of Group | Facephi | Rest of Group |
| Wages, salaries and similar | 8,167,526 | 1,066,820 | 5,812,606 | 475,682 |
| Severance payments | 88,565 | 30,995 | 6,000 | --- |
| Company's Soc. Sec. payments | 1,496,722 | 85,663 | 900,515 | 38,825 |
| Other social expenses | 81,714 | 13,707 | 2,081 | --- |
| Provisions for long-term remuneration (Note 3.13.c) | --- | --- | --- | 29,601 |
| **Total** | **9,834,527** | **1,197,185** | **6,721,202** | **544,108** |

As of 31 December 2022 the wages, salaries and similar item includes the sum of 1,134,000 euros for bonuses forecast and pending payment to the Parent Company's personnel (426,000 euros at the end of the previous year).

The following table shows the average number of employees in the course of the year by job category:

| | Euros | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Facephi | Rest of Group | Facephi | Rest of Group |
| Senior management | 1 | 1 | 1 | 1 |
| Scientific, intellectual and support technicians and professionals | 130 | 7 | 139 | 3 |
| Clerical workers | 33 | 3 | 6 | 1 |
| Sales force | 5 | 1 | 6 | --- |
| **Total average employees** | **169** | **12** | **152** | **5** |

These employees were distributed by gender as follows at the end of the year:

| | Euros | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | Men | Women | Total | Men | Women | Total |
| Executive directors | 2 | - | 2 | 2 | --- | 2 |
| Scientific, intellectual and support technicians and professionals | 121 | 29 | 150 | 111 | 33 | 144 |
| Clerical workers | 13 | 31 | 44 | 3 | 4 | 7 |
| Sales force | 6 | 3 | 9 | 5 | 1 | 6 |
| **Total workforce at the end of the financial year** | **142** | **63** | **205** | **121** | **38** | **159** |

As of 31 December 2022 and 2021 the Group employs 2 workers with a disability equal to or greater than 33%.

The average number of employees with a disability equal to or greater than 33% for fiscal year 2022 was 2 people (the same number during the 2021 financial year).

### *f) Other operating expenses*

The following is the breakdown of other operating expenses by year:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| **External services:** | | |
| Research and development expenses | --- | 2,005 |
| Leases and royalties | 624,736 | 168,774 |
| Repairs and upkeep | 39,055 | 23,402 |
| Freelance professional services | 4,721,091 | 3,917,392 |
| Transport | 3,065 | 105 |
| Insurance premiums | 117,767 | 56,754 |
| Banking and similar services | 130,906 | 94,928 |
| Advertising, promotion and public relations | 1,023,033 | 690,721 |
| Supplies | 23,176 | 63,271 |
| Other services | 1,020,209 | 525,142 |
| Taxes | 9,835 | 11,692 |
| Loss, impairment and variation of provisions for uncollectible trade transactions (Note 9) | 719,915 | 75,294 |
| **Other operating expenses** | **8,432,789** | **5,629,480** |

### *g) Foreign currency: Exchange differences*

The overall value of assets denominated in foreign currency (f.c.) amounts to 17,279,077 euros (8,920,522 euros en 2021). The following are the most significant items:

| | | Euros | |
|---|---|---|---|
| **Item** | **Currency** | **2022** | **2021** |
| Clients (foreign currency) | USD | 16,033,069 | 7,779,460 |
| Clients (foreign currency) | KRW | 127,406 | 102,011 |
| Treasury (c/c in f.c.) | USD | 862,855 | 713,755 |
| Treasury (c/c in f.c.) | KRW | 220,098 | 285,123 |
| Treasury (c/c in f.c.) | GBP | 4,189 | --- |
| Treasury (cash f.c.) | USD | 117 | --- |
| Fixed-term deposits (f.c.) | USD | 31,344 | 40,173 |
| | **Total** | **17,279,077** | **8,920,522** |

The following is a breakdown of liabilities denominated in foreign currency:

| | | Euros | |
|---|---|---|---|
| Item | Currency | 2022 | 2021 |
| Creditors (f.c.) | USD | 542,062 | 420,184 |
| Creditors (f.c.) | KRW | 28,120 | 31,982 |
| Creditors (f.c.) | GBP | 132,639 | --- |
| Trade advances | KRW | 26,091 | 17,826 |
| | **Total** | **728,912** | **469,992** |

The main transactions carried out in currencies other than the euro are detailed below:

| | Euros | |
|---|---|---|
| | 2022 | 2021 |
| Services received (USD) | (4,512,139) | (3,284,492) |
| Services received (GBP) | (439,318) | --- |
| Services received (KRW) | (150,537) | (96,591) |
| Rev. from services provided (USD) | 21,414,807 | 10,782,492 |
| Rev. from services provided (KRW) | 440,021 | 481,261 |
| **Total** | **16,752,834** | **7,882,670** |

The following table shows the amounts of the exchange differences recognised in the outcome for the financial year. The figures for transactions settled during the period are separated from those pending settlement as at 31 December 2022 and 2021:

| | | Exchange differences | |
|---|---|---|---|
| Financial instrument | Currency | 2022 | 2021 |
| Negative cash differences | USD | 14,238 | 17,998 |
| Positive cash differences | USD | (121,495) | (176,693) |
| Positive cash differences | KRW | (2,069) | --- |
| Negative differences from trade collections | USD | 105,848 | 9,870 |
| Positive differences from trade collections | USD | (194,064) | (72,544) |
| Positive differences from trade collections | KRW | (2,672) | (4,143) |
| Negative differences for payments to suppliers | USD | 169,392 | 28,234 |
| Negative differences due to credit balances | KRW | 646 | --- |
| Positive differences for customer balances | USD | (267) | (254) |
| Positive differences for supplier payments | USD | (30,210) | (2,757) |
| **Total for transactions settled in the financial year (+) -** | | **(60,653)** | **(200,289)** |

| | | Exchange differences | |
|---|---|---|---|
| **Financial instrument** | **Currency** | **2022** | **2021** |
| Negative differences due to customer balances | USD | 45,061 | 14,961 |
| Positive differences due to trade balances | USD | (339,416) | (139,125) |
| Negative differences due to financial investment balances | USD | --- | --- |
| Positive differences due to financial inv. balances | USD | --- | (1,874) |
| Positive differences for supplier payments | USD | (27,400) | 9,086 |
| Negative differences for supplier balances | USD | 1,916 | --- |
| **Total for transactions pending maturity: (+) -** | | **(319,839)** | **(116,952)** |
| **Total exchange differences allocated for the year: (+)-** | | **(380,492)** | **(317,241)** |

## NOTE 15. REMUNERATION OF THE PARENT COMPANY'S BOARD OF DIRECTORS AND SENIOR MANAGEMENT

In accordance with the proposal of the Appointments and Remuneration Committee on 20 April 2022, subsequently ratified by the General Meeting held on 21 June 2022, the Governing Bodies and the Board of Directors received the following remuneration for the 2022 financial year:

- For senior management remuneration: a total of 620,000 euros plus a variable payment subject to the variation in certain objective magnitudes.
- Remuneration of the Board of Directors: the sum of 360,000 euros for per diem allowances and 300,000 euros as remuneration for the Audit Committee and the Appointments and Remuneration Committee.
- Remuneration of the Board of Directors: the sum of 250,000 euros for per diem allowances and 50,000 euros as remuneration for the Audit Committee and the Remuneration Committee.

Pursuant to these agreements, the remuneration accrued as at 31 December 2022 and 2021 was the following:

### *a) Remuneration of members of the Board of Directors and senior management.*

During the 2022 and 2021 financial years the members of the Board of Directors – some of whom are also senior managers – received the following statutory and salary remuneration including Board expenses and per diem allowances, remuneration in kind and insurance premiums of civil responsibility for managers and directors:

| | Euros | |
|---|---|---|
| | 2022 | 2021 |
| **Remuneration:** | | |
| Remuneration-Senior Management | 620,000 | 656,830 |
| Variable remuneration-Senior Management | 350,000 | 90,000 |
| Board and Audit and Remuneration Committee Allowances | 360,000 | 300,000 |
| Other remuneration | 29,438 | 46,446 |
| Insurance premiums | 2,492 | 2,492 |
| **Total remuneration** | **1,361,930** | **1,095,768** |

As set forth in Note 5, a member of the Board of Directors has purchased, for 26,273 euros, a vehicle which had until then been leased by the Company under an operating lease contract.

Neither the members of the Board of Directors nor senior management have been granted financial credits or benefitted from pension-related schemes.

On 23 July 2021 the Parent Company's Board of Directors accepted the resignation of its previous Chairman, Salvador Martí Varó.

On the same date the Board of Directors unanimously elected Javier Mira Miró, the current managing director, as its Chairman. the office of managing director is compatible with that of Chairperson of the Board of Directors. On the same date Fernando Orteso de Travesedo was appointed Vice-Chairman and David José Devesa Rodríguez Vice-Secretary of the Board of Directors.

### *b) Directors in relation to conflicts of interest*

In compliance with the duty of avoiding situations that could entail a conflict of interest with the Parent Company all directors who have held offices on the Board of Directors have fulfilled the obligations set forth in article 228 of the consolidated text of the Corporate Enterprises Act during the 2022 financial year. Furthermore, both the Directors and persons related to the same have refrained from incurring in the cases of conflict of interest which may be authorised by the governing body provided for in article 229 of said Act.

## NOTE 16. BALANCES AND TRANSACTIONS WITH GROUP COMPANIES AND OTHER RELATED PARTIES

In accordance with the financial reporting framework set forth in Note 2, for the purposes of drafting and submitting these consolidated annual financial statements, it is considered that another company forms part of the Group when the two undertakings are linked by a direct or indirect control relationship. An indirect relationship is held to be analogous to that provided for in article 42 of the Spanish Commercial Code for groups of companies or, in accordance with Rules 13 for drawing up the annual financial statements, the companies are controlled by any means by one or more natural or legal persons acting jointly or are under sole management by agreements or statutory clauses.

The following is the list of Group and associated companies that, as set forth in Note 1, do not form part of the consolidation perimeter in these annual financial statements:

| Group Company (Art. 42 Com. Code) | % holding | Address | Main activity |
|---|---|---|---|
| FacePhi Biometría, S.A. | Parent Company | Alicante- Spain | Marketing of biometric facial-recognition systems |
| FacePhi APAC Ltd | 100% | Pangyo (South Korea) | Marketing of biometric facial-recognition systems |
| Ecertic Digital Solutions, S.L. (1) | 100% | Madrid - Spain | Marketing of software |
| Celmuy Trading, S.A. | 100% | Montevideo (Uruguay) | Marketing of biometric facial-recognition system support services |
| Facephi Beyond Biometrics, Ltd. (2) | 100% | London (UK) | Marketing of biometric facial-recognition systems |

**(1)** This company was absorbed by the Parent Company with accounting effect as of 1 January 2022 (see Note 1.c).

**(2)** A company incorporated in the United Kingdom on 26 May 2022 (see Note 1.c).

### *a) Financial investments in Group companies*

The breakdown of short-term and long-term financial investments made in Group companies is shown in Note 8.

### *b) Trade balances and transactions with related parties*

The following is a breakdown of the Parent Company's dealings with related companies during the 2022 and 2021 financial years:

| | Euros (*) | |
|---|---|---|
| | Other services | |
| | 2022 | 2021 |
| **Group companies** | | |
| Celmuy Trading, S.A. | (620,771) | --- |
| FacePhi Beyond Biometrics, Ltd | 47,713 | --- |
| **Total for group companies** | **(573,058)** | **---** |

(*) Income / (Expenditure)

All trade transactions performed with associated undertakings are negotiated on the basis of market prices.

## NOTE 17. ENVIRONMENTAL INFORMATION

The Group does not have significant tangible fixed assets intended to mitigate the environmental impact of its activity. Nor has it incurred in significant expenses during the financial year for aimed at protecting and improving the environment.

At the present time there are no known contingencies related to protection and improvement of the natural environment or their potential impact on the Group's outcomes and equity position.

No subsidies of an environmental nature have been received.

## NOTE 18. PROVISIONS AND CONTINGENCIES

The Parent Company has placed bonds to guarantee compliance with the service and licensing contracts entered into with some of its clients. The following is a breakdown of these bonds as at 31 December:

| | | | Euros | |
|---|---|---|---|---|
| **Issue** | **Maturity** | **F.C.** | **31.12.22** | **31.12.21** |
| 08/07/2021 | 20/09/2026 | USD (*) | 33,133 | 31,203 |
| 12/02/2020 | 24/02/2022 | USD (**) | --- | 8,829 |
| 04/01/2022 | 08/01/2024 | USD | 9,375 | --- |
| 31/01/2022 | 25/08/2024 | USD | 23,951 | --- |
| 12/05/2022 | 16/05/2023 | USD | 142,415 | --- |
| 14/09/2023 | 31/08/2023 | USD | 49,864 | --- |
| 15/10/2021 | Undefined | USD | --- | 80,594 |
| | | **Totals** | **258,739** | **120,626** |

(*) Said surety is pledged in a fixed-term deposit for USD 35,500 (Note 9).

(**) Said surety is pledged in a fixed-term deposit for USD 10,000 (Note 9).

## NOTE 19. SUNDRY INFORMATION

### *a) Auditing fees*

On 24 July 2020 the Parent Company's General Meeting agreed to renew the appointment of Auren Auditores SP, S.L.P. as auditors for the financial years ending on 31 December 2020, 2021, and 2022.

The following is a breakdown of the professional fees accrued under this head regardless of the date on which they were invoiced:

| | Euros | |
|---|---|---|
| | **2022** | **2021** |
| Audit services: | | |
| • Audit of individual annual financial statements | 24,650 | 22,450 |
| • Audit of the consolidated annual financial statements | 11,000 | 10,000 |
| Other services related to the audits: | | |
| • Review of the interim consolidated financial statements as at 30.06 | 14,190 | 11,000 |
| Other accounting verification services | 6,600 | 1,000 |
| **Total professional services** | **56,440** | **44,450** |

As at 31 December 2022 and 2021, no fees have been accrued by other companies of the Auren group for tax consultancy services, special reports, other verification services or other services of any nature whatsoever.

### *b) Off-balance sheet agreements*

Provided that the information involved would be significant or helpful in determining the Group's financial position, there are no agreements or contracts or their potential financial impact that have not been included in the balance sheet and/or concerning which information has not been provided in other notes to the Report.

## NOTE 20. SUBSEQUENT EVENTS

*Issuance of the November 2022 equity warrants*

As reported in Note 11.1.a.3), as of 31 December 2022 there is an ongoing issue of equity warrants convertible into shares (the *November 2022 EWs*) for 2,500,000 euros. Of these, the sum of 1,000,000 euros had already been executed in the Parent Company.

On 10 and 23 January 2023 Nice & Green requested conversion into shares of the amount pending execution as of 31 December 2022 for a total of 1,499,998 euros under the following conditions:

| Notification date | Amount | Conversion of EW | Price in finan. yr. | Par value | Issue premium | Capital | Issue premium |
|---|---|---|---|---|---|---|---|
| 10/01/2023 | 499,999 | 196,448 | 2.5452 | 0.04 | 2.5052 | 7,858 | 492,141 |
| 23/01/2023 | 999,999 | 394,104 | 2.5374 | 0.04 | 2.4974 | 15,764 | 984,235 |

With respect to the aforesaid notifications, the associated capital conversion and increase agreement was formalised on 19 and 26 January 2023 pursuant to instruments executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under numbers 62 and 95 of his journal record and registered in the Companies Registry of Alicante on 13 and 24 February 2023 respectively.

Variation in the fair value of the financial derivative during its life (i.e., from issuance of the equity warrants to the date of the conversions, at which time the *fixed-for-fixed* swap rule is fulfilled), has detected a net loss for a total amount of 53,694 euros. La variation in the fair value of the financial derivative as at 31 December 2022 entails a net loss of 99,903 euros due to these conversions (see Note 11.1).

The Directors consider that no other significant subsequent events in addition to those set forth above have occurred that could affect the information contained in these annual financial statements.

Alicante 31 March 2023

# MANAGEMENT REPORT

**FacePhi Group, leader in digital identity systems**

FacePhi Group: secure, fast, easy-to-use technology. A group of experts in digital user identity verification that specialises in digital onboarding and biometric authentication solutions. Our mission is to create more secure, accessible and fraud-proof digital processes. To do so, we rely on innovation with artificial intelligence, machine learning, application of blockchain technology and the introduction of decentralised digital identity.

With head offices in Spain and subsidiaries in South Korea, the United Kingdom and Uruguay, FacePhi Group is equipped with a multidisciplinary team determined to provide the best technology to its customers wherever they may be.

FacePhi Group develops its technology with the customer's prior knowledge and consent to achieve the best user experience possible. The corollary of this is the firm's strict ethical standards and its adhesion to the provisions of the KYC, AML and GDP regulations. Today, the group of companies that began life as the sector leader in the financial industry, one of the most demanding segments in terms of security, now operates in many others including insurance, healthcare, public administration, travel and transport, sporting events and collective mobility.

FacePhi Group now has more than 250 customers and a retention rate of over 95%.

Our new product, **FacePhi Identity Platform**, is a modular platform capable of combining different biometric solutions in the same tool. It is also available in several different architectures. It provides enhanced adaptability to needs in regulatory compliance-related aspects and to the idiosyncrasies of each country, industry or use case to which it is applied.

Users will be able to select and combine biometric solutions including facial, periocular, fingerprint, voice, digital signature and behavioural aspects, read official identity documents, validate their authenticity and provide proof of life by means of passive liveness on the platform in addition to verifying people's digital identity.

The development of this customisable, code-free platform represents an important leap forward for the company, from providing individual biometric solutions to facilitating a tool that enables each company or organisation to design a customised solution that meets their particular needs including their digital onboarding and authentication processes. This modular solution incorporates real-time operational control, a dashboard with the key performance indicators (KPIs) and transaction and statistical logging, among other functions.

In spite of the fact that FacePhi Group's QA Department conducts **regular internal audits** of its products and services, the Group has submitted its processes to various external audit and certification procedures that attest to our desire to improve and refine our technology.

External audits:

FacePhi Group's systems and technologies are subjected to regular audits in the General Data Protection Regulation (GDPR), information security (IS), cybersecurity and business continuity (BC) fields, thanks to which we have been granted the following internationally-recognised compliance standards:

- **ISO 30107-3: Information technology — Biometric presentation attack detection Level 1**: FacePhi is the only company in the sector that complies with the ISO 30107 standard both in terms of its Facial Recognition algorithm (Matcher) and its PAD algorithm through Passive Liveness. The standard stipulates the method for assessing the strength of a biometric algorithm against presentation attacks (attempted fraud). ISO 30107-3 is the most prestigious standard in biometrics at the international level.

FacePhi was assessed by the independent testing laboratory iBeta, selected because it is the only organisation worldwide to date whose biometric laboratories have been endorsed by NIST/NVLAP.

- **ISO 30107-3 Information technology — Biometric presentation attack detection Level 2**: This instance of the standard focuses on attacks of greater complexity against the technology. It entails compliance with the highest standard to date in detection of presentation attacks in facial biometric technologies achieved by any company in the sector.

- **ISO 27001:2013 Information technology; security measures. Information Security Management Systems.** FacePhi is certified under the standard that ensures the security, confidentiality, integrity and availability of information and of the systems that process it. Its guarantees that FacePhi's information security management system assesses the risks to which it is exposed and applies the controls required to mitigate or eliminate them. This standard endows the Company with credibility and enables customers to differentiate us from the competition.

- **ISO 22301 Security and resilience. Business continuity management system.** This is the international standard designed to help organisations to foresee, prepare for, respond to and recover from physical and/or logic-based disruptions.

- **National Security Scheme (ENS)**. This is a mandatory regulation for all public corporations in Spain and for private companies that provide services to public entities depending on the type of service they provide or the information they process. The ENS is composed of the basic principles and minimum requirements for proper protection of information. Its goal is to ensure the access, integrity, availability, authenticity, confidentiality, traceability and conservation of the data and services that are managed by electronic means.

- **PINAKES** is a qualification or rating that assesses an organisation's degree of compliance with 1,336 controls related to the physical security, cyber-resilience, risk management, GDPR-related, legal compliance, management and monitoring of systems, access control, information asset management, business continuity and human resources management domains, among others. It is promoted by the ICC (Interbank Cooperation Centre) of the Bank of Spain. The Company is rated AAA. Pinakes' controls entail compliance with parameters related to ISO 27017:2015 and ISO 27018:2019 on Information Security in Cloud environments and PII Protection in the Cloud.

- **KISA** certifies the performance metrics of FacePhi's Verification algorithm with NIST methodology on the basis of the Korean government's databases. This certificate ensures the performance of verification algorithms for domestic use in the Korean market in any field of application. K-NTBC is the laboratory that assesses biometric solutions employed by KISA, the Internet and security agency of the South Korean government, certification by which endorses SelphID® as a reliable, secure biometric system for users in the Asian market.

FacePhi Group also complies with the guidelines set by the following standards:

- **ISO/IEC TR 24741:2018, ISO/IEC 2382-37:2012, ISO/IEC 29194:2015, ISO/IEC 19092:2008, ISO/IEC TR 24714-1:2008** that describe and assess the various biometric technologies, automatic recognition system architectures and processes that use biometric technologies and concepts, the security framework for use of biometrics to authenticate people in financial services and references concerning the accessibility and usability for biometric systems.

- **ISO 9001:2015, ISO/IEC 20000-1:2018** standards specify the requirements to set up, implement, maintain and improve quality management systems and define the internationally-recognised criteria in information technology (IT) service management.
- **ISO/IEC 19795-1** lays down the methods and metrics for assessment and documentation of the performance of a biometric system.
- **ISO 19794-1 and ISO 19794-5** specify general aspects and requirements for definition of biometric data exchange formats, saving, storage and transmission of facial images and the properties with which photographic images and their attributes must comply.

**Main risks and uncertainties facing the company**

The current main risk factors do not differ significantly from those set forth in the Market Incorporation Information Document (DIIM) submitted in June 2014 or from those included in the Reduced Extension Documents (DAR) submitted in March 2015 and February 2016, all of which have been suitably updated. It should be noted that these risks are not the only ones that the Company may have to face and that they could have an adverse material effect on the price of FACEPHI BIOMETRIA, S.A. shares, which could lead to a partial or total loss of investment. The following are the most significant risks, although there may be others less important or unknown at the drafting date of this management report.

**Risks linked to excessive exposure to technological innovation**

The sector to which FacePhi belongs is subject to intense research and technological innovation that entails constant upgrading of the product and, therefore, a high rotation or obsolescence rate of the products that the Group markets at all times. Said innovation requires investments in personnel, material and marketing that FacePhi must be in a position to tackle.

**Emergence of new companies or creation of new technologies that directly affect the Group**

Technology is constantly growing and evolving, which means that the creation of new, robust companies that provide a product with a competitive advantage or the emergence of new technologies or biometrics that are more effective or obtain a higher degree of social acceptance can never be ruled out.

In the event that these circumstances occur the market share these new companies acquire as competition increases would be subtracted from that of the companies that currently operate in the sector. In that case the latter could be forced to reduce their production, lose customers and suffer the consequent adverse effect on their share price. Despite this, FacePhi is committed to continuous research and development in which its own technology is developing and improving on a daily basis. This factor works in favour of enterprises already in the sector and acts as an entry barrier to those that attempt to penetrate the market.

**Intellectual property**

The Group holds the following registered trademarks:

| | |
|---|---|
| • FACEPHI BEYOND BIOMETRICS | • PHIVOX |
| • SELPHI, YOU BLINK, YOU´RE IN | • SELPHI ID |
| • LOOK & PHI | • SIGNPHI |
| • INPHINITE | |

FacePhi Biometría is the owner of the *Selphi You Blink You´re in* and *FacePhi Beyond Biometrics* trademarks (MUE 015106354 and MUE 015114853 respectively) in both the European Union and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126.

European Union trademark protection is also provided by European trademark certificates with registration numbers MUE 017896710 LookΦ MUE 017948110 inPhinite; MUE 017948113 4Phingers; MUE 017948116 Phivox; MUE 017948119 SignPhi and MUE 017948878 SelphID.

International expansion and activity in LATAM has prompted the governing body to extend the geographical coverage of trademark protection. Consequently, the FacePhi Beyond Biometrics and SelphID Identity Validation trademarks are duly registered either as international trademarks with territorial designation or as domestic trademarks in all markets in which the Group carries out commercial activity in APAC, LATAM and EMEA.

In October 2022, anticipating what is now a reality in the digital user verification sector, the Group adopted a rebranding strategy consisting of adapting the brand image to the Parent Company's development and track record, emphasizing its present and future brand values and benefits.

As a result, in addition to the trademarks already reviewed above, the protection of which continues to be a priority, the Parent Company has applied for the following trademarks:

- FACEPHI PROTECTING IDENTITY TO BUILD THE FUTURE
- FACEPHI IDENTITY PLATFORM

**Intellectual property**

Entry into force of Act 1/2019 of 20 February, the Business Secrets Act, determines a scenario where legal certainty regarding knowledge considered to constitute business secrets (algorithms, know-how, etc.) is greater than before and consequently provides stronger protection against potential breaches of business secrets.

Notwithstanding, the legal doctrine and jurisprudence in the field agree that application of the Act will not be really effective unless the companies are equipped with tools capable of configuring an environment of security, protection, reliability and traceability.

The Group has recently obtained the following technical certifications:

- ➢ The ESQUEMA NACIONAL DE SEGURIDAD - ENS (the National Security Scheme) initially designed for the field of Spanish e-government and now extended to all service providers to public entities, lays down the security policy in the use of electronic media, the basic principles and minimum requirements for proper protection of information.
- ➢ ISO/IEC 30107-3 Level 1 and 2 - INTERNATIONAL LEVEL. This standard consists of a set of guidelines the purpose of which is to subject biometric technology to the most effective attacks possible in an attempt to break its security measures in order to assess the extent to which the application is reliable vis-à-vis identity-theft attacks.
- ➢ ISO 27001 - INTERNATIONAL LEVEL. The core mission of ISO 27001 is to protect the confidentiality, integrity and availability of the company's information. It does so by investigating issues that could potentially affect the information (i.e., risk assessment) and then determines what needs to be done to prevent these problems from occurring (i.e., risk mitigation or processing).

- ISO 22301: - Security and resilience. Business continuity management system. This is the international standard designed to help organisations to foresee, prepare for, respond to and recover from physical and/or logic-based disruptions.
- ISO/IEC 27017: Information technology — Security techniques. Code of practice for information security controls based on ISO/IEC 27002 for cloud services. The international standard that provides controls and implementation guidance for both cloud service providers and cloud service customers to help make cloud services as secure as the rest of the data contained in a certified information management system. It sets up the framework for the customer-service provider relationship in the cloud.

**Risks derived from loss of key personnel**

Since FacePhi is a young company that depends on its founders and managers, emphasising the risk derived from their dismissal or resignation from management of the Company is inevitable. Although occurrence the aforesaid risk is highly unlikely for voluntary reasons since they are still the majority shareholders, occurrence for reasons beyond their control cannot be ruled out and would obviously entail the aforesaid risk. The death or dereliction of key personnel could negatively affect the Company's business, its outcomes, prospects or financial, economic or equity-related position.

The Company has adopted a policy of entering into post-contractual non-compete agreements in order to prevent the negative impact of absence of key personnel on the business. These pacts are based on two premises:

- **Effective industrial or commercial interest** The employer must demonstrate that the grounds for enforcing the agreement are based on the company's authentic *industrial or commercial interest*. The lack of a real, legitimate interest can limit the employer's chances of achieving an effective non-compete agreement that could prevail over the right of all citizens to freely choose the profession or job they desire. Since it is a somewhat nebulous legal concept, its application in practice is subject to the deliberations of the law courts. In order to assess whether or not there is a true industrial interest, the activity of the former employer and the new competing company are compared to ascertain whether they have the same corporate purpose and compete in the same market or if they have the same customers.
- **The compensation:** The reason for establishing an adequate monetary compensation is to endow the worker with financial stability for a certain period after ending his/her employment contract ends for whatever reason, given that the non-compete agreement prevents workers from being able to "find work in the field in which they have been habitually providing services and where they can presumably offer their best skills and competencies".

**Risks linked to the share price**

Variation in share price. Basically as a consequence of their particular characteristics, the Parent Company's shares have experienced high volatility ever since they were listed on the market. FacePhi is a *small cap* company. With a market capitalisation of just over 42.3 million euros at the end of 2022, FacePhi's capitalisation is modest considering the current size of its Group even compared to the other companies listed on BME Growth.

**Social acceptance risk**

Due to the fact that the technology sector is subject to constant variations, there could be changes in consumer trends and/or in the market itself that entail changes the use of facial biometrics to a greater or lesser degree compared to other biometric systems or security systems.

### Theft or hacking of essential information and technology code

FacePhi Group is working to eliminate or mitigate this risk in several ways. First of all, all our code and software packages are subject to strategies of data integrity (preventing the code from being altered in a way that creates backdoors or other threats), availability (ensuring code recovery at all times) and confidentiality (rules of least privilege access to the code, "hashing" of closed source packages, constant review of access privileges, etc.). To complete the security cover, we only employ code repositories that comply with the ISO 27001 and ISO 22301 standards, in which FacePhi is also certified.

FacePhi also works under the strict S-SDLC (Secure Software Development Life Cycle) protocol based on OWASP methodology within the scope of our ISO 27001 certification.

Finally, our automated licensing system prevents the use of technology beyond the scope and life cycle for which it has been approved in the project or for delivery to a specific customer.

### Recurring revenues

The Company's income type is segmented between sale of licences – which can be recurring or perpetual – and other related income such as support, maintenance, certification, consultancy, upgrades or specific developments. Recurring license sales currently represent more than 59% of the Company's revenue. FacePhi's future success depends on renewal of recurring licences, acquisition of new customers, sale of new licences or products to existing customers, increasing sales of recurring licences and development of new products.

### Analysis of the variation and results of the businesses and the Company's position

The Parent Company is a world leader in identity verification technology with a strong presence in the financial sector. Listed under the dual listing formula that involves trading on the Euronext Growth market in Paris and on the BME Growth – formerly the Alternative Stock Market (MAB) – in Spain, it has achieved revenues of 22,283,088 euros from the sale of licences, over 69% more than in 2021.

Its sale figures have been growing steadily in recent financial years. Latin America continues to be its main market.

Furthermore, its turnover can be analysed by service line in the following way:

| | % | |
|---|---|---|
| **Line** | **2022** | **2021** |
| Provision of services | 100.00 | 100.00 |
| | **100.00** | **100.00** |

The Group made a pre-tax profit of 1.025 million euros in the 2022 financial year.

EBITDA stood at 4,439,985 euros as at 31 December 2022 compared to 758,069 euros the previous year.

Net equity as at 31 December 2022 benefitted from the impact of the capital increases and issuance of equity warrants to reach 15.2 million euros compared to 8.7 the year before.

On 14 December 2020 the Company entered into an agreement for a syndicated financing line with a limit of 13 million euros differentiated into a loan of 6 million euros and the rest in revolving credit facilities. The Company had not used the revolving credit lines as at the end of 2021 and 2020 and had only drawn down 2 million euros of the loan at the end of 2022. Total bank debt (short and long-term) as at 31 December 2022 amounts to 7,568,661 euros compared to 6,223,094 euros in 2021.

The loan arranged in the 2020 financial year enabled us to meet the structural costs of expansion of the business and a significant increase in the workforce during financial 2022. The Company has significantly increased the sale of licences during the 2022 financial year to the point where the short- and long-term trade balance as at 31 December 2022 amounts to 16,425,193 euros. The above trends, however, have pushed net bank debt (NBD) up significantly, but we expect a considerable improvement in the coming financial year.

| *Euros* | 2022 | 2021 |
|---|---|---|
| **Debts with credit institutions** | **(7,833,133)** | **(6,223,094)** |
| S/T treasury and financial inv. | 2,327,772 | 1,741,534 |
| **Net debt** | **(5,240,940)** | **(4,481,560)** |

**Working capital**

The Group's working capital stood at 3,123,122 euros as at 31 December 2022 compared to at 5,977,659 euros at the end of 2021.

The Company's directors and main shareholders are committed to providing financial support that has materialised in the various capital increases carried out in recent years. The updated business plan is firmly supported by the directors and main shareholders.

**Information on issues related to regulatory compliance**

The governing body is firmly committed to excellence in service and prioritises results, while responsible management of the environment, interest in people, health and safety, social commitment and integrity and transparency are the main pillars of the corporate responsibility policy of FacePhi Biometría S.A.

Supervision of the company's performance in this area ultimately falls on the Board of Directors as set forth in the recommendations of the Code of Ethics and the Regulations of the Board. The Board is responsible for approving FacePhi's Corporate Responsibility Policy and receives information on its implementation and general monitoring at least on an annual basis.

The Board of Directors is also charged with leading the effective integration of corporate responsibility into the company's strategy and in its day-to-day management, thus consolidating a robust corporate responsibility culture. Implementation of a Criminal Risk Prevention Plan is a result of the Board of Directors' compliance with this responsibility in its desire to ensure proper enforcement and monitoring of the commitments it has assumed.

Information on criminal compliance: FacePhi's Criminal Risk Prevention Plan. This *Compliance System* attests to the Company's will to foster a culture of compliance in the minds and acts of all FacePhi's employees. The FacePhi *Compliance System* is structured in three levels of action: Foresee, detect and respond.

**Information on issues related to R&D&i**

Research and development expenses capitalised as at the end of 2022 are linked to the following projects and milestones:

The Company continues to implement its investment policy and to improve its current facial biometric applications. Expenses capitalised during the financial year ended on 31 December 2022 are pegged to the following milestones:

| | Euros | |
|---|---|---|
| **R&D capitalisation costs** | **12.2022** | **12.2021** |
| Improvements to Software Development Kit (SDK) | 3,423,366 | 1,641,621 |
| Platform as a service (PAAS) | 395,241 | 458,588 |
| **Total** | **3,818,608** | **2,100,209** |

Said expenses are recognised under the head of Development since there are good reasons to foresee commercial success on completion. They are entered under the head of Intangible assets in accordance with their nature on said date. If there were well-founded criteria to consider that the project was not completed successfully, the Company would write off these expenses and recognise them as losses in intangible fixed assets. Almost all the activity involved in development of new applications or improvements to current ones has been performed internally and recognised by capitalisation of production costs under the head of "Works performed by the company for its own assets" in the Income Statement.

The developments capitalised as of 31 December 2022 and 2021 mainly consisted of security improvements against fraud, interactive guides for the user when recording and tools for integration of technology in multiplatform applications. After conducting tests and trials the Group considers that almost all the developments are operative, have been brought to a successful conclusion and therefore have been placed on the market

The Parent Company's directors consider that the capitalised research and development expenses meet all the conditions set in the applicable regulations for capitalisation.

**Information on issues related to personnel**

**Corporate social responsibility** is an integral part of **FacePhi**'s identity. Consequently, it is implementing its own **social commitment plan** that devotes part of the workday to activities aimed at making society a better place.

During the year ended 31 December 2022 the Company has maintained an average workforce of 181 full-time equivalent employees and complies with the legal standards set forth in both the labour-related legislation and the applicable collective agreement (see note 14.e).

**Information on environmental issues**

The Group does not have significant tangible fixed assets intended to mitigate the environmental impact of its activity, and neither has it incurred in significant expenses during the financial year for activities aimed at protecting and improving the environment. Expenses derived from corporate activity aimed at protecting and improving the environment are recorded as an expense in the financial year in which they are incurred. These expenses are accounted for as increased value of the fixed assets in question when they involve additions to property, plant and equipment the purpose of which is to minimise our environmental impact and protect and improve the environment. At the present time there are no known contingencies related to protection and improvement of the natural environment or their potential impact on the Group's outcomes and equity position. No subsidies of an environmental nature have been received.

**Average period of payment to suppliers and the measures to be applied in the following year to reduce this parameter to the legal maximum provided for in the regulations to combat late payment**

The average period of payment to suppliers in the financial year ended 31 December 2022 was 25 days (see note 12.c). This average period of payment to suppliers is understood to represent the payment time or the delay in paying the trade debt.

**Important events subsequent to the end of the financial year**

Except for the following milestones, no events significant for the Company have occurred after the end of the financial year:

- As at 31 December 2022 there is an ongoing issue of equity warrants convertible into shares (the November 2022 EWs) for 2,500,000 euros. Of these, the sum of 1,000,000 euros had already been executed in the Company and at the drafting date of this management report Nice and Green had executed its right the pending shares for the sum of 1,500,000 euros. The associated capital increases were notarised in February 2023.

**The Group's foreseeable development**

The Group's forecast indicates consolidation in established markets and expansion in the banking sector of new countries and continents (America and Asia) and capture of new customers in sectors different from banking. In line with our business plan, we expect an increase in turnover and enhanced profitability in the coming months and years.

**Treasury stock Reasons for the acquisitions and disposals carried out during the financial year**

The total amount of treasury stock held as at 31 December 2022 is 454,079 euros (556,510 euros as at 31 December 2021) represented by 155,144 shares (126,903 shares at the end of the previous financial year), the equivalent of 0.89% (0.84% in 2021) of the Parent Company's share capital. This is well below the maximum limit of 10% provided for in article 509 of the Corporate Enterprises Act.

Alicante 31 March 2023