



SAFETECH
INNOVATIONS

Q3 2023

FINANCIAL

REPORT



Safetech Innovations S.A., company listed on the Main Segment of the Bucharest Stock Exchange, Standard Category

BVB: **SAFE**

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TABLE OF CONTENTS

ISSUER INFORMATION _____	3
9M 2023 KEY INDICATORS _____	4
KEY EVENTS IN Q3 2023 AND AFTER THE CLOSING OF THE REPORTING PERIOD _____	6
ANALYSIS OF THE FINANCIAL RESULTS _____	7
INDIVIDUAL PROFIT AND LOSS ACCOUNT _____	10
INDIVIDUAL BALANCE SHEET _____	11
KEY FINANCIAL RATIOS _____	12
DECLARATION OF THE MANAGEMENT _____	13

Disclaimer: The financial figures presented in the descriptive part of the report that are expressed in million lei (RON) are rounded off to the nearest integer and may result in small reconciliation



ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Report type	Quarterly Report for Q3 2023
For financial period	9M: 01.01.2023 – 30.09.2023
	Q3: 01.07.2023 – 30.09.2023
Report publishing date	07.11.2023
According to	Annex 13 to FSA Regulation 5/2018

ISSUER INFORMATION

Name	Safetech Innovations SA
Fiscal Code	28239696
Trade registry number	J40/3550/2011
Registered office	12-14 Frunzei street, District 2, Bucharest

INFORMATION ABOUT FINANCIAL INSTRUMENTS

Subscribed and paid-up capital	13,300,000 lei
Market on which the securities are traded	Bucharest Stock Exchange, Main Segment, Standard Category
Total number of shares	66,500,000 shares
Symbol	SAFE

CONTACT DETAILS FOR INVESTORS

Phone number	+40 754 908 742
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Website	www.safetech.ro

The interim **individual** financial statements as of September 30, 2023 presented on the following pages are **unaudited**.

9M 2023 KEY INDICATORS



REVENUES

29.3 MILLION LEI

+3% vs. 9M 2022



TURNOVER

20.1 MILLION LEI

-4% vs. 9M 2022



GROSS RESULT

6.8 MILLION LEI

+13% vs. 9M 2022



NET RESULT

5.9 MILLION LEI

+13% vs. 9M 2022

ABOUT SAFETECH INNOVATIONS

Safetech Innovations is a unique company on the Romanian market, offering a full range of cybersecurity solutions and services. Throughout its history, the company has specialized in the integration of complex cybersecurity projects. Safetech's mission is to develop innovative cybersecurity services and solutions that meet the needs of any organization.

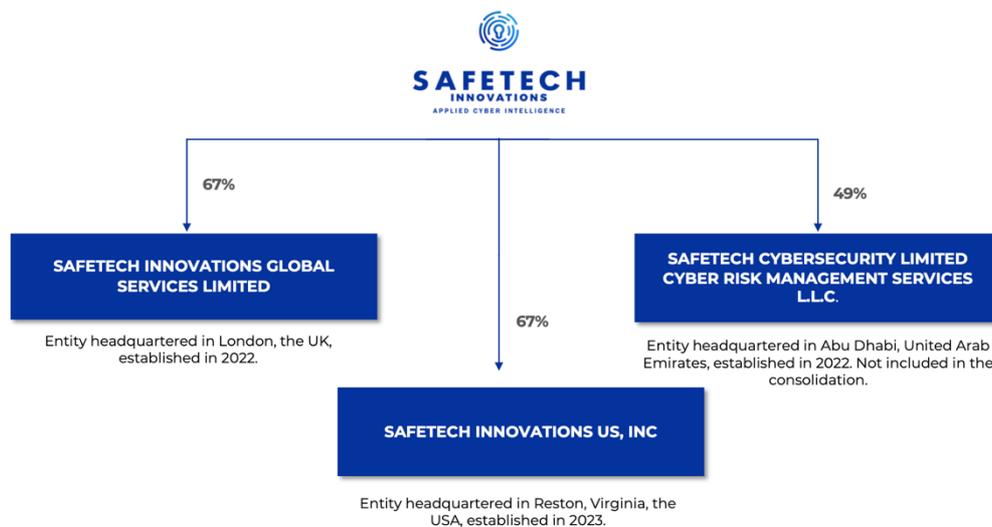
Safetech's mission is to use human and cyber intelligence to help businesses thrive in uncertain times. Safetech uses applied cybersecurity information: a framework perceived as a hybrid system, where its experts combine both artificial and human intelligence, while protecting business, company reputation, jobs, business prospects and providing a safer future for everyone.

Safetech Innovations is consistently recognized both locally and internationally for its well-trained and certified staff, innovative research programs, and unique expertise and experience in solving the most complex cybersecurity issues. Safetech offers a unique solution in Romania - a "one-stop shop" of IT security, able to help organizations increase their resilience and solve cybersecurity problems that may arise. Safetech engineers are competent in information security and have expert-level skills in the following areas:

- Testing and security audits;
- Information security and risk management;
- Implementing organizational and technical controls to address information security risks and/or achieve compliance with applicable regulations;
- Critical infrastructure security (ICS / SCADA);
- Monitoring and responding to cybersecurity incidents.

Safetech Innovations is the only company dedicated to information security on the Romanian market, which offers services both in the field of security and the implementation of security solutions. The company is the cybersecurity leader on the Romanian information security market.

The company has three foreign subsidiaries established in the UK, the USA, and the UAE.



At individual level, Safetech Innovations had 61 full-time employees as of September 30, 2023, an increase of 12 new colleagues compared to the same period last year.

KEY EVENTS IN Q3 2023 AND AFTER THE CLOSING OF THE REPORTING PERIOD

DIVIDEND PAYMENT

On **July 10, 2023**, the Company distributed 2022 dividend to its shareholders who held SAFE shares on registration date of June 23, 2023. The gross dividend per share was 0.03 lei per share, with the total gross amount distributed being 2 million lei, as approved in the OGMS from 24.04.2023.

CONCLUSION OF A PARTNERSHIP WITH THE NATIONAL DIRECTORATE OF CYBER SECURITY IN ROMANIA

On **July 26, 2023**, the Company informed investors about the conclusion of a partnership with the National Cyber Security Directorate, which involves collaboration in various areas, such as: adopting and supporting each other in adopting appropriate measures to prevent the recurrence of similar cyber security incidents, research and development activities of common security technologies, the organization of joint training activities both for the own staff of the two entities and for other organizations with responsibilities in the same field of competence, as well as the development of recommendations, guidelines and best practices in the field of critical communications and IT infrastructures.

INCLUSION IN MSCI INDICES

Starting with **August 31, 2023**, the Company's shares were included the MSCI Frontier Markets Small Cap index and MSCI Romania Small Cap index. The MSCI Frontier Markets Small Cap index is a benchmark for frontier market small sized equities, while the MSCI Romania Small Cap index is a benchmark for small-sized Romanian equities.

EGMS RESOLUTIONS DATED 06.09.2023

On **September 6, 2023**, the Extraordinary General Meeting of Shareholders of the Company approved the distribution of the remaining shares in the Company's treasury, following the exercise and/or allocation of the rights to option of eligible people who have been or will be included in the Stock Option Plan reward program, as a performance bonus for people who work within the Company (employees, collaborators, directors, members of the Company's management bodies, etc.).

CYBER RUNWAY PROGRAM SELECTION

On **September 29, 2023**, the Company informed investors regarding the inclusion of its UK subsidiary, SAFETECH INNOVATIONS GLOBAL SERVICES LIMITED ("Safetech UK"), in the prestigious Grow and Scale streams developed by Cyber Runway, the UK's largest cybersecurity accelerator. Within Cyber Runway, Safetech UK joins the Scale program, which focuses on scaling up startups locally and globally. Under the program, Safetech UK will receive support and mentoring in product development and engineering, investment and financing, and business development.

CONCLUSION OF A SIGNIFICANT CONTRACT

On **November 1, 2023**, the Company informed the market about the conclusion of a significant framework agreement, which value exceeds 10% of the total revenue of the last annual financial statements, for the provision of monthly and annual services to ensure cyber protection and computer infrastructure resilience. The contract has a total value of RON 4,045,844.26 (VAT excluded) and was concluded for a period of 48 months, starting with October 31, 2023.

ANALYSIS OF THE FINANCIAL RESULTS

INDIVIDUAL P&L ANALYSIS

In the first nine months of 2023, the Company's turnover amounted to 20.1 million lei, a decrease of 4% compared to the same period last year. In the first nine months of the year, cybersecurity services contributed 47% to the total turnover and implementation of cybersecurity solutions contributed 53%. In the first nine months of 2023, Safetech Innovations gained 12 new clients on the Romanian market.

Other operating revenues increased by 23% in 9M 2023, up to 9.2 million lei, representing subsidies for investments transferred into revenues and corresponding to the depreciation recorded for own solutions (non-reimbursable European funds project, completed in 2019) in the amount of RON 363 thousand, as well as revenue from the production of fixed assets in the amount of 8.83 million lei.

In terms of expenses, in 9M 2023, the highest contribution is represented by employee benefits expenses, which increased by 19% compared to 9M 2022, reaching 8.1 million lei. As of September 30, 2023, the Company had 61 employees, compared to 49 employees as of September 30, 2022. The second major cost was made by expenses with goods, which increased by 7% compared to the same period last year and reached 4.8 million lei. This increase is driven by the larger size of the business and represents the cost of implemented solutions.

Other operating expenses increased by 8% in the first nine months of this year, up to 3.2 million lei. This category includes goods, third-party services, royalty expenses, management premises, rents, and postal and telecommunications taxes. The increase is driven by the increase in services performed by third parties.

Depreciation and amortization decreased by 26% in 9M 2023, up to 1.8 million lei and represent fixed assets, such as laptops, furniture, monitors, as well as a process automation solution acquired in 2021 as part of the EU research and development project necessary to carry out the activity to increase the competitiveness of the company. These elements generate expenses with monthly amortization, by amortizing them using the straight-line method.

The category of provisions, in the amount of 99K lei, represents the cancellation of the provision from 2022 and which was constituted in accordance with the not taken leave days.

The operating result in the first nine months of 2023 reached 6.9 million lei, a 13% increase compared to the same period last year, due to the larger scale of business and as a result of the increased focus on higher-margin services.

Financial expenses increased by 19% compared to the same period last year, reaching 160K lei. At the same time, financial revenues increased by 5% in 9M 2023, up to 113K lei. Therefore, the gross result for 9M 2023 was 6.8 million lei, a 13% increase compared to the same period of 2022. The income tax increased to 964K lei in the first nine months of this year, a 10% increase, in line with the increase in gross profit. Therefore, the net result for the first nine months of this year was 5.9 million lei, a 13% increase compared to the same period last year.

PROFIT AND LOSS ACCOUNT INDICATORS (LEI)	30/09/2023	30/09/2022	Δ %
Turnover	20,092,602	20,844,511	-4%
Operating result	6,901,509	6,099,348	13%
Gross result	6,854,268	6,071,774	13%
Net result	5,890,564	5,198,877	13%

INDIVIDUAL BALANCE SHEET ANALYSIS

As of September 30, 2023, total assets reached 50.4 million lei, a 5% decrease compared to the end of 2022, driven by a 48% decrease in current assets, to 10.2 million lei.

The category of current assets consists primarily of receivables, which as of September 30, 2023 reached 7.4 million lei, down 54% compared to December 31, 2022. Trade receivables decreased in the first nine months of the year, as a result of the collection of part of the amounts related to the contracts executed in the last quarter of 2022 and in the course of 2023. These will continue to be collected until the end of the year. Cash and cash equivalents reached 2.1 million lei as of September 30, 2023, a 39% decrease compared to December 31, 2022. This decrease is determined by continued investments in the expansion and professionalization of the sales team in Romania, capitalization of UK and US entities, as well as payment of the 2022 dividend on July 10, 2023 in the amount of 2 million lei (0.03 lei gross dividend per share).

Fixed assets increased by 21% in the first nine months of 2023, reaching 40.2 million lei, as a result of the 27% increase in intangible assets put into operation and under construction. The increase in intangible assets is directly related to the SafePIC project. In accordance with the accounting legislation in force, these expenses are recorded as intangible assets in progress and represent the stage of realization of the company's own product.

As of September 30, 2023, equity reached 31.1 million lei, a 14% increase compared to December 31, 2022, due to the 35% increase in retained earnings.

Non-current liabilities increased in the first nine months of this year by 3%, reaching 14.7 million lei. This increase is determined by the increase in the value of investment subsidies, which as of September 30, 2023, amounted to 13.5 million lei, a 3% increase compared to December 31, 2022, representing subsidies related to projects from non-reimbursable funds in execution. In terms of bank liabilities, it is composed only of leasing contracts, the value of which increased by 5% as of September 30, 2023, reaching 1.2 million lei.

Current liabilities reached 4.7 million lei as of September 30, 2023, a 59% decrease, determined by the 73% decrease of trade and other payables, down to 2.3 million lei. Liabilities related to leasing contracts increased by 7% in the first nine months of the year, reaching 302K lei, while other current liabilities reached 1.7 million lei, a decrease of 1% compared to December 31, 2022. This category includes wages for employees, VAT and payroll taxes and duties.

At the level of provisions, they were extinguished in the first six months of 2023, the amount of 99K lei recorded at the end of 2022 representing not taken leave days during 2022, which were taken in H1 2023.

BALANCE SHEET INDICATORS (LEI)	30/09/2023	31/12/2022	Δ %
Fixed assets	40,248,846	33,193,023	21%
Current assets	10,195,979	19,653,307	-48%
Total assets	50,444,825	52,846,330	-5%
Equity	31,076,828	27,316,000	14%
Non-current	14,664,525	14,188,629	3%
Current liabilities	4,703,472	11,341,701	-59%
Total equity and liabilities	50,444,825	52,846,330	-5%

PERFORMANCE OF SAFETECH INNOVATIONS GLOBAL SERVICES LTD

In 9M 2023, Safetech Innovations Global Services Ltd recorded operating expenses of £967,156 of which 42% covered the salaries of the company's eight employees. The rest of the expenses included IT licenses, software and consumables, along with travel and advisory fees, including

accounting, legal and marketing services, including costs related to establishing a subsidiary in the United States.

The company was accepted into the British Government Cyber Runway Accelerator, run by Plexal Cybersecurity Innovation Center. This program will generate the development of relations with various governmental and private players, the development of the Security Operations Center (SOC) and the company's products, but also increased visibility in front of investor groups in this ecosystem. The program generates credibility for participants and support in the development of the clients and partners base.

INDIVIDUAL PROFIT AND LOSS ACCOUNT

PROFIT AND LOSS ACCOUNT (LEI)	30/09/2023	30/09/2022	Δ %
Turnover	20,092,602	20,844,511	-4%
Other operating revenues	9,176,961	7,476,481	23%
Total expenses, of which:			
Raw materials and consumables	(4,395,704)	(5,445,395)	-19%
Goods	(4,809,206)	(4,496,975)	7%
Employee benefit expenses	(8,084,925)	(6,815,025)	19%
Depreciation and amortization	(1,830,398)	(2,468,398)	-26%
Marketing and advertising expenses	(179,901)	(88,679)	103%
Rental expenses	(4,377)	(2,988)	46%
Provisions	98,878	28,206	251%
Other operating expenses	(3,162,421)	(2,932,390)	8%
Operating result	6,901,509	6,099,348	13%
Financial income	113,159	107,396	5%
Financial expenses	(160,400)	(134,970)	19%
Gross result	6,854,268	6,071,774	13%
Income tax	(963,704)	(872,897)	10%
Net result	5,890,564	5,198,877	13%

INDIVIDUAL BALANCE SHEET

BALANCE SHEET INDICATORS (LEI)	30/09/2023	31/12/2022	Δ %
Fixed assets			
Tangible assets	534,901	566,097	-6%
Right of use assets	1,335,104	1,170,795	14%
Intangible assets	34,179,235	26,918,142	27%
Investments in affiliated entities	3,912,041	3,912,041	0%
Other non-current assets	236,190	584,146	-60%
Deferred income tax	51,375	41,802	23%
Total fixed assets	40,248,846	33,193,023	21%
Current assets			
Inventories	666,346	94,563	605%
Trade receivables and other receivables	7,384,455	16,013,270	-54%
Cash and cash equivalents	2,145,178	3,545,474	-39%
Total current assets	10,195,979	19,653,307	-48%
Total assets	50,444,825	52,846,330	-5%
Equity and liabilities			
Subscribed and paid-up capital	13,300,000	13,300,000	0%
Treasury shares	(1,153,990)	(1,153,990)	0%
Share premium	2,865,991	2,865,991	0%
Legal and other reserves	1,120,066	1,120,066	0%
Retained Earnings / (Losses)	14,944,761	11,036,186	35%
Other equity	-	147,747	-100%
Total equity	31,076,828	27,316,000	14%
Non-current liabilities			
Investment subsidies	13,504,294	13,088,294	3%
Liabilities related to leasing contracts	1,160,231	1,100,335	5%
Total non-current liabilities	14,664,525	14,188,629	3%
Current liabilities			
Trade and other payables	2,317,448	8,727,904	-73%
Corporate tax liabilities	385,256	514,600	-25%
Liabilities related to leasing contracts	301,866	280,835	7%
Other current liabilities	1,698,902	1,719,484	-1%
Provisions	-	98,878	-100%
Total current liabilities	4,703,472	11,341,701	-59%
Total liabilities	19,367,997	25,530,330	-24%
Total equity and liabilities	50,444,825	52,846,330	-5%



KEY FINANCIAL RATIOS

The key financial ratios are presented at the individual level.

Current ratio as of 30.09.2023

Current assets	10,195,979		
<hr/>	<hr/>	=	2.17
Current liabilities	4,703,472		

Debt to ratio as of 30.09.2023

Borrowed capital		0		
<hr/>	x 100	<hr/>	x 100	= 0%
Equity		31,076,828		

Borrowed capital		0		
<hr/>	x 100	<hr/>	x 100	= 0%
Employed capital		31,076,828		

Borrowed capital = Loans over 1 year

Employed capital = Borrowed capital + Equity

Fixed assets turnover as of 30.09.2023

Turnover	20,092,602		
<hr/>	<hr/>	=	0.5
Fixed assets	40,248,846		

DECLARATION OF THE MANAGEMENT

Bucharest, November 7th, 2023

I confirm, according to the best of my knowledge, that the individual financial results for the period between 01.01.2023 and 30.09.2023 give a true and fair view of the assets, liabilities, financial position and profit and loss situation of Safetech Innovations SA and that the management report provides a true and fair view of the important events that took place in the first nine months of the 2023 financial year and their impact on the company's financial statements.

Victor Gansac

Chairman of the Board of Directors



SAFETECH INNOVATIONS S.A.

**Financial statements for 9-month period ended
30 September 2023**

Prepared in accordance with Order of the Minister of Public Finance no. 2844/2016 for the approval of accounting regulations in accordance with International Financial Reporting Standards

Contents

STATEMENT OF COMPREHENSIVE INCOME.....	3
STATEMENT OF THE FINANCIAL POSITION.....	4
SITUATION OF CHANGES IN EQUITY.....	5
CASH FLOW STATEMENT.....	6
1. GENERAL INFORMATION	7
2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS.....	7
2.1 Declaration of conformity	7
2.2 Going concern	8
2.3 Adoption for the first time of the International Financial Reporting Standards (IFRS 1)	8
2.4 Accounting principles, policies and methods	9
3. RATIONALE, ESTIMATES AND SIGNIFICANT ACCOUNTING HYPOTHESES.....	20
4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF THE STANDARDS.....	23
5. SALES OF GOODS AND SERVICES AND EXPENSES WITH RAW MATERIALS AND CONSUMABLES	27
5.1 Turnover	27
5.2. Raw materials and consumables used	27
7. CURRENT AND DEFERRED PROFIT TAX	30
8. RESULT PER ACTION.....	30
9. TANGIBLE FIXED ASSETS AND ASSETS RELATED TO THE RIGHT OF USE	30
10. INTANGIBLE ASSETS	33
11. INVENTORIES.....	36
12. TRADE RECEIVABLES AND OTHER / CURRENT RECEIVABLES	36
13. CASH AND SHORT-TERM DEPOSITS	37
14. CAPITAL AND RESERVES	37
15. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS	39
16. TRADE AND OTHER LIABILITIES (CURRENTS)	40
17. RELATED PARTIES	40
17.1 Nature of transactions with affiliated entities and other related parties	40
17.2 Amounts due and receivable from affiliated entities and other related parties	41
18. COMMITMENTS AND CONTINGENCIES	42
19. SUBSEQUENT EVENTS	50

SAFETECH INNOVATIONS S.A.

STATEMENT OF COMPREHENSIVE INCOME

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

		30 September 2023	30 September 2022
	Nota	RON	RON
Turnover	5.1	20.092.602	20.844.511
Other operating income	6.1	9.176.961	7.476.481
Raw materials and consumables used	5.2	(4.395.704)	(5.445.395)
Merchandise	5.2	(4.809.206)	(4.496.975)
Employee benefits expenses	6.5	(8.084.925)	(6.815.025)
Depreciation, amortisation and Gw impairment		(1.830.398)	(2.468.398)
Rental expenses		(4.377)	(2.988)
Marketing and advertising expenses		(179.901)	(88.679)
Provisions		98.878	28.206
Other expenses	6.2	(3.162.421)	(2.932.390)
Operating profit		6.901.509	6.099.348
Financial Income	6.4	113.159	107.396
Financial Expenses	6.3	(162.400)	(134.970)
Profit/(Loss) before tax		6.854.268	6.071.774
Income Tax	7	(963.704)	(872.897)
Profit/(Loss) after tax (A)		5.890.564	5.198.877

SAFETECH INNOVATIONS S.A.
STATEMENT OF FINANCIAL POSITION

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

	Note	30 September 2023	31 December 2022
Non - current assets			
Property, plant and equipment	9	534.901	566.097
Right of use assets	9	1.335.104	1.170.795
Intangible assets	10	34.179.235	26.918.142
Investments in related companies		3.912.041	3.912.041
Other non - current assets		236.190	584.146
Deferred tax assets	7	51.375	41.802
Total non-current assets		40.248.846	33.193.023
Current assets			
Inventories	11	666.346	94.563
Trade and other receivables	12	7.384.455	16.013.270
Cash and cash equivalents	13	2.145.178	3.545.474
Total current assets		10.195.979	19.653.307
Total assets		50.444.825	52.846.330
Equity and liabilities			
Issued share Capital		13.300.000	13.300.000
Own shares		(1.153.990)	(1.153.990)
Share premium at nominal value		2.865.991	2.865.991
Legal and other reserves		1.120.066	1.120.066
Retained earnings / (Accumulated Losses)		14.944.761	11.036.186
Other components of equity		-	147.747
Total equity		31.076.828	27.316.000
Non – Current Liabilities			
Subsidies		13.504.294	13.088.294
Long term lease liabilities		1.160.231	1.100.335
Total Non - Current Liabilities		14.664.525	14.188.629
Current liabilities			
Trade accounts payable	16	2.317.448	8.727.904
Income taxes payable		385.256	514.600
Current term lease liability		301.866	280.835
Other current liabilities	16	1.698.902	1.719.484
Short-term provisions		-	98.878
Total current liabilities		4.703.472	11.341.701
Total liabilities		19.367.997	25.530.330
Total equity and liabilities		50.444.825	52.846.330

SAFETECH INNOVATIONS S.A.

SITUATION OF CHANGES IN EQUITY

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

	Share capital	Share premium	Own shares	Other elements equity	Reserves	Retained earnings	Total
Balance as of Jan 1, 2022	5.928.231	2.375.000	-	-	524.783	5.552.034	14.380.048
Net profit for the year	-	-	-	-	-	10.235.808	10.235.808
Capital increase	7.371.769	-	-	-	-	-	7.371.769
Establishment of legal reserve (Note 14)	-	-	-	-	595.283	(595.283)	-
Increase in share capital	-	490.991	-	-	-	-	490.991
Increase from the purchase of own shares	-	-	(1.153.990)	147.747	-	-	(1.006.243)
Allocation to dividends	-	-	-	-	-	(4.156.373)	(4.156.373)
Depreciation reserve from revaluation	-	-	-	-	-	-	-
Deferred tax reserve revaluation	-	-	-	-	-	-	-
Balance as of Dec 31, 2022	13.300.000	2.865.991	(1.153.990)	147.747	1.120.066	11.036.186	27.316.000
	Share capital	Share premium	Own shares	Other elements equity	Reserves	Retained earnings	Total
Balance as of Jan 1, 2023	13.300.000	2.865.991	(1.153.990)	147.747	1.120.066	11.036.186	27.316.000
Net profit for the year	-	-	-	-	-	5.890.564	5.890.564
Other elements equity	-	-	-	(147.747)	-	-	(147.747)
Capital increase	-	-	-	-	-	-	-
Establishment of legal reserve (Note 14)	-	-	-	-	-	-	-
Increase from the purchase of own shares	-	-	-	-	-	-	-
Allocation to dividends	-	-	-	-	-	(1.981.989)	(1.981.989)
Depreciation reserve from revaluation	-	-	-	-	-	-	-
Deferred tax reserve revaluation	-	-	-	-	-	-	-
Balance as of September 30, 2023	13.300.000	2.865.991	(1.153.990)	-	1.120.066	14.944.761	31.076.828

SAFETECH INNOVATIONS S.A.
CASH FLOW STATEMENT
For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

	30 September 2023	30 September 2022
Cash flows from operating activities		
Profit before tax	6.854.268	6.071.774
Depreciation and amortisation	1.622.806	2.319.368
Depreciation related to RUA	207.592	149.030
Benefits employees	(147.747)	-
Movements in provisions	(98.878)	(28.206)
(Gain) / loss on sale of property, plant and equipment	(338.402)	-
(Gain) / loss on write off receivables and payables	-	59.901
Interest revenues	(39.300)	(48.501)
Interest expenses	76.546	87.672
	8.136.885	8.611.388
Operating profit before working capital changes		
Change in inventories	(571.783)	(6.588)
Change in trade and other receivable	8.628.815	(2.496.496)
Change in trade and other payable	(6.023.795)	(2.591.713)
Change in deferred income tax	(9.573)	(17.864)
	10.160.548	3.498.727
Cash generated from/ (used in) operations		
Interest paid	(76.546)	(87.672)
Income tax paid	(1.102.621)	(789.509)
	8.981.381	2.621.546
Net cash from/ (used in) operating activities		
Cash flows from investing activities		
Proceeds from sale of non-current assets	347.956	(65.808)
Purchases of intangibles	(8.432.227)	(7.551.775)
Purchase of property, plant and equipment	(441.315)	(93.012)
UK company acquisition	-	(3.912.041)
Interest received	39.300	48.151
	(8.486.286)	(11.574.485)
Net cash used in investing activities		
Cash flows from financing activities		
Increase in share capital	-	7.371.769
Increase in share premium	-	490.991
Redeemed shares	-	(427.832)
Subsidies	416.000	2.295.662
Movements in loans and borrowings	-	(995.248)
Dividende plătite	(1.979.875)	(4.154.837)
Payments of lease liabilities	(331.516)	(266.552)
	(1.895.391)	4.313.953
Net cash from/ (used in) in financing activities		
Net increase in cash and cash equivalents	(1.400.296)	(4.638.986)
Cash and cash equivalents at 1 January	3.545.474	6.214.754
Cash and cash equivalents at 30 September	2.145.178	1.575.768

SAFETECH INNOVATIONS S.A.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

1. GENERAL INFORMATION

The headquarters of Safetech Innovation S.A. is located in Frunzei Street, no. 12-14, floor 1 - 2, District 2, Bucharest.

The main activity of the Company is the sale of cyber security solutions and services. Throughout its history, the company has specialized in the integration of complex cyber security projects.

The company was established as a limited liability company (SRL) in 2011. On September 25, 2020, the company was transformed into a joint-stock company (SA), with a share capital of 500,000 RON, divided into 2,500,000 shares with a nominal value of 0.2 RON, owned by two shareholders and co-founders, Victor Gânsac and Paul Rusu, each with 50% of the share capital.

On October 19, 2020, the company launched and closed the private placement for its shares on the first day. A total of 625,000 shares, respectively 20% of the company's share capital, with a nominal value of 0.2 lei per share were sold to investors. Safetech Innovations (SAFE) shares were admitted to trading on the SMT segment of the Bucharest Stock Exchange on January 29, 2021.

On August 26, 2021, Safetech Innovations received the Cyber Security Auditor accreditation for operators of essential services, based on Law 362/2018 on ensuring a common high level of security of networks and IT systems from the National Center for Response to Incidents of Cyber Security (CERT-RO). CERT-RO is the national competent authority for network and information systems security. Consequently, Safetech Innovations S.A. was registered in the National Register of Cyber Security Auditors, IDASC: QC-2B1721, with a validity period between 26.08.2021 and 25.08.2024.

In January 2022, Safetech Innovations successfully completed a capital increase operation, attracting 10,665,990.70 RON.

In 2022, the company capitalized the entity Safetech Innovations Global Services Limited.

On February 6, 2023, Safetech Innovations shares, stock symbol SAFE, debuted on the Main Market of the Bucharest Stock Exchange.

On February 8, 2023, the Company published the Revenue and Expenditure Budget for the fiscal year 2023. The budget was drawn up by the Company's Board of Directors and will be subject to approval at the annual Ordinary General Meeting of Shareholders, which will take place on April 24, 2023.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Declaration of conformity

The Company's financial statements were prepared in accordance with the International Financial Reporting Standards, applicable to commercial companies whose securities are admitted to trading on a regulated market.

These provisions are in accordance with the provisions of the International Financial Reporting Standards adopted by the European Union, with the exception of the provisions of IAS 21 The effects of the variation of exchange rates regarding the functional currency, the provisions of IAS 20 Accounting for government subsidies regarding the recognition of income from green certificates, with

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

the exception of IFRS 15 - Revenues from contracts with customers regarding the revenues from connection fees to the distribution network and with the exception of the treatment of interim distribution of dividends.

For the purpose of drawing up these financial statements, in accordance with the legislative provisions in Romania, the functional currency of the Company is considered to be the Romanian Leu (RON).

Fair value is the price that could be received to sell an asset or paid to transfer a liability in the normal course of a transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a another evaluation technique. In estimating the fair value of an asset or liability, the Company considers the characteristics of the asset or liability in the market that participants would consider when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of of IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of assets.

The main accounting policies adopted are presented below.

2.2 Going concern

The present financial statements were drawn up based on the going concern principle, which assumes that the Company will continue its activity in the foreseeable future. In order to evaluate the applicability of this presumption, management analyzes the forecasts regarding future cash inflows.

On September 30, 2023, the Company's current assets exceed current liabilities by RON 5.492.507 (on December 31, 2022, current assets exceed current liabilities by RON 8,311,606). On the same date, the Company recorded a global result of RON 5.890.564 (September 30, 2022: RON 5.198.877).

The management considers that the Company will be able to continue its activity in the foreseeable future and, therefore, the application of the principle of continuity of activity in the preparation of the financial statements is justified.

2.3 Adoption for the first time of the International Financial Reporting Standards (IFRS 1)

The Company adopted the International Financial Reporting Standards for the first time on December 31, 2021. Therefore, the Company restated the financial position for two previous years, 2019 and 2020, previously reported in accordance with Order No. 1802 of December 29, 2014 - Part I for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements (GAAP).

Consequently, the first financial statements of the Company included:

- three financial position statements
- three statements of profit or loss and other elements of the comprehensive result
- three cash flow statements
- three statements of changes in equity and
- related notes, including comparative information as set forth below.

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

The necessary adjustments for the transition from Order No. 1802 of December 29, 2014 prior to IFRS on December 31, 2021 at the transition date are recognized directly in retained earnings or, if applicable, in another category of equity at the transition date.

In preparing the current estimates at the date of transition to IFRS retroactively, the Company used the inputs and assumptions that were used to determine the prior GAAP estimates as of that date (after adjustments to reflect any differences in accounting policies). The Company has not used information that became available only after the previous GAAP estimates were made, except to correct an error.

2.4 Accounting principles, policies and methods

The significant accounting policies applied by the Company in the preparation of its financial statements are described below:

➤ Currency conversions

The Company's financial statements are presented in RON, which is also the functional currency.

Foreign currency transactions are converted into RON using the exchange rate valid on the date of the transaction. Monetary assets and liabilities expressed in foreign currency at the end of the period are valued in RON using the exchange rate valid at the end of the financial year. Realized or unrealized gains and losses are recorded in the profit and loss account. The exchange rate was as follows:

Data	Euro	USD
31 December 2022	4.9474	4.6346
30 September 2022	4.9490	5.0469
31 September 2023	4.9746	4.6864

Exchange rate differences, favorable or unfavorable, between the exchange rate from the date of recording the receivables or liabilities in foreign currency or the exchange rate at which they were reported in the previous financial statements and the exchange rate from the date of the end of the financial year, are recorded under financial income or expenses, as the case.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers establishes a five-step model for recognizing and recording revenue resulting from contracts with customers. In accordance with IFRS 15, revenue is recognized in the amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services to the customer.

Sales of goods

In accordance with IFRS 15, revenue is recognized when a customer obtains control of the goods. The company delivers goods under contractual conditions based on internationally accepted delivery conditions. The moment when the customer obtains control of the assets is considered to be substantially the same for most of the Company's contracts under IFRS 15. The Company believes that

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

revenue should be recognized when control of the asset is transferred to the customer, generally upon delivery of the goods.

Revenue recognition from distinct performance obligations

The company analyzed its contracts with customers to determine all its performance obligations, and did not identify any new performance obligations that should be accounted for separately in accordance with IFRS 15.

The company provides monitoring, support and audit services regarding information security as its main activity. Income is valued at the expected value of the consideration received or to be received. In accordance with IFRS 15, the total consideration from service contracts is allocated to all services based on their individual selling prices. Individual sales prices are established based on the list prices at which the Company provides the respective services in separate transactions. Based on the Company's assessment, the value allocated based on the relative individual selling prices of the services and the individual selling prices of the services are largely similar. Therefore, the application of IFRS 15 does not result in significant differences regarding the timing of revenue recognition for these services.

Equipment maintenance - Included in the transaction price for the sale of equipment is an after-sales service.

This service refers to maintenance work that may be required to be performed on the equipment for a period of one to three years after sale. This period can then be extended if the customer requires additional years of maintenance services. Renewal of services after the three-year period will be for the price at which they are sold by the Company to all its customers on the date of renewal, regardless of the existence of a renewal option. Accordingly, the option to extend the renewal period does not provide any benefit to customers when they terminate the initial contract, and therefore no revenue has been deferred related to this renewal option. The maintenance service is considered to be a distinct service because it is regularly provided by the Company to other customers independently and is available to customers from other providers in the market. Therefore, a portion of the transaction price is allocated to maintenance services based on the stand-alone selling price of those services. Revenues related to maintenance services are recognized over time. The transaction price allocated to these services is recognized as a contract liability at the time of the initial sales transaction and is amortized on a straight-line basis over the service period (ie, one to three years when the services are purchased together with the underlying equipment).

The recognition and measurement requirements of IFRS 15 are also applicable to the recognition and measurement of any gains or losses resulting from the disposal of non-financial assets (such as fixed assets and intangible assets), when this disposal is not in the normal course of business. However, upon transition, the effect of these changes is not significant for the Company.

Variable consideration

Some contracts with customers include trade price discounts or the right of return for quality defects. Currently, the revenues obtained from these sales are recognized based on the price specified in the contract, net of revenue reductions, commercial discounts recorded under accrual accounting when a reasonable estimate of revenue adjustments can be made.

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

According to IFRS 15, it is necessary to estimate the variable consideration at the beginning of the contract. Revenues are recognized to the extent that it is probable that a significant reversal of the value of the cumulative revenues recognized will not occur. Consequently, for those contracts for which the Company is unable to make a reasonable estimate of the discounts, the income is recognized earlier than when the return period passes or when a reasonable estimate can be made. In order to estimate the variable consideration to which it would be entitled, the Company applied the expected value method. At the same time, the cases of quality complaints (rights of return) are isolated and insignificant, based on information from past periods.

Considerations related to the action in one's own name and as an intermediary

In accordance with IFRS 15, the assessment is based on the criterion of whether the Company controls the specific goods before transferring them to the end customer, rather than whether it has exposure to significant risks and rewards associated with the sale of goods.

The company concluded that it acts in its own name in most of the contractual sales relationships, because it is the main provider in all revenue contracts, it has the right to set the price and it is exposed to the risks related to stocks. In the specific case of those contractual arrangements in which the Company does not control the goods before transferring them to the final customer, it has the capacity of an intermediary.

IFRS 9 Financial instruments

Financial assets

The financial assets of the Company are represented by trade receivables and other receivables, cash and cash equivalents.

Initial recognition: The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the Company's business model regarding their management. With the exception of commercial receivables that do not contain a significant financing component or for which the Company has applied the practical method, the Company initially evaluates a financial asset at its fair value plus, in the case of a financial asset that is not evaluated at fair value, through profit or loss transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical cost are valued at the transaction price determined according to IFRS 15.

Subsequent evaluation: The company measures financial assets at amortized cost if the following conditions are cumulatively met:

- i) The financial asset is held within a business model with the objective of holding financial assets to collect contractual cash flows and;
- ii) The contractual terms of the financial asset give rise at the specified dates to cash flows that represent exclusively payments of principal and interest from the principal amount in circulation (SPPI).

Financial assets at amortized cost are subsequently valued based on the effective interest method (EIR) and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognised, modified or depreciated.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

Derecognition: A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- i) The rights to receive cash flows arising from the asset have expired;
- ii) The company transferred its rights to receive the cash flows arising from the asset or assumed an obligation to pay the cash flows collected in full, without significant delays, to a third party, based on a commitment with identical flows; and (a) the Company has transferred substantially all the risks and rewards of the asset or (b) the Company has not transferred and retained substantially all the risks and rewards of the asset, but has transferred control over the asset;
- iii) The company has transferred its rights to receive the cash flows from an asset or entered into a commitment with identical flows and has neither transferred nor retained significantly all the risks and rewards related to the asset, but neither has transferred control over the asset, the asset is recognized proportionally to the continuation of the Company's involvement in the respective asset. In this case, the Company also recognizes an associated debt.
- iv) The transferred asset and the associated debt are evaluated on a basis that reflects the rights and obligations that the Company has retained. The continuation of the involvement that takes the form of a guarantee regarding the transferred asset is evaluated at the lower value between the initial accounting value of the asset and the maximum value of the consideration that could be imposed on the Company to reimburse it.

Impairment of financial assets: The Company recognizes a provision for expected credit losses for all financial assets attached to liabilities that are not held at fair value through profit or loss. For trade receivables and contractual assets, the Company applies a simplified approach in calculating expected losses. Therefore, the Company does not track changes in credit risk, but recognizes, instead, a provision based on the expected lifetime loss data at each reporting date. The company analyzes the receivables individually and takes into account the effect of the financial guarantees received from the insurers in the calculation of expected losses from lending. For more information, see Note 12 – Trade receivables and other receivables.

Financial debts

Initial recognition: Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and credits or derivatives designated as hedging instruments within an effective hedge, as the case may be. The company determines the classification of its financial liabilities upon initial recognition.

Subsequent evaluation: The company evaluates financial debts according to their classification, as follows:

- i) Loans and credits: interest-bearing loans are subsequently evaluated at amortized cost using the effective interest rate method. Gains and losses are recognized in the profit and loss account when debts are derecognized, as well as during the amortization process at the effective interest rate. The amortized cost is calculated taking into account any discount or purchase premium and any commissions and costs that are an integral part of the effective interest rate. Amortization at the effective interest rate is included in the profit and loss account at financing costs.

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

- ii) Financial guarantee contracts: The company initially recognizes financial guarantee contracts as a debt at fair value, adjusted to the costs related to the transaction that are directly attributable to the issuance of the guarantee. Subsequently, the debt is valued at the higher value of the best estimate of the expenditure necessary to settle the obligation present at the reporting date and the recognized value minus accumulated depreciation.

Derecognition: The company derecognizes a financial debt when the obligation related to the debt is extinguished, is canceled or expires. If a financial debt is replaced by another debt from the same creditor under substantially different conditions, or if the terms of an existing debt change substantially, this exchange or change is treated as a derecognition of the original debt and a recognition of new debts. The difference between the related accounting values is recognized in the profit and loss account.

Clearing of financial instruments

Financial assets and financial liabilities are offset and the net value reported in the statement of financial position only if there is currently both a legal right to offset the recognized amounts and an intention to settle on a net basis or to capitalize the assets and settle the debts simultaneously.

Interest income

The interest income generated by a financial asset is recognized when it is probable that the Company will obtain economic benefits and when that income can be reliably measured. Interest income is accumulated over time, by reference to the principal and the applicable effective interest rate, i.e. the rate that exactly updates the estimated future cash receipts over the anticipated period of the financial asset to the net book value of the asset at the date of initial recognition. Interest income is included in the profit and loss account under financial income.

Tax

Current profit tax

Current income tax receivables and payables for the current period are valued at the amount expected to be recovered from or paid to the tax authorities. The tax rates and fiscal laws used to calculate the amounts are those adopted or to a large extent adopted at the reporting date by Romanian legislation.

The current profit tax related to the elements recognized directly in equity is recognized directly in equity, not in the profit and loss account. The management periodically evaluates the positions presented in the fiscal declarations regarding the situations in which the applicable tax regulations are subject to interpretation and constitute provisions if necessary.

Deferred tax

Deferred tax is presented applying the variable ratio method regarding the temporary differences between the tax bases of assets and liabilities and their accounting value for the purpose of financial reporting at the reporting date.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

Deferred tax liabilities are recognized for all taxable temporary differences, unless:

- i) The deferred tax liability arises from the initial recognition of goodwill or a net asset or liability in a transaction that is not a business combination and, at the date of the transaction, affects neither accounting profit nor taxable profit or loss ;
- ii) Deferred tax assets are recognized for all deductible temporary differences, unused tax credit carryforwards and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and credit carryforwards can be utilised. unused tax credits and any unused tax losses, unless;
- iii) The deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the date of the transaction, does not affect either accounting profit or taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer likely that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be used. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow recovery of the deferred tax asset.

Deferred tax assets and liabilities are valued at the tax rates expected to be applied for the period in which the asset is realized or the debt is settled, based on the tax rates (and tax regulations) that have been adopted or to a large extent adopted up to reporting date.

Deferred tax on items recognized outside profit and loss is recognized outside profit and loss. The elements regarding the deferred tax are recognized in correlation with the transaction supporting other elements of the global result or directly in the equity.

Deferred tax receivables and liabilities are offset if there is a legal right to offset current tax receivables with current profit tax liabilities and deferred taxes refer to the same taxable entity and the same fiscal authority.

VAT

Revenues, expenses and assets are recognized net of VAT, except for:

- The case in which the sales tax applicable to the purchase of assets or services is not recoverable, in this case the sales tax being recognized as part of the asset acquisition cost or as part of the expense element, as the case may be;
- Receivables and payables presented at a value including sales tax.

The net value of the sales tax recoverable from or paid to ANAF is included as part of receivables and payables in the statement of financial position.

Tangible assets

Initial assessment

Tangible assets are valued at cost, net of accumulated depreciation and/or accumulated impairment losses, if applicable.

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

This cost includes the replacement cost of the respective tangible fixed asset at the time of replacement and the cost of borrowing for long-term construction projects, if the recognition criteria are met.

When significant parts of tangible assets must be replaced at certain intervals, the Company recognizes the respective parts as individual assets with a specific useful life and depreciates them accordingly. Also, when carrying out a general inspection, its cost is recognized in the accounting value of tangible assets as a replacement, if the recognition criteria are met. All other repair and maintenance costs are recognized in the profit and loss account when incurred. The present value of the expected costs for scrapping the asset after its use is included in the cost of the respective asset if the criteria for recognizing a provision are met.

The cost of a tangible asset consists of:

- its purchase price, including customs duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs that can be directly attributed to bringing the asset to the location and condition necessary for it to function in the manner desired by management;
- the initial estimate of the costs of dismantling and moving the element and rehabilitating the location where it is located, the obligation that the entity bears when acquiring the element or as a consequence of using the element for a certain period for purposes other than those of producing stocks during that period.

Subsequent evaluation

Fixed assets are valued at historical cost from which amortization and possible adjustments for depreciation are deducted.

Depreciation of fixed assets

Depreciation is calculated using:

- the linear method for buildings and equipment that are not related to production capacity
- the accelerated method for fixed assets representing equipment that are related to the production capacity

Duration of use

The period of economic use is the period of time in which the asset is expected to be used by a company. The economic useful life for tangible assets was determined by specialized employees. Depreciation is calculated using the straight-line or accelerated method, over the entire useful life of the asset.

The average lifetimes by category of fixed assets are as follows:

	<u>Years</u>
Fixed assets for production	2-8
Transport vehicles	6

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss resulting from the derecognition of an asset (calculated as the difference between the net proceeds on disposal and the accounting value of the item) is included in the profit and loss account when the asset is derecognised.

The residual values, lifetimes and depreciation methods of fixed assets are reviewed at the end of each financial year and adjusted accordingly.

➤ *Leasing*

The company evaluates whether a contract is or includes a leasing contract, at the initiation of the contract, that is, if that contract grants the right to control the use of an identified asset for a period of time in exchange for a consideration.

The company as lessee

The company applies a single recognition and valuation approach for all leasing contracts, except for short-term leasing contracts and leasing contracts for which the underlying asset has a low value. The company recognizes leasing liabilities for making lease payments and right-of-use assets that represent the right to use the underlying assets.

Assets related to the right of use

The company recognizes a right-of-use asset on the date the lease contract commences (ie the date the underlying asset is available for use). Right-of-use assets are valued at cost, less any accumulated depreciation and accumulated impairment losses and adjusted for any revaluation of lease liabilities. The cost of the asset related to the right of use includes the value of the initial evaluation of the rent liability, the initial direct costs incurred and the related rent payments made on or before the start date of the development, less the incentives received under the rental contract.

Right-of-use assets are depreciated using the shorter of the lease term and the estimated useful life of the assets, as follows:

- Buildings 8 years

The right-of-use asset is also subject to impairment in accordance with the policy for impairment of non-financial assets described below.

Lease liabilities

On the date of commencement of the leasing contract, the Company recognizes the leasing debt at the updated value of the leasing payments that must be made during the duration of the leasing contract. Lease payments include fixed payments (including fixed payments in the fund) less any lease incentives to be received, variable lease payments that depend on an index or a rate and amounts expected to be paid based on residual value guarantees. Leasing payments also include the exercise price of a purchase option, if the Company has reasonable certainty that it will exercise the option, as well as the payment of the penalties for terminating the leasing contract, if the duration of the leasing contract reflects the Company's exercise of a termination options. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or context that triggers this payment occurs.

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

When calculating the updated value of the leasing payments, the Company uses the marginal loan rate from the start date of the leasing contract, if the implicit interest rate in the leasing contract cannot be determined immediately. After the start date, the value of the lease liabilities is increased to reflect the interest and reduced by the value of the lease payments made. In addition, the carrying amount of lease liabilities is reassessed if there is a change, a change in the lease term, a change in lease payments (for example, changes in future lease payments resulting from a change in an index or rate used for determining those payments) or a change in the valuation of a call option on the underlying asset.

➤ ***Intangible assets***

Separately acquired intangible assets are valued at initial recognition at cost. After initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expense is reflected in the profit and loss account at the time the expense is incurred.

The useful lives of intangible assets are assessed as determinable.

Intangible assets with a determined useful life are amortized over their economic life and assessed for impairment whenever there are indications of impairment of the intangible asset. The amortization period and amortization method for an intangible asset with a definite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful lives or in the expected rate of consumption of the future economic benefits incorporated in the assets are accounted for by changing the method or the amortization period, as the case may be, and are treated as changes in accounting estimates. The expense of amortization of intangible assets with a useful life is recognized in the profit and loss account in the expense category in accordance with the function of intangible assets.

	<u>Years</u>
Computer programs	2-3
Research and development expenses	5

Gains or losses resulting from the derecognition of an intangible asset are calculated as the difference between the net disposal proceeds and the accounting value of the item and is recognized in the profit and loss account when the asset is derecognised.

Research and development expenses

Research costs are recognized as an expense when incurred. The expenses related to the development of an individual project are recognized as intangible assets when the Company can demonstrate:

- The technical feasibility required to complete the intangible asset so that it is available for use or sale;
- His intention to complete the intangible asset and the ability to use or sell it;
- The way in which the intangible immobilization will generate future economic benefits;

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

- Availability of resources to complete the immobilization;
- Its ability to reliably evaluate the expenses during the development of the immobilization.

After the initial recognition of the development expense of an asset, the cost model is applied, which provides for the accounting of assets at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation of fixed assets begins when the development is completed and the asset is available for sale/use. It is amortized over the period of the expected future benefit. Depreciation is recognized in the cost of goods sold. During the development period, the asset is tested annually for impairment.

Patents, licenses, trademarks

Patents, licenses, trademarks are recognized as intangible assets and evaluated according to the useful life period (definite - amortized, indefinite period - tested for impairment).

Derecognition of intangible assets

An intangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses resulting from the derecognition of an intangible asset, assessed as the difference between the net proceeds from the sale and the net book value of the asset, are recognized in profit and loss when the asset is recognisable.

➤ **Government subsidies**

Government grants are not recognized until there is reasonable assurance that the Company will comply with the related conditions and that the grants will be received. Government subsidies are recognized in profit or loss systematically over the periods in which the Company recognizes as expenses the related costs for which the subsidies are intended to compensate. Specifically, government grants whose main condition is that the Company purchases, constructs or otherwise acquires fixed assets (including tangible and intangible fixed assets) are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss for a period. Systematic and rational basis over the useful life of the related assets.

Government subsidies that are to be received as compensation for expenses or losses already incurred or for the purpose of providing immediate financial support to the Company, without related future costs, are recognized in profit or loss in the period in which they become receivable.

➤ **Inventories**

The main categories of stocks are raw materials, goods and consumables.

The cost of stocks includes all purchase expenses, production costs (including all direct and indirect costs attributable to the operational activity of production) and other costs incurred in bringing the stocks to their current state and location.

Inventories are valued at the lower of cost and net realizable value. The net realizable value is the estimated selling price under the conditions of normal operation of the business less the estimated costs of completion and selling costs.

At the end of management, stocks are valued based on the FIFO method.

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

The company periodically inventories the stocks to determine if they are damaged, obsolete, have slow movement or if the net realizable value has decreased, and makes the necessary adjustments.

➤ ***Depreciation of non-financial assets***

The company evaluates at each reporting date if there are indications of impairment of an asset. If there are indications or if an annual impairment test is necessary for an asset, the Company estimates the recoverable value of that asset. The recoverable amount of an asset is the higher of the fair value of an asset (or cash-generating unit) minus the costs associated with the sale and its value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those of other assets or groups of assets. When the book value of an asset or cash-generating unit is greater than its recoverable amount, the asset is considered impaired and its book value is reduced to its recoverable amount.

In case of internally developed software, the first step in the analysis for the depreciation is that the ROA for the year (value of the realised revenue generated) should not be less than 20% of the net asset value at the year end. If the value of the generated income is less than 20%, the method mentioned below is used. In case generated revenue exceeds 20%, then there is no need to adjust for depreciation.

When assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and asset-specific risks. When determining the fair value minus the costs associated with the sale, recent market transactions are taken into account, if any. If such transactions cannot be identified, an appropriate valuation model is used.

The loss from the depreciation of continuing activities, including the depreciation of stocks, is recognized in the profit and loss account in the expense category consistent with the function of the depreciated asset, except for a property that was previously revalued and the revaluation was accounted for in other elements of the comprehensive result. In this case, the impairment is also recognized in other elements of the overall result up to the value of any previous revaluation.

In each reporting period, an assessment is made to determine if there are indicators that previously recognized impairment losses no longer exist or have decreased. If there is such an indication, the Company estimates the recoverable value of the asset or the treasury generating unit. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited, so that the accounting value of the asset does not exceed its recoverable value and does not exceed the accounting value that the asset would have had if it had not been previously depreciated. Such reversal is recognized in the profit and loss account unless the asset has been revalued, in which case the reversal is treated as a revaluation increase.

➤ ***Cash and short-term deposits***

Cash and short-term deposits from the statement of financial position include cash at home and at banks and short-term deposits with an initial maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents are made up of cash and short-term deposits defined above, net of outstanding overdrafts.

➤ ***Provisions***

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

General

Provisions are recognized when the Company has a current obligation (legal or implied) generated by a previous event, it is likely that an outflow of resources incorporating economic benefits will be required to settle the obligation and the value of the obligation can be reliably estimated. If the Company expects that a provision will be fully or partially reimbursed, for example, based on an insurance contract, the reimbursement is recognized as a separate asset, but only if the reimbursement is almost certain. The related expense of any provision is presented in the profit and loss account, net of any reimbursement.

Provisions are reviewed at each balance sheet date and adjusted to reflect management's current best estimate in this regard. If an outflow of resources is no longer likely to settle an obligation, the provision must be canceled by resuming income.

Provisions for litigation

Litigation provisions are recognized when management estimates probable cash outflows as a result of unfavorable litigation.

➤ ***Pensions and other post-employment benefits***

As part of its current activity, the Company makes payments to the Romanian state on behalf of its employees for post-employment (retirement) benefits. All employees of the company are included in the pension plan of the Romanian State. The company does not operate any other pension scheme and, consequently, has no obligation regarding pensions. In addition, the Company has no obligation to provide additional benefits to former or current employees.

➤ ***Related parties***

The parties are considered related when one of them has the ability to significantly control/influence the other party, through ownership, contractual rights, family relationships or by other means. Related parties also include the Company's principal owners, members of management, board members and members of their families, parties with which they jointly control other companies, post-employment benefit plans for the Company's employees.

➤ ***Results carried forward***

The remaining accounting profit after the distribution of the 5% quota to the legal reserve, within the limit of 20% of the share capital, is taken within the carried forward result at the beginning of the financial year following the one for which the annual financial statements are drawn up, from where it is to be distributed to the other destinations legal.

The distribution of the profit is carried out accordingly in the following financial year, after the approval of the distribution in the General Meeting of Shareholders, eg: the value of the approved dividends and other reserves according to legal regulations.

3. RATIONALE, ESTIMATES AND SIGNIFICANT ACCOUNTING HYPOTHESES

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

The preparation of the Company's financial statements requires the management to make judgments, estimates and assumptions that affect the reported values for revenues, expenses, assets and liabilities, as well as the presented information that accompanies them, and to present the contingent liabilities at the end of the reporting period. However, the existing uncertainty related to these estimates and assumptions could result in a significant future adjustment of the accounting value of the affected asset or liability in future periods. Estimates and associated assumptions are based on historical experience and other factors that are deemed relevant. Actual results may differ from these estimates. The underlying estimates and assumptions are reviewed on an ongoing basis.

The following are the critical judgments, other than those involving estimates (which are presented separately below), that the Company's management made in the process of applying the Company's accounting policies and which have a significant effect on the amounts recognized in the financial statements.

Argument

During the application of the Company's accounting policies, the management made the following considerations, which have the greatest effect on the amounts recognized in the financial statements:

- Reasoning in determining the fulfillment of enforcement obligations

In making their judgment, the directors have considered the detailed revenue recognition criteria set out in IFRS 15 and, in particular, whether the Company has transferred control of the assets to client. Following the detailed quantification of the Company's liability regarding the rectification works, and the agreed limitation on the customer's ability to request additional work or to request the replacement of goods, the directors are satisfied that control has been transferred and that the recognition of income in the current year is appropriate, together with the recognition of an appropriate warranty provision for rectification costs.

- Reasoning regarding the capitalization of expenses as an intangible asset

In accordance with IAS 38, the capitalization of expenses as intangible assets regarding research, start-up costs, pre-exploitation and pre-opening, training, advertising and promotion, moving and relocation previously recognized in GAAP as assets are de-recognized in the position opening situation financial IFRS. Following a detailed analysis of the Company's expenses regarding the recognition of intangible assets, the Company's management considered that the recognition of assets in the reported period is appropriate.

During the current year, the Company capitalised development costs of RON 8 million relating to software, on the basis that management considers these costs to be clearly associated with identifiable products which will be controlled by the Company and have a profitable benefit exceeding the cost beyond one year.

Capitalised costs related to three main software products, as presented in Note 10.

As mentioned above, in capitalising these development costs, management considered that the criteria in IAS 38, Intangible Assets (IAS 38) is met and development expenditure that does not meet the above criteria are recognised as an expense in profit or loss as these are incurred.

Estimates and assumptions

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

The main assumptions regarding the future and other important causes of the uncertainty of estimates at the reporting date, which present a significant risk of causing a significant adjustment of the accounting values of assets and liabilities in the next financial year, are presented below.

Taxes, fees and tax provisions

There are uncertainties regarding the interpretation of complex fiscal regulations, changes in fiscal legislation and the value and timing of future taxable profit.

All amounts owed to state authorities have been paid or ascertained at the balance sheet date. The Romanian fiscal system is undergoing a consolidation process and is in the process of being harmonized with European legislation. Different interpretations may exist at the level of the tax authorities in relation to the tax legislation which may lead to additional taxes and penalties. If the state authorities find fiscal violations and related regulations, it may lead to: confiscation of the amounts in the case; additional tax obligations; fines and penalties (which are applied to the outstanding amount). As a result, the tax penalties resulting from the violation of the legal provisions can lead to a significant debt.

At the end of each financial year, the Company makes an estimate of the potential fiscal risks to which it may be subjected and determines the level of potential risk, using the best available estimates, and consequently, if necessary, recognizes a specific provision in the financial statements.

Inventories

Finished products and goods are recorded at the lower of cost and net realizable value. The management analyzes the age of the stocks, the expiration date of the products, the quality of the products and possible non-conformity issues, the products that cannot be sold later or that are rejected based on quality problems, and takes into account their implications in determining the net realizable value of the stocks old.

The net realizable value is the sale price under normal business conditions, less completion, marketing and distribution costs, considering the future evolution of sale prices.

The management analyzed the net realizable value of the finished products monthly, taking into account the selling prices of the market as well as the regulations specific to the industry in which it operates.

For the raw materials, specific analyzes are carried out taking into account the age, expiration date, possible quality problems of the elements in the balance.

All assumptions are reviewed annually.

Provisions for litigation

The company recognizes provisions for litigation related to the risks identified in connection with certain lawsuits pending before the courts, the outcome of which is not certain.

The lifetimes for fixed assets and the depreciation method

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

The company estimates the life spans for the items of tangible assets in accordance with the rate of consumption / wear and tear for the respective assets.

The company considers and uses the following depreciation methods:

- the linear method for buildings, fixed assets purchased in financial leasing and for equipment that are not related to production capacity
- the accelerated method for fixed assets representing equipment that are related to the production capacity

Sales discounts for estimated returns, price reductions

Returns, discounts, incentives and rebates related to sales are recognized as reductions in turnover, in the period in which the respective sales were recognized. These are recognized according to commercial offers with monthly, quarterly and annual gross and net value targets. Estimated unbilled discounts are subject to continuous review and appropriate adjustment based on the latest available information.

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF THE STANDARDS

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Company as of 1 January 2023:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments had not impact on the financial statements of the Company.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

On September 30, 2023, the company has rental contracts that have been restated in accordance with IFRS 16.

Standards issued but not yet effective and not early adopted

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretionary participation contracts. The company does not issue contracts in scope of IFRS 17; therefore its application does not have an impact on the company's financial performance, financial position or cash flows.

- **IFRS 17: Insurance Contracts**

The standard is effective, for annual periods beginning on or after 1 January 2023, with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17.

IFRS 17, with the objective to provide an accounting model for insurance contracts that is more useful and consistent for insurers, establishes principles for the recognition, measurement, presentation and disclosure of all types of insurance contracts, as well as of certain guarantees and financial instruments with discretionary participation features. The accounting model is supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and by a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model include the measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows). Also, the model includes a Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss based on insurance contract services provided over the coverage period. Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period. Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event occurs (non-distinct investment components) are not presented in the income statement but are recognised directly on the statement of financial position.

Furthermore, the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income will be based on the concept of services provided during the period.

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense. In the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held, are presented separately. Finally, IFRS 17 requires extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

Regarding the transition, the Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8, for a group of insurance contracts, is impracticable, an entity is required to choose either the modified retrospective approach or fair value approach. Both provide transitional reliefs.

Finally, in December 2021, the IASB issued amendments to IFRS 17 to add a transition option for a “classification overlay” to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Management has made an assessment of the effect of the standard and its amendments. Currently, the financial statements of the company are not impacted by IFRS 17.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose ‘significant’ accounting policies with a requirement to disclose ‘material’ accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

5. SALES OF GOODS AND SERVICES AND EXPENSES WITH RAW MATERIALS AND CONSUMABLES

5.1 Turnover

The Company has only one reportable segment, which is the sale of cybersecurity products and services.

Management's objective is always to pursue profit, not revenue, and this can be achieved through a proper sales and marketing strategy, covering multiple sectors and markets. In 2023, considering the demand of the markets as well as the legislative context, the business strategy was focused on increasing the amount of money and implicitly profitability.

The Company's management monitors operational activities and resource allocation to maximize performance. Performance is evaluated based on operating profit or loss, gross profit or loss.

The company monitors sales according to their type - services and sales of goods.

	1 January - 30 September 2023	1 January - 30 September 2022
Internal sales	19.942.879	18.964.309
External sales	149.723	1.880.202
Turnover	20.092.603	20.844.511

5.2. Raw materials and consumables used

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

Raw materials and consumables used	1 January - 30 September 2023	1 January - 30 September 2022
Raw materials	4.283.716	5.375.756
Fuel materials and spare parts	21.976	18.861
Merchandise	4.809.206	4.496.975
Supplies	13.659	16.879
Inventory items	71.826	30.201
Others	4.527	3.698
Total	9.204.910	9.942.370

The expenses with raw materials mainly refer to the expenses for the purchase of cyber security hardware and software products.

6. OTHER INCOME / EXPENSES AND ADJUSTMENTS

6.1 Other operating revenues

The company recorded under Other operating income mainly the recognition on income of subsidies for investments.

6.2 Other expenses

Other expenses	1 January - 30 September 2023	1 January - 30 September 2022
Services	2.180.411	2.003.146
Telecommunication services	83.716	61.287
Sponsorship	170.989	138.183
Insurance	83.624	112.992
Utilities	92.404	117.464
Travel expenses	144.100	131.069
Training	67.291	25.946
Maintenance	30.514	24.026
Other	309.373	318.277
Total	3.162.421	2.932.390

Utilities mainly refer to energy and water expenses.

SAFETECH INNOVATIONS S.A.**NOTES AT FINANCIAL STATEMENTS**

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

Service expenses include a wide variety of services: legal consulting, marketing, capital market consulting, subcontracting expenses for some programming services.

Repair services include special fleet repair services.

Other expenses include mainly bank commissions, fees, other expenses with taxes and fees.

6.3 Financial expenses

Financial expenses	1 January - 30 September 2023	1 January - 30 September 2022
Interest expense	76.546	87.672
Expenses with exchange rate differences	83.853	47.298
Total	160.400	134.970

Interest expenses are represented by the amounts related to bank loans.

6.4 Financial income

Financial income	1 January - 30 September 2023	1 January - 30 September 2022
Gains on exchange rate differences	73.859	59.245
Interest income	39.300	48.151
Total	113.159	107.396

6.5 Employee benefit expenses

Salary expenses	1 January - 30 September 2023	1 January - 30 September 2022
Wages	8.037.503	6.632.541
Payroll taxes	195.168	182.484
Wage benefits (meal vouchers)	(147.747)	-
Total	8.084.925	6.815.025

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

In 2022, the company approved the implementation of a plan to reward and motivate the Company's key personnel by granting free shares in the future. For this, in 2022 he bought back his own shares that will be granted to key personnel at the end of one year from the implementation of the plan.

6.6 Marketing and advertising expenses and protocol

The company recognizes as marketing and advertising expenses the expenses generated by the media promotion campaigns. During the current year, in this category are recorded mainly expenses for the promotion of the Company's products and projects.

7. CURRENT AND DEFERRED PROFIT TAX

Income tax expense	1 January - 30 September 2023	1 January - 30 September 2022
Current profit tax	973.277	1.405.361
Deferred tax (expense (income))	(9.573)	(9.262)
Total	963.704	1.396.096

8. RESULT PER ACTION

The values of the basic result per share are calculated by dividing the net profit of the year attributable to ordinary shareholders by the weighted average number of ordinary shares in circulation during the year.

The weighted average number of ordinary shares during the period is the number of ordinary shares existing at the beginning of the period, adjusted by the number of ordinary shares repurchased or issued during the period multiplied by a time weighting factor. The weighting factor in time is the number of days in which the shares were in existence as a proportion of the total number of days in the period;

The number of shares related to the period ended on **September 30, 2023** is 66.500.000 shares.

9. TANGIBLE FIXED ASSETS AND ASSETS RELATED TO THE RIGHT OF USE

SAFETECH INNOVATIONS S.A.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on **September 30, 2023** (all amounts are expressed in RON, unless otherwise stated)

CORPORATE FIXED ASSETS

	Land Buildings & Pipes	Improvements building	Machinery Vehicles, office, equipment	Plant & equipment	Imobilizations in progress	Total
Gross value on Jan 1, 2023	1.978.668	11.985	3.380.522	438.489	- -	5.809.664
Additions	371.901	383.062	509.744	25.206	383.062	1.672.974
Reevaluation	-	-	-	-	-	-
Disposals	-	-	(338.104)	(7.700)	(383.062)	(728.866)
Transfers	-	-	(465.536)	-	-	(465.536)
Gross value on September 30, 2023	2.350.569	395.047	3.086.625	455.995	-	6.288.236
Amortizations and depreciation on Jan 1, 2023	807.873	5.532	2.875.567	383.801	0	4.072.772
Amortization in the year	207.592	32.957	396.382	30.016	-	666.946
Disposals	207.592	-	(313.805)	-	-	(313.805)
Transfers	-	-	(7.682)	-	-	(7.682)
Amortization and depreciation on September 30, 2023	1.015.465	38.489	2.950.462	413.815	-	4.418.231
Net Book Value on September 30, 2023	1.335.104	356.558	136.164	42.179	-	1.870.005

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

	Land Buildings & Pipes	Impovments building	Machinery, Vehicles, office, Equipment	Plant & equipment	Total
Gross value on Jan 1, 2022	1.722.129	11.985	3.181.618	373.037	5.288.769
Additions	256.539	-	198.904	15.346	470.789
Reevaluation	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers	-	-	-	50.106	50.106
Gross value on Dec 31, 2022	1.978.668	11.985	3.380.522	438.489	5.809.664
Amortization and depreciation on Jan 1, 2022	596.121	4.149	1.845.075	241.044	2.686.389
Amortization in the year	211.752	1.383	1.030.492	92.651	1.336.278
Disposals	-	-	-	-	-
Transfers	-	-	-	50.106	50.106
Amortization and depreciation on Dec 31, 2022	807.873	5.532	2.875.567	383.801	4.072.772
Net Book Value on Dec 31, 2022	1.170.795	6.453	504.955	54.688	1.736.891

The company recognized in the category of "Assets related to the right of use": a rental contract and two financial leasing contracts regarding the purchase of passenger cars.

The company has a rental contract that includes extension and termination options. These options are negotiated by the Company's management to provide flexibility in the management of the portfolio of leased assets and to align with the Company's business needs. The management of the Company exercises significant judgment to determine whether there is reasonable certainty for the extension or termination of the contract. Leasing contracts are concluded for a fixed period of five years.

The accounting value of the rental debt and the movements recorded in this category during the financial period January - September 2023:

On January 1, 2023	1.284.906
Additions	465.536
Interest associated with the leasing debt	75.352
Lease payments	331.516
Debt revaluation	(32.181)
On September 30, 2023	1.462.097

SAFETECH INNOVATIONS S.A.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

The following expenses represent the amounts recognized in profit or loss in connection with leasing contracts:

2023

Depreciation of assets related to the right of use	207.592
Interest associated with the leasing debt	75.352
Total expenses recognized in the profit and loss account	282.944
On January 1, 2022	1.284.906
Additions	256.539
Interest associated with the leasing debt	89.439
Lease payments	(290.712)
Debt revaluation	603
On December 31, 2022	<u>1.340.775</u>

The following expenses represent the amounts recognized in profit or loss in connection with leasing contracts:

2022

Depreciation of assets related to the right of use	211.752
Interest associated with the leasing debt	89.439
Total expenses recognized in the profit and loss account	<u>301.190</u>

10. INTANGIBLE ASSETS

	Establishment expenses	Development expenses	Concessions, patents and other rights	Other intangible assets	Total
Costs on Jan 1, 2023	323.700	23.372.547	114.429	7.344.979	31.155.655
Additions	-	8.131.097	-	301.130	8.432.227
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Costs on September 30, 2023	323.700	31.503.644	144.429	7.344.979	39.587.883
Amortization and depreciation on Jan 1, 2023	167.760	-	114.429	3.955.324	4.237.513

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

	Establishment expenses	Development expenses	Concessions, patents and other rights	Other intangible assets	Total
Amortization in the year	80.585	-	-	1.090.550	1.171.134
Disposals	-	-	-	-	-
Amortization and depreciation on September 30, 2023	248.344	31.503.644	114.429	5.045.874	5.408.647
Net Book Value on September 30, 2023	75.356	31.503.644	-	2.600.235	34.179.235

	Establishment expenses	Development expenses	Concessions, patents and other rights	Other intangible assets	Total
Costs on January 1, 2022	195.965	12.228.077	114.429	5.266.206	17.804.677
Additions	127.735	12.702.364	-	2.078.773	14.908.872
Disposals	-	-	-	-	-
Transfers	-	(1.557.894)	-	-	(1.557.894)
Costs on December 31, 2022	323.700	23.372.547	114.429	7.344.979	31.155.655
Amortization and depreciation on January 1, 2022	64.658	-	114.429	2.287.621	2.466.708
Amortization in the year	103.102	-	-	1.667.703	1.770.805
Disposals	-	-	-	-	-
Amortization and depreciation on December 31, 2022	167.760	-	114.429	3.955.324	4.237.513
Net Book Value on December 31, 2022	155.941	23.372.547	-	3.389.655	26.918.142

Own products are included in the category of research and development expenses: currently, the company has a number of its own cyber security products under development or that it intends to develop, which will bring new added value to customers.

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

iSAM - In March 2019, Safetech launched its first cybersecurity product - iSAM, the Information Security Automation Manager. iSAM enables information security managers of companies to better manage cyber security within their organization by automating certain processes, providing real-time updates on the level of cyber protection and enabling early detection of cyber security threats. Safetech holds the National Computer Program Registry certificate for iSAM.

The certificate was issued on 22.01.2020 by the Romanian Copyright Office. The main functionalities of the application developed by Safetech include:

- inventory of business processes and IT systems;
- management of security policies and standards within the organization;
- continuous analysis and management of risks and vulnerabilities;
- event and security incident management.

The solution automates some of the activities of information security officers, but also helps organize security reports, bringing together information from various departments, thus saving time and aligning the practices used in a company. The platform also has the option to generate almost instantaneous reports on the level of IT security within the organization, as well as to provide tools for the management of security indicators and risks.

The solution is mainly aimed at large companies in the financial-banking, healthcare, transport, energy, utilities and digital infrastructure sectors, ensuring compliance with the relevant IT security provisions applicable to these industries. iSAM helps companies comply with the following regulations currently applicable in Romania:

- Law 362/2018 on ensuring a high level of security of computer networks and systems;
- Norm 4/2018 of the Financial Supervision Authority (ASF) regarding the management of operational risks;
- BNR Regulation 3/2018 regarding the monitoring of the financial market and the infrastructure of payment instruments;
- General Regulation on the Protection of Personal Data (GDPR). The valorization of the project is carried out by two methods:
- Capitalization in the form of either a perpetual license or a subscription (annual service on premises - annually renewable) to the company's beneficiaries.
- Valorization in the form of streamlining the activity within the Security Operations Center - STI CERT company structure, both in the daily security monitoring activities of the company's beneficiaries, as well as in the security testing and information security management services.

During 2022, important developments were made to the iSAM solution, worth 559 thousand RON, representing mainly the costs of software development employees and the costs of subcontractors.

ToR-SIM (research project completed in 2020) - Capitalization as either a perpetual license or subscription (annual "on premises" service) to the Integrated Mobile Terminal Malware Analysis Software Platform (Acronym: ToR-SIM). The software platform that integrates, in a unified way, the malware analysis procedures for most of the equipment on the market at the moment, in order to strengthen the security of terminals and networks, identify the operational requirements and the capabilities necessary to develop and secure solutions for devices and mobile applications that to ensure, through a partnership between the responsible governmental factors, the academic and industrial environment, the increase in the efficiency of cyber protection solutions. The platform is developed at the prototype level, validated on a single beneficiary (the one established by the research project, which gave its acceptance that the product was developed according to the project's requirements). Further development of the product to commercial product level follows.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

During 2022 important developments were made to the ToR-SIM solution, in amount of RON 3,373 thousands, mainly representing software development employee costs, and subcontractors' costs. Development of the software is continued in 2023.

SafePic (grant funded project that will be completed in 2023) - It aims to increase the response capacity of STI-CERT to cyber security attacks and incidents, through automation and interoperability with similar structures at national and international level, but also the development organizational by carrying out a set of design actions and implementing measures to improve the components of the management system (strategy, structure, information system, decision-making system, methodological system), aimed at increasing the performance and competitiveness of the organization.

During 2022 the project continued in accordance with project plan and budget, where reimbursement applications submitted and approved by management authorities based on the software developments in amount of RON 8,966 thousands.

As mentioned above, the project is scheduled to be finalised in 2023.

11. INVENTORIES

Inventories	1 January - 30 September 2023	1 January - 31 December 2022
Raw materials	571.783	-
Merchandise	91.864	91.864
Supplies	2.699	2.699
Total	666.346	94.563

The company has no slow-moving inventory.

12. TRADE RECEIVABLES AND OTHER / CURRENT RECEIVABLES

Trade receivables and other receivables	1 January - 30 September 2023	1 January - 31 December 2022
Total net trade receivables of which:	7.022.196	15.339.546
Trade receivables, of which	4.590.422	7.241.506
Trade receivables with affiliated companies	-	3.166.336
Uncertain trade receivables	186.178	186.178
Clients invoices to be drawn up	2.375.203	8.033.806
Other receivables	56.571	64.234
Minus		
Allowances for expected losses on receivables	(186.178)	(186.178)
Total other receivables of which:	362.258	673.724
Different debtors	198.541	559.885
Prepayments	153.018	66.766

SAFETECH INNOVATIONS S.A.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on **September 30, 2023** (all amounts are expressed in RON, unless otherwise stated)

Trade receivables and other receivables	1 January - 30 September 2023	1 January - 31 December 2022
Other current assets	10.700	47.073
Loans with affiliated companies		

13. CASH AND SHORT-TERM DEPOSITS

	1 January - 30 September 2023	1 January - 31 December 2022
Cash at the bank in RON	1.667.405	2.802.298
Cash at the bank in foreign currency	477.774	690.002
Cash in hand	-	12.249
Other values	-	40.925
Total	2.145.178	3.545.474

Cash in the bank bears interest at the daily interest rate when deposits are made. Short-term deposits are made for different periods of time between 1 day and 3 months, depending on the cash needs of the Company and accumulate interest at the appropriate interest rates.

14. CAPITAL AND RESERVES

Authorized Shares/Social Parties	1 January - 30 September 2023	1 January - 31 December 2022
Ordinary shares of 0.2 RON each	66.500.000	66.500.000
Ordinary shares issued and paid in full	Number	Value
On December 31, 2022	66.500.000	13.300.000
On 30 September, 2023	66.500.000	13.300.000
Share capital	1 January - 30 September 2023	1 January - 31 December 2022
Subscribed and unpaid social capital	-	-
Subscribed and paid-up capital	13.300.000	13.300.000
Total share capital	13.300.000	13.300.000

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

On 18.09.2020 the Company decided on the transformation from a Limited Liability Company to a Joint Stock Company and the share capital was set at 500,000 RON and 2,500,000 shares with a nominal value of 0.2 RON.

On October 19, 2020, the General Shareholders' Meeting approved the decision to increase the Company's share capital by the maximum amount of 125,000 RON, by cash contribution, from the amount of 500,000 RON to the maximum amount of 625,000 RON, by issuing a number of 1,250,000 new shares ("New Shares"), with a nominal value of 0.2 RON / share ("Social Capital Increase") through private placement.

On April 16, 2021, the General Shareholders' Meeting approved the decision to increase the Company's share capital by a maximum amount of 2,500,000 RON, through a cash contribution, from the amount of 625,000 RON to a maximum amount of 3,125,000 RON, by issuing a number of 12,500,000 new shares ("New Shares"), with a nominal value of 0.2 RON / share ("Share Capital Increase") offered for subscription to the shareholders registered in the Company's shareholder register held by the Central Depository TO.

On July 17, Safetech received the Certificate of Registration of Financial Instruments (CIIF) from the Romanian Supervisory Authority which certifies the registration of the increase of the share capital with 12,500,000 new shares that were issued following the Resolution of the Extraordinary General Meeting of Shareholders of Safetech Innovations from 16.04.2021. After registration with the Central Depository on July 21, shareholders received free shares in their trading accounts at the rate of four (4) newly issued shares for every one (1) share held. Following the increase of the share capital, the share capital of Safetech Innovations S.A. of 3,125,000 RON is divided into 15,625,000 registered shares with a nominal value of 0.2 RON per share.

On July 22, 2021, the Extraordinary General Meeting of Shareholders took place. The legal and statutory quorum related to the meeting was constituted at the first convocation. During the AGM, the shareholders voted in favor of increasing the Company's share capital by the amount of 200,000 RON, by issuing a maximum number of 1,000,000 new shares, each with a nominal value of 0.2 RON / share. The share capital increase was carried out in order to expand the activity of the issuer, by establishing two new companies in the United Kingdom of Great Britain and Northern Ireland and in the United States of America, entities that will be responsible for the promotion and sale of Safetech Innovations solutions and services on foreign markets.

The registration date for the share capital increase was 31.08.2021, ex-date 30.08.2021, and 01.09.2021 was the date when the pre-emptive rights were loaded into the shareholders' accounts. In the same AGM, the establishment of two companies, one in Great Britain and one in the USA, partly owned by the Company, as an associate with a percentage of at least 67% of the share capital, was also approved.

In the first semester of 2022, the company registered an increase in the share capital, thus the number of shares increases to 66,500,000 shares, totaling 13,300,000 RON. The nominal value of the shares being 0.2 RON/share.

On September 30, 2023, the shareholding structure is as follows:

SAFETECH INNOVATIONS S.A.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

Ownership structure	<u>No. shares</u>	<u>Percentage</u>
Victor Gansac	21.014.928	31,6014%
Paul Rusu	21.000.000	31,5789%
Other shareholders	<u>24.485.072</u>	<u>36,8197%</u>
Total	66.500.000	100%

Reserves

Total other reserves included in capital components:	1 January - 30 September 2023	1 January - 31 Dec 2022
Legal reserves	1.090.284	1.090.284
Other reserves (other funds)	29.782	29.782
Reported result	11.427.914	1.543.408
Total other reserves	12.547.980	2.663.473

Legal reserves

The company establishes legal reserves in accordance with the law of commercial companies, which stipulates that 5% of the annual profit before tax be transferred to "Legal reserves" until the reserve reaches the threshold of 20% of the share capital. Legal reserves are not distributable.

Other reserves

Other reserves include distributions of profits related to the years prior to 2022. These reserves are available for distribution in the form of dividends.

15. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

As detailed in the accounting policies, the Company applies a defined employee benefit plan. The plan requires the company to pay the social insurance contribution for employees, in the public pension fund.

As part of its current activity, the Company makes payments to the Romanian state for the benefit of its employees. All employees of the company are included in the pension plan of the Romanian State. The company does not operate any other pension scheme or post-retirement benefit plan and, consequently, has no obligation regarding pensions. In addition, the Company has no obligation to provide additional benefits to former or current employees.

Retirement benefits: The Collective Labor Agreement does not provide for any benefits that the Company must grant to employees upon retirement based on seniority within the Company and that could have an impact on the financial statements.

In 2022, the company approved the implementation of a plan to reward and motivate the Company's key personnel by granting free shares in the future.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

16. TRADE AND OTHER LIABILITIES (CURRENTS)

Trade and other liabilities	1 January - 30 September 2023	1 January - 31 December 2022
Local trade debts	2.204.039	7.652.943
Foreign trade debts	109.862	608.616
Liabilities for purchases of fixed assets	0	(16)
Advances received and other liabilities	3.547	3.547
Lease liabilities	1.462.097	1.100.335
Total	3.779.545	9.365.425

Trade payables increased compared to the previous year as a result of the increase in the company's activity.

Other current liabilities	1 January - 30 September 2023	1 January - 31 Dec 2022
Wages	495.789	439.735
Contributions and taxes wages	385.593	540.652
VAT	813.703	737.578
Dividends	3.529	1.415
Revenues registered in advance	-	-
Other liabilities	290	104
Total	1.698.902	1.719.484

The terms and conditions of the financial debts mentioned above:
Commercial debts do not bear interest and are usually settled within 30 - 90 days.

For explanations of the Company's liquidity risk management processes, see the information below.

17. RELATED PARTIES

17.1 Nature of transactions with affiliated entities and other related parties

An entity is affiliated to another entity if:

a) directly or indirectly, through one or more entities:

- controls or is controlled by the other entity or is under the common control of the other entity (this includes parent companies, subsidiaries or member subsidiaries);
- has an interest in the said entity, which gives him significant influence over it; or
- has joint control over the other entity;

b) represents an associated entity of the other entity;

c) represents a joint venture in which the other entity is associated;

d) represents a member of the key management staff of the unit or its parent company;

e) represents a close member of the family of the person mentioned in letter a) or d);

SAFETECH INNOVATIONS S.A.**NOTES AT FINANCIAL STATEMENTS**

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

f) represents an entity that is controlled, jointly controlled or significantly influenced or for which the significant voting power in such an entity is given, directly or indirectly, by any person mentioned in letter d) or e); or

g) the entity represents a post-employment benefit plan for the benefit of the employees of the other entity or for the employees of any entity related to such company.

➤ **Details about other affiliated parties in 2023 and 2022:**

Company name	Nature of relationship	Transaction type	Country	Headquarters
Safetech Intelligence SRL	Affiliated company	Commercial transactions	Romania	Bucharest
Betamont Infrastructure G.E.L.E.	Affiliated company	No transactions	Romania	Bucharest
Safetech Innovation Global Services Limited	Affiliated company	Commercial transactions	London	United Kingdom

17.2 Amounts due and receivable from affiliated entities and other related parties

Receivables and debts from/to affiliated entities / other related parties

	1 January - 30 September 2023	1 January - 31 December 2022
Creanțe Safetech Intelligence S.R.L	-	393.043
Creanțe Safetech Innovation Global Services Limited	-	-

Compensation granted to the Company's key management personnel

Administrators, directors and the supervisory committee

The Company paid the following amounts to administrators, directors which include allowances, dividends and taxes:

	1 January - 31 September 2023	1 January - 31 December 2022
Total	1.012.414	1.906.419

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

On September 31, 2023, the Company had a remunerated Board of Directors, the President of the Board of Directors being part of the executive management.

On September 31, 2023, the Company had no obligation regarding the payment of pensions to former associates or members of the executive management.

At the end of the financial year, there were no guarantees or future obligations assumed by the Company on behalf of the administrators or directors.

In 2022, the company approved the implementation of a stock option plan to reward and motivate the Company's key personnel by granting free shares in the future. Among the people included in the key personnel who will benefit from this plan are also the members of the board of directors.

18. COMMITMENTS AND CONTINGENCIES

Commitments from financing contracts:

In 2017, the company concluded a financing contract through the competitiveness operational program with the title: "Integrated information security management system within an Organization".

Also, in 2020, the Company concluded a financing contract through the competitiveness operational program with the title: "Centre of excellence for cyber security and resilience of critical infrastructures" (SafePIC) SMIS Code 2014+:120436, Call Code: POC/222/1/ 3/ Stimulating the demand of enterprises for innovation through CDI projects carried out by enterprises individually or in partnership with CD institutes and universities, in order to innovate processes and products in economic sectors with growth potential (MDR).

In order to advance the sustainability of the "Centre of excellence for cyber security and resilience of critical infrastructures (SafePIC)" project, the management of the company committed to consider the following measures:

- Looking at supporting ROI, Safetech Innovations has obtained expressions of interest / pre-orders from interested companies, confirming market interest in the product.
- In preparing the financial forecasts, the principle of prudence was especially taken into account - revenues being estimated in a slightly pessimistic manner;
- The financial sustainability of the project presupposes its ability to support itself from this point of view (in the worst case assuming the relationship income = expenses). The way in which the activity after the termination of the non-reimbursable financing is conceived and thought also takes into account the obtaining of profit (Revenue-Profit = Expenses). Thus, possible slightly erroneous estimates such as oversized revenues or undersized expenses would not make the company's activity unsustainable, diminishing the estimated profit to begin with.

The company has demonstrated that the enterprise has the ability to generate income from the capitalization of the project results, as well as the ability to cover the operating and maintenance costs after the end of the non-refundable financing, resulting from the commercialization of the products/services/technology obtained from the project, at least during the sustainability period of the 36-month project.

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

Over the entire analyzed time horizon, the cash flow is positive.

The applicant's ability to support itself financially in the period after implementation is also supported by the financial results that the company has had from a financial point of view since the beginning of its establishment, results obtained through effective financial management. Thus, the company's turnover over the period 2011-2014 evolved from 1,288,644 lei to 9,115,976 lei, maintaining an upward trend throughout the period.

Considering the overall evolution of the company, the risk that the company will not be able to meet its objectives regarding the expected return on investment is low. From the point of view of technical sustainability, the main objective is to keep the innovative cyber security solution in optimal functional conditions.

The main measures (without being the only ones taken) undertaken by the company's management in this regard are the following:

- Keeping all staff in the operating team, staff selected on the basis of competence and skills criteria, details given in chapter C of the business plan; for a good performance of the operation stage, the ideal way of working is for the personnel who were involved in the implementation stage to ensure the continuity of the activity during the sustainability period.
- 4 new jobs for qualified personnel in the field of cyber security, covering any current gap in the company in terms of technical requirements;
- The training of the personnel who will subsequently ensure the maintenance of the product developed through the project, as well as the training of trainers who will ensure the training of the personnel to whom the product is directly addressed;
- Ensuring continuous training for all members of the operating team;
- Developing a manual with procedures for using the developed product;
- Carrying out the technical audit is an additional measure to ensure sustainability from a technical point of view. Considering the measures taken, it can be stated that the sustainability of the results of the project proposed for financing will be supported both administratively, technically and financially. In addition, the existence of pre-orders and letters of interest confirm the market validation of the product developed by the project.

According to both financing contracts, the Company has the obligation to submit annual Sustainability Reports, after submitting the financial statements to ANAF, for the entire duration of the project, starting with the first calendar year following the year in which the implementation was completed.

Sustainability reports shall contain at least the following types of data and information regarding:

- a. changes to the beneficiary's status and identification data;
- b. how and where infrastructures, equipment and assets are used;
- c. how infrastructure investment or productive investment continues to generate results.

According to the financing agreements, in the case of projects that include productive or infrastructure investments and that are not co-financed from the ESF, the sustainability period of the project is a minimum of 3 years for the beneficiaries in the SME category, respectively a minimum of 5 years for the other categories of beneficiaries upon making the final payment under this contract or the period provided for in the state aid regulations, whichever is greater.

If the project includes investments in infrastructure or production, the beneficiary (unless the beneficiary is an SME) has the obligation not to relocate the production activity outside the European

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

Union, within 10 years of making the final payment. If the contribution from the ESI funds takes the form of state aid, the 10-year period is replaced by the deadline applicable according to the rules on state aid.

The sustainability analysis of the project is carried out by the OIC based on the Sustainability Reports prepared by the beneficiary and the monitoring visits, in order to ensure the sustainability of the projects, as well as the fact that all contributions from the funds are attributed only to projects that, within 3/5 years after their conclusion, were not affected by any change in the category of those stated below, respectively:

- i. a substantial change affecting their nature, objectives or conditions of achievement and which would cause their original objectives to be undermined;
- ii. a change in the ownership of an infrastructure element that gives an unjustified advantage to an enterprise or a public body;
- iii. termination or relocation of a productive activity outside the eligible area

Other commitments and contingencies:

Tax - All sums owed to the State for fees and taxes have been paid or recorded at the balance sheet date.

The company considers that it has paid on time and in full all the fees, taxes, penalties and penalty interest, to the extent that it is the case.

The Romanian tax authorities did not carry out checks.

In Romania, the fiscal year remains open for checks for a period of 5 years.

Transfer price - In accordance with the relevant tax legislation, the tax assessment of a transaction made with related parties is based on the concept of the market price related to that transaction. Based on this concept, transfer prices must be adjusted to reflect market prices that would have been established between entities that do not have an affiliation relationship and that act independently, based on "normal market conditions".

During the reporting period, there were no transactions with related parties and there is a transfer price risk.

The Board of Directors reviews and agrees to the management policies for each of these risks which are briefly presented below.

Business plan risk – Safetech operates in what can still be considered a niche market, especially in Romania. The company aims for sustainable growth, based primarily on legislative changes at the level of the European Union, which will require companies in important sectors of activity, such as energy, utilities, critical infrastructure or in the financial-banking sector, to implement strict security measures cybernetics. However, in the past, the entry into force of such laws has been delayed in Romania, and management cannot predict or influence such situations in the future, which may have a direct impact on the realization of forecasts.

Key personnel risk – the success and ability to deliver projects to clients is highly dependent on staff skills, motivation and loyalty. The Romanian IT market is very competitive and there are risks that employees may leave the company. To manage these risks, Safetech has adapted a number of

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

measures: offering a competitive compensation package and promotion opportunities, constant recruitment even when there are no ongoing projects just to be able to always meet the growing demand from customers. In addition, the company actively recruits early-career IT specialists, offering them training and development opportunities. Due to this aspect, the share of salaries in the general costs of doing business is the most significant, but this helps the company to maintain its competitiveness. However, it is not guaranteed that Safetech will always be able to find the necessary number of qualified personnel, especially in the field of ethical hacking, which is highly specific and requires very specific skills.

The risk associated with making forecasts – financial forecasts start from the premise of fulfilling the business development plan. The company aims to periodically issue forecasts regarding the evolution of the main economic-financial indicators in order to provide potential investors and the capital market with a true and complete picture of the current situation and the future plans envisaged by the company, as well as current reports detailing the comparative elements between the forecasted data and the actual results obtained. The forecasts will be part of the annual reports, and the forecasting policy is published on the company's website [HERE](#). Forecasts are made in a prudent manner, but there is a risk of their non-fulfilment, therefore, the data to be reported by the company may be significantly different from those forecasted or estimated, as a result of factors that were not previously foreseen or whose negative impact could not be counteracted or anticipated.

Price risk - in 2016, in order to reduce price risk, the management decided to change the business strategy and focus on value-added services to the detriment of the sale of hardware, which in previous years contributed a significant share of revenues, but instead had a small profit margin. Thus, since 2017, the company has adjusted its model, focusing on the delivery of value-added services and increasing profitability. Given the nature of Safetech's business, the risk of commoditization of the business, i.e. the risk of the service or technology becoming very widespread and widely adopted, is reduced because the company relies heavily on the skills of its team of ethical hackers. Since the cost of hiring qualified IT professionals is very high not only in Romania, but also in the whole world, the risk that a competitor could force the company to lower the price of services in order to maintain its position in the market is relatively low. However, the management actively monitors the local and international markets to be able to always provide value-added services and maintain a leading position in the local market.

Cash-flow risk – this represents the risk that the company will not be able to honor its payment obligations when due. A prudent cash-flow risk management policy involves maintaining a sufficient level of cash, cash equivalents and financial availability through appropriately contracted credit facilities. The Company monitors the level of forecasted cash inflows from the collection of trade receivables, as well as the level of forecasted cash outflows for the payment of trade and other payables. Thanks to this business model, which includes providing monitoring services for a fixed monthly fee, the company manages to maintain a healthy cash flow.

Credit risk – this is the risk that a third party natural or legal entity will not fulfill its obligations under a financial instrument or under a customer contract, thus leading to a financial loss. The Company is exposed to credit risk from its operating activities and its financial activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Company manages this risk by carefully selecting customers and having a strict procedure for documenting orders and the provision of services or delivery of goods.

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

Liquidity risk – liquidity risk is associated with holding immovable or financial assets. The company's activity does not depend on holding immovable or financial assets and turning them into liquid assets. The company does not own any financial assets. The fixed assets of the company, mainly technological equipment, are used in the current activity of providing services.

Currency risk – the possibility of recording losses from international commercial contracts or other economic relationships, due to changes in the exchange rate of the currency in the period between the conclusion of the contract and its maturity. As the company plans to expand into other international markets, from Europe or the US, it will be exposed to this type of risk.

Personal data protection risk – in the course of its business, the company collects, stores and uses data that is protected by personal data protection laws. Although the issuer takes precautionary measures to protect customer data, in accordance with the legal requirements regarding the protection of privacy, especially in the context of the implementation of the General Data Protection Regulation (EU) 2016/79 and in Romania (starting from May 25, 2018), data leakage risks cannot be completely eliminated. The Company considers this risk and takes precautions to protect customer data in accordance with applicable legal requirements. The Issuer takes all necessary precautions in this area, but there is a possibility that, considering that it carries out commercial relations with various contractual partners, they may not fully comply with the relevant contractual terms and all the data protection obligations imposed on them.

Competition risk - the entry of new competitors into the market, especially from outside Romania, will intensify competition and put pressure on the company's activity, with the risk of recording a decrease in profit and even its insolvency.

The risk of loss of reputation - is a risk inherent in the company's activity, reputation being particularly important in the business environment, especially in its field of activity, cyber security. Reputational risk is inherent in Safetech's business. The ability to retain and attract new customers also depends on the recognition of the Safetech brand and its reputation for service quality in the market. A negative public opinion of the company could result from actual or perceived practices in the cybersecurity market in general, such as negligence during the provision of services or even the way Safetech conducts or is perceived to conduct its business.

General economic risks - the issuer's activities are sensitive to economic cycles and general economic conditions. Both international financial crises and the unstable economic environment can have significant negative effects on the activity, operational results and financial position of the issuer. Socio-political turmoil can also impact the company's business. The international financial markets felt the effects of the global financial crisis that started in 2008. These effects were also felt on the Romanian financial market in the form of the low liquidity of the capital market, as well as through an increase in medium-term financing interest rates, because of the global liquidity crisis. In the future, such a scenario could be repeated and possible significant losses suffered by the international financial market, with major implications on the local market, could affect the Issuer's ability to obtain new loans or financing, under sustainable conditions.

Pandemic risk - although ignored in the last decades, this risk (especially the risk of global epidemics, respectively the risk of pandemics) has returned to the public's attention. Although for some companies these may become opportunities, at least in the short term, the overall economic impact is considered to be negative. Thus, there are opinions that, depending on the nature and severity of the pandemic, it can induce recessions lasting a quarter, or even several years. In conditions where the reactions of the public authorities and/or the medical community would not be the right ones,

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

there is even a risk of a depression that would lead to important reductions in economic activity and in the price of most assets. For example, in the first months of 2020, a coronavirus pandemic (SARS-COV-2), known as COVID-19, emerged. This pandemic has resulted in declines of more than 25% from their most recent highs for major stock indices globally. This has similarly influenced the local capital market. Moreover, internationally, most major asset classes have been severely negatively impacted, even those that traditionally function as havens for investors.

Fiscal and legal risk - the issuer is governed by Romanian legislation and even if Romanian legislation has been largely harmonized with European Union legislation, subsequent changes may occur, respectively new laws and regulations may be introduced, which may produce effects on the company's activity. Legislation in Romania is often unclear, subject to different interpretations and implementations and frequent changes. Both the modification of fiscal and legal legislation, as well as possible events generated by their application, can materialize in possible fines or lawsuits filed against the company, which can impact the activity of the issuer.

The risk associated with other types of litigation - in the context of the performance of its activity, the issuer is subject to a risk of litigation, among others, as a result of changes and development of legislation. The issuer may be affected by other contractual claims, complaints and litigation, including from counterparties with whom it has contractual relationships, customers, competitors or regulatory authorities, as well as any adverse publicity that such an event attracts. At the time of writing this report, Safetech Innovations S.A. was not involved in any litigation in an active or passive procedural capacity.

Risk of garnishment of the issuer's accounts - garnishment is an enforcement measure that can be applied to a company. Thus, the issuer's accounts may be blocked as a result of the seizure, if the issuer's creditors request this measure to recover their claims. The garnishment of the Company's accounts entails the blocking of the amounts in the garnished accounts and may lead to the difficulty or impossibility of the Company to honor its subsequent obligations, in the agreed terms.

Risk associated with insolvency and bankruptcy - Romanian bankruptcy and enforcement legislation does not offer the same level of rights, remedies and projections enjoyed by creditors under the legal regimes of other European Union jurisdictions. In particular, Romanian bankruptcy and enforcement law and practice may make the company's recovery of amounts related to secured and unsecured claims in Romanian courts much more difficult and time-consuming compared to other countries.

Risks related to investments in Romania, in an economic and political context - Romania's economy is vulnerable in conditions of regional or international recession, financial and economic problems at a general level can be felt more acutely in certain markets or 28 sectors. Also, political and social changes can be an unpredictable factor. Romania does not possess all the business, legal and regulatory infrastructure that would exist in a developed economy. The legislation is subject to varying interpretations and is frequently amended.

Other risks - potential investors should consider that the risks presented above are the most significant risks of which the company is aware at the time of writing this report. However, the risks presented in this section do not necessarily include all those risks associated with the activity of the issuer, and the company cannot guarantee that it includes all relevant risks.

There may be other risk factors and uncertainties of which the company is not aware at the time of writing the report and which may change the actual results, financial conditions, performance and achievements of the issuer in the future and may lead to a decrease in the price of the company's

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

shares. Investors should also undertake the necessary due diligence in order to make their own assessment of the investment opportunity.

Impact on the environment The professional activity of Safetech Innovations has no impact on the environment. There is no litigation and no litigation is expected to arise related to environmental protection.

The company is exposed to credit risk, liquidity risk and market risk (mainly currency risk). The Company's management oversees the management of these risks. All activities related to derivative financial instruments aimed at managing risks are carried out by teams of specialists who have the appropriate skills, experience and supervision. It is the Company's policy not to carry out transactions with derivative financial instruments for speculative purposes.

Currency risk - Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in exchange rates. The Company's exposure to the risk of changes in the exchange rate mainly refers to the Company's operating activities (when revenues or expenses are denominated in a currency other than the Company's functional currency).

The company has transactions in currencies other than its functional currency (RON).

The exposure to exchange rate risk (mainly due to the EUR and USD currencies) is not significant, so the Company does not use risk hedging instruments.

The detail of financial instruments in foreign currencies is presented as follows (the amounts are expressed in RON equivalent):

30 September 2023	<u>Total</u>
Trade receivables	7.022.196
Cash and cash equivalents	<u>2.145.178</u>
Total assets (1)	<u>9.167.374</u>
Liabilities	<u>2.317.448</u>
Short terms loans	-
Lease Liabilities	<u>301.866</u>
Other current liabilities	<u>1.698.902</u>
Total liabilities (2)	<u>4.318.216</u>
Difference (1)-(2)	<u>4.849.158</u>

31 December 2022	<u>Total</u>
Trade receivables	7.241.506
Cash and cash equivalents	<u>3.545.474</u>
Total assets (1)	<u>10.786.981</u>
Liabilities	8.261.543

SAFETECH INNOVATIONS S.A.**NOTES AT FINANCIAL STATEMENTS**

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

31 December 2022	Total
Short terms loans	-
Lease Liabilities	280.835
Other current liabilities	1.719.484
Total liabilities (2)	10.261.862
Difference (1) - (2)	525.119

The sensitivity of the currency risk

The sensitivity to a reasonable possible change in the exchange rate of the US dollar and EUR (of 10%), all other variables being kept constant, of the Company's profit before taxation (due to changes in the value of monetary assets and liabilities) is considered by the Company to have in insignificant impact. The Company's exposure to currency changes in any other currencies is not significant.

Credit risk

Credit risk is the risk that a counterparty will not fulfill its obligations under a financial instrument or under a customer contract, thus leading to a financial loss. The company is exposed to credit risk from its operating activities (mainly for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

The credit risk of customers is managed by the Company, subject to the established policy; however, the Company considers that the credit risk on the receivables is small. The receivables balance is monitored at the end of each reporting period and any major delivery to a customer is analysed. Impairment indicators are analyzed at each reporting date.

The company assesses the risk concentration regarding trade receivables as low.

Financial instruments and cash deposits

The credit risk resulting from balances at banks and financial institutions is managed by the Company's treasury department, according to the Company's policies. The Company's maximum exposure to credit risk for the components of the financial position statement is represented by the accounting values illustrated in Note 12.

Liquidity risk

The company monitors its risk of facing a shortage of funds using a recurring liquidity planning tool.

On September 30, 2023, the Company has no long-term financing (neither from commercial partners, nor debts to financial institutions).

All the Company's debts on September 30, 2023 will be due in less than 1 year, with the exception of the leasing debt.

The table below details the maturity profile of the Company's trade receivables and financial liabilities:

NOTES AT FINANCIAL STATEMENTS

For the 9-month period ending on September 30, 2023 (all amounts are expressed in RON, unless otherwise stated)

On September 30, 2023	<u><30 days</u>	<u>30 – 60 days</u>	<u>60 - 120 days</u>	<u>>120 days</u>	<u>Total</u>
Trade and other receivables	5.969.157	803.820	154.699	94.521	7.022.196
Cash and cash equivalents	2.145.178	0	0	0	2.145.178
Total Assets	8.114.335	803.820	154.699	94.521	9.167.374
Trade payables	1.403.041	201.933	72.934	639.540	2.317.448
Financial debts	1.698.902	0	0	0	1.698.902
Lease liabilities	24.014	24.063	47.289	205.500	301.866
Total liabilities	3.125.957	225.995	121.224	845.040	4.318.216

19. SUBSEQUENT EVENTS

On November 1, 2023, the Company informed the market about the conclusion of a significant framework agreement, which value exceeds 10% of the total revenue of the last annual financial statements, for the provision of monthly and annual services to ensure cyber protection and computer infrastructure resilience. The contract has a total value of RON 4,045,844.26 (VAT excluded) and was concluded for a period of 48 months, starting with October 31, 2023.