Alicante, 30th of April 2020

COMMUNICATION – CORPORATE ACTION NOTICE – FACEPHI BIOMETRIA, S.A.

Dear Sirs,

Under the provisions of article 17 of the Regulation (EU) No. 596/2014 on market abuse, and article 228 of the consolidated text of the Spanish Securities Market Law, approved by the Royal Legislative Decree 4/2015, of 23rd October, and related provisions, as well as in the Circular 6/2018 of Mercado Alternativo Bursátil (MAB), we inform you about the yearly financial report for 2019 related to the company FACEPHI BIOMETRIA, S.A. (hereinafter "FacePhi" or "the Company", interchangeably).

- Independent audit report for the Company's yearly financial statement for 2019.
- Company's yearly financial report for 2019, formulated together with the management report.

We will remain at your disposal should you have any queries.

Cordially,

Salvador Martí Varó
Chairman of the Board of Directors

About Facephi

FacePhi Biometría, S.A. specializes in multi-factor biometric solutions and in particular in the banking sector. The company commercializes a combination of biometric and other security systems that creates a complete digital onboarding and identity authentication solution that allows to access, verify and operate different services and products in mobile and web applications.

FACEPHI BIOMETRÍA, S.A.

Auditor´s Report,
Annual Accounts and Director’s Report
for the year ended December 31, 2019

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

INDEPENDENT AUDITOR´S REPORT ON THE ANNUAL ACCOUNTS

To the shareholders of FacePhi Biometría, S.A.

REPORT OF THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of FacePhi Biometría, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2019, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

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

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

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

Key Audit Matters

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

Capitalization and valuation of Development Expenses as an intangible asset

Risk description

The intangible assets recorded under the heading of Development Expenses correspond to the costs incurred in the development of software and technological solutions that are marketed by the Company and that constitute its main activity. As indicated in note 4 of the notes to the annual accounts, the development costs that have been capitalized in the financial year of 2019 amount to 483 thousand euros. The net value of the total capitalized development expenses on the balance sheet as of December 31, 2019 amounts to 1,225 thousand euros, which represents 25% of the total assets on the balance sheet, which motivates us to consider this issue as a key audit issue.

Additionally, the capitalization of this type of asset requires the judgment of the Company Management to assess whether the costs incurred meet the recognition criteria established in the valuation rules 5 and 6 of the General Accounting Plan and in the accounting policies of the Company. In this sense, development costs are capitalized by the Company as long as the technical viability of the project has been established, it is reasonably estimated that its cost will be recovered in the future and the asset can be measured reliably.

Audit response

Our audit procedures have included, among others:

- the evaluation of the controls established by the Management related to the capitalization and subsequent valuation of the recovery of the assets,
- We have carried out detailed tests on the additions for the year,
- We have obtained evidence such as technical information and business plans to verify whether capitalized development costs comply with the regulations for their recognition as an asset and, in turn, provide a reasonable basis of judgment on the existence of a commercially active market. and an expectation of economic benefits in the future,
- we have evaluated the assumptions and estimates used by the Company to determine the criteria and amortization periods, as well as the evaluation by the Company's Management of their possible deterioration,
- finally, we have evaluated the adequacy of the disclosures included by the Company in the accompanying annual accounts (see notes 3.1 and 4).

Revenues recognition

Risk description	As indicated in notes 3.12 and 13 of the attached report, almost all of the Company's turnover is derived from the sale of the rights to use (licensing, maintenance and support) of the recognition technology software by facial biometrics. In accordance with the various modalities of licensing, temporary or perpetual, the accrual periods and therefore of recognition and imputation to the ~~income~~ profit and loss account of the income, including those of support and maintenance, require estimation processes that, together with the contractual conditions have a significant impact on the amount and the moment in which the Company recognizes the corresponding income for the provision of the service, which is why we have considered this area as a key audit matter.
Audit response	Our main audit procedures included at the end of the year ended December 31, 2019, among others: • understanding of the internal process related to revenue recognition, • evaluation of controls over the process of generating and making licenses available to customers, • applying substantive procedures by reviewing a significant number of licensing contracts, • obtaining external confirmations for a sample of clients pending collection, carrying out, where appropriate, alternative verification procedures using supporting documents for subsequent collection or supporting documentation for the provision of the service or the provision of licenses, • finally, based on a sample obtained from the management programs on the transfer of licenses as of December 31, 2019, we have verified the accrual basis and imputation of income in the appropriate period.

Other information: Director´s report

Other information comprises only the Director´s report for the 2019 financial year, the formulation of which is the responsibility of the Company´s directors and does not form an integral part of the annual accounts.

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

On the basis of the work performed, as described in the previous paragraph, the information contained in the Director´s report is consistent with that contained in the annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

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

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

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

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

Auditor's responsibilities for the audit of the annual accounts

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company´s directors.
- Conclude on the appropriateness of the directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company´s

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on other legal and regulatory requirements

The opinion expressed in this report is consistent with that expressed in our additional report to ~~for~~ the Company's audit committee dated April 26, 2019.

Appointment period

The Ordinary General Shareholders' Meeting held on June 15, 2017 appointed us as auditors for a period of 3 years, counted from the year ended on December 31, 2017. Therefore, this report is the third and last one referring to the period for which we have been appointed as auditors of the Company.

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

Original signed in Spanish by
Rafael Nava Cano
Registered in ROAC under Nº 11494
April 27, 2020

FACEPHI BIOMETRÍA, S.A.

Pursuant to the requirements established by the Corporations Act and the Code of Commerce, on 21st April 2020, the Board of Directors of the Company FacePhi Biometría S.A. proceeded to prepare the Financial Statements corresponding to financial year ending 31st December 2019, comprising 46 pages printed on both sides and numbered 1 to 46, as well as the management report for the same period containing 14 pages numbered from 1 to 14, both inclusive.

Likewise, the Board of Directors has empowered Mr. Juan Alfonso Ortiz Company in his capacity as the Secretary to the Board to sign off all pages in the above documents.

BOARD OF DIRECTORS

Salvador Martí Varó
Chairperson-Chief executive of the Board

Javier Mira Miró
Deputy-Chief executive of the Board

Juan Alfonso Ortiz Company
Secretary Board member

Fernando Orteso de Travesedo
Independent Board member

David J. Devesa Martínez
Board Member

FACEPHI BIOMETRÍA, S.A.

Financial statements and management report for financial year ended 31st December 2019

Financial statements' contents

Management report

Balance sheet
31st December 2019
(In Euros)

ASSETS	NOTES TO THE REPORT	2019	2018
A) NON-CURRENT ASSETS		**2,374,710**	**2,200,411**
I. Intangible fixed assets	4	**1,610,565**	**1,249,975**
II. Tangible fixed assets	5	**38,983**	**41,319**
IV. Non current investments in group and associated companies	15	**169,315**	**0**
1. Equity instruments		81,264	0
2. Companies' payables		88,051	0
V. Non current financial investments	8	**497,985**	**488,749**
VI. Deferred tax assets	12.4	**57,862**	**420,368**
B) CURRENT ASSETS		**8,740,045**	**4,397,162**
III. Trade and other receivables	8	**8,276,623**	**3,803,919**
1. Trade accounts receivables		8,179,920	3,517,661
3. Other receivables		301	4,760
4. Staff		1,200	250
6. Other Public Authorities' receivables	12.1	30,202	281,248
V. Current financial investments	8	**5,004**	**200,587**
VI. Short term accruals		**71,737**	**5,080**
VII. Cash and cash equivalents	9	**386,682**	**387,576**
TOTAL ASSETS		**11,114,755**	**6,597,573**

EQUITY AND LIABILITIES	NOTES TO THE REPORT	2019	2018
A) EQUITY		**4,382,194**	**2,588,176**
A-1) Shareholders' equity	10.1	**4,215,602**	**2,371,286**
I. Capital		**542,766**	**531,083**
II. Share premium		**2,812,602**	**2,323,993**
III. Reserves		**610,194**	**464,975**
IV. (Treasury stock and shares)		**(240,354)**	**(150,723)**
V. Profit/ loss in previous financial years		**(798,042)**	**(1,965,517)**
VII. Profit/loss in current financial year		**1,288,436**	**1,167,475**
A-3) Grants, donations and legacies received	10.2	**166,592**	**216,890**
B) NON-CURRENT LIABILITIES		**533,955**	**675,504**
I. Non-current provisions		**5,675**	**5,675**
II. Non current debt	11	**472,750**	**597,533**
2. Debt with financial institutions		472,750	591,693
5. Other financial liabilities		0	5,839
IV. Deferred tax liabilities	12.4	**55,531**	**72,297**
C) CURRENT LIABILITIES		**6,198,606**	**3,333,893**
III. Current debt	11	**2,604,038**	**1,914,257**
2. Financial institutions payables		2,598,262	1,893,335
5. Other financial liabilities		5,776	20,921
V. Trade and other payables	11	**2,743,736**	**1,047,400**
1. Suppliers		0	251
3. Other payables		2,505,495	776,227
4. Staff (outstanding salaries)		91,531	21,244
6. Other Public Authorities' payables	12.1	146,710	249,678
VI. Short term accruals	13.a	**850,832**	**372,236**
TOTAL EQUITY AND LIABILITIES		**11,114,755**	**6,597,573**

Notes 1 to 19 in the report are part of the profit/ loss account at 31st December 2019

Profit and loss account for financial year ending 31st December 2019

(In Euros)

	NOTES TO THE REPORT	(Debits) Credits 2019	2018
A) CONTINUED OPERATIONS			
1. Net Revenue	**13.a**	**8,194,946**	**4,480,826**
b) Services provided		8,194,946	4,480,826
3. Work undertaken by the Company on its own assets	**4 and 13.b**	**594,556**	**482,866**
4. Supplies	**13.c**	**(1,095,910)**	**(120,022)**
a) Consumption of goods		(567)	0
c) Work undertaken by third party companies		(1,095,343)	(120,022)
5. Other operating income		**9,731**	**574,208**
a) Additional and other ordinary income		9,731	9,443
b) Operating grants incorporated to profit and loss	**13.d**	0	564,765
6. Staff expenses	**15**	**(1,944,543)**	**(1,716,115)**
a) Salaries, remunerations and similar expenses		(1,748,177)	(1,552,343)
b) Social contributions		(196,366)	(163,731)
c) Provisions		0	(41)
7. Other operating expenses	**13.f**	**(3,445,081)**	**(2,486,192)**
a) External services		(2,756,624)	(2,484,388)
b) Tax		(805)	(1,804)
c) Loss, impairment and variations in provisions for commercial operations	**7**	(687,652)	0
8. Fixed assets depreciation	**4 and 5**	**(458,285)**	**(366,088)**
9. Allocation of grants related to non-financial fixed assets and other	**10.2 and 13.e**	**67,063**	**55,610**
13. Other profit/ loss		**7,794**	**8,622**
A.1) OPERATING PROFIT/ LOSS (1+2+3+4+5+6+7+8+9+10+11+12+13)		**1,930,272**	**913,716**
14. Financial income		**358**	**50**
15. Financial expenses		**(123,547)**	**(55,523)**
b) From third party payables		(123,547)	(55,443)
16. Variations in the fair value of financial instruments		**0**	**(234)**
17. Exchange rate differences	**13.g**	**(88,637)**	**(5,449)**
A.2) FINANCIAL PROFIT/ LOSS (14+15+16 +17+18+19)		**(211,826)**	**(61,156)**
A.3) PROFIT/ LOSS BEFORE TAX (A.1 + A.2)		**1,718,446**	**852,559**
20. Income tax	**12.3**	**(430,010)**	**314,916**
A.4) PROFIT/LOSS FROM CONTINUED OPERATIONS (A.3 +20)		**1,288,436**	**1,167,475**
A.5) PROFIT/LOSS FOR FINANCIAL YEAR (A.4 + 21)		**1,288,436**	**1,167,475**

Notes 1 to 19 in the report are part of the profit/ loss account at 31st December 2019

STATEMENT OF CHANGES IN EQUITY
A) Statement of recognised income and expense as at 31st December 2019
(In Euros)

	Notes to the report	2019	2018
A) PROFIT/LOSS ACCOUNT BALANCE		**1,288,436**	**1,167,475**
INCOME AND EXPENSES POSTED TO EQUITY			
III. Grants, donations and legacies received	***10.2***	0	113,945
VII. Tax effects	***12.4***	0	(28,486)
B) TOTAL INCOME AND EXPENSES POSTED TO EQUITY		**0**	**85,459**
TRANSFERS TO PROFIT/ LOSS ACCOUNT			
X. Grants, donations and legacies received	***10.2***	(67,063)	(55,610)
XIII. Tax effects	***12.4***	16,766	13,903
C) TOTAL TRANSFERS TO PROFIT/ LOSS ACCOUNT		**(50,298)**	**(41,708)**
TOTAL RECOGNISED INCOME AND EXPENSES (A + B + C)		**1,238,139**	**1,211,226**

B) Statement of changes in equity corresponding to financial year ending on 31st December 2019
(in Euros)

	Share capital Subscribed	Share premium	Reserves	Treasury stock and shares	Profit/loss in previous financial years	Profit/loss in current financial year	Grants, donations and legacies	TOTAL
A. BALANCE, AT THE END OF FINANCIAL YEAR 2017	**531,083**	**2,323,993**	**454,336**	**(134,672)**	**(2,330,419)**	**364,902**	**173,139**	**1,382,362**
I. Adjustments for changes in accounting criteria in financial year 2017 and previous								
II. Adjustments due to errors in financial year 2017 and previous.								
B. ADJUSTED BALANCE AT START OF FINANCIAL YEAR 2018	**531,083**	**2,323,993**	**454,336**	**(134,672)**	**(2,330,419)**	**364,902**	**173,139**	**1,382,362**
I. Total recognised income and expenses.						*1,167,475*	*43,751*	*1,211,226*
II. Transactions involving partners or shareholders.			*10,639*	*(16,051)*				*(5,412)*
1. Increase in share capital.								
5. Transactions involving own stocks or shares (net).			*10,639*	*(16,051)*				*(5,412)*
III. Other equity variations.					*364,902*	*(364,902)*		
2. Other variations.					364,902	(364,902)		
C. BALANCE AT THE END OF FINANCIAL YEAR 2018	***531,083***	***2,323,993***	***464,975***	***(150,723)***	***(1,965,517)***	***1,167,475***	***216,890***	***2,588,176***
I. Adjustments for changes in accounting criteria in financial year 2018								
II. Adjustments due to errors in financial year 2018								
D. ADJUSTED BALANCE AT START OF FINANCIAL YEAR 2019	***531,083***	***2,323,993***	***464,975***	***(150,723)***	***(1,965,517)***	***1,167,475***	***216,890***	***2,588,176***
I. Total recognised income and expenses.						*1,288,436*	*(50,298)*	*1,238,139*
II. Transactions involving partners or shareholders.	*11,682*	*488,609*	*145,219*	*(89,631)*				*555,880*
1. Increase in share capital.	*11,682*	*488,609*						*500,292*
5. Transactions involving own stocks or shares (net).			*145,219*	*(89,631)*				*55,588*
III. Other equity variations.					*1,167,475*	*(1,167,475)*		
2. Other variations.					*1,167,475*	*(1,167,475)*		
E. BALANCE AT THE END OF FINANCIAL YEAR 2019	**542,766**	**2,812,602**	**610,194**	**(240,354)**	**(798,042)**	**1,288,436**	**166,592**	**4,382,194**

Notes 1 to 19 of the report are part of the statement of changes in equity at 31st December 2019

Cash flow statement corresponding to financial year ending on 31st December 2019

(In Euros)

	2019	2018
A) Cash flow from operating business		
1. Profit/ Loss before tax.	**1,718,446**	**852,559**
2. Adjustment to Profit (Loss).	**1,131,786**	**-192,803**
a) Fixed assets depreciation (+)	458,284	366,089
b) Corrections in value due to impairment (+/-)	687,652	
d) Allocation of grants (-)	-67,063	-602,095
g) Financial income (-)	-358	-50
h) Financial expenses (+)	123,547	55,523
i) Exchange rate differences (+/-)	-70,276	-12,269
3. Changes in working capital	**-2,851,464**	**-246,962**
b) Trade and other receivables (+/-)	-4,991,178	-1,006,258
c) Other current assets (+/-)	-66,654	41,080
d) Suppliers and other payables (+/-)	1,727,773	651,259
e) Other current liabilities (+/-)	478,596	66,957
4. Other cash flow from operating business.	**-190,693**	**-160,925**
a) Interest paid (-)	-123,547	-55,523
c) Interest received (+)	358	50
d) Income tax received (paid) (+/-)	-67,504	-105,452
5. Cash flows from operating activities (+/-1 +/-2 +/-3 +/-4)	**-191,925**	**251,869**
B) Cash flow from investments		
6. Investment amounts paid (-)	**-985,853**	**-983,713**
a) Group and associated companies.	-169,315	
b) Intangible fixed assets.	-808,306	-488,166
c) Tangible fixed assets.	-8,232	-15,196
e) Other financial assets		-480,351
7. Payments received from disvestments (+)		
8. Cash flow from investments (7-6)	**-985,853**	**-983,713**
C) Cash flow from financing.		
9. Amounts paid and received for equity instruments.	**555,879**	**-5,412**
a) Issuance of equity instruments.	500,292	
b) Purchase of own equity instruments.	-597,251	-239,357
d) Disposal of own equity instruments.	652,839	233,945
e) Grants, donations and legacies received		
10. Amounts paid and received in concept of financial liability instruments.	**564,898**	**911,681**
a) Issuance.		
2. Debt with financial institutions (+).	1,506,978	1,573,455
b) Repayment and amortisation of		
2. Debt with financial institutions (-).	-942,080	-639,134
4. Other (-).		-22,640
11. Amounts paid for dividends and other equity instruments' remunerations.		
12. Cash flows from financing (+/-9+/-10-11)	**1,120,778**	**906,269**
D) Effects of variations on exchange rates.	**56,105**	**5,815**
D)	**-895**	**180,240**
Cash or cash equivalents at the start of financial year.	387,576	207,336
Cash or cash equivalents at the end of the financial year.	386,682	387,576

Notes 1 to 19 described in the report are part of the cash flow statement at 31st December 2019

1. Company's nature and business activity

a) Name and business activity

FACEPHI BIOMETRIA S.A. was incorporated for an indefinite period on 26th September 2012 before the notary public Mr. Ignacio J. Torres Lopez. Its registered address is in Alicante, at Mexico street no. 20.

In conformity with the Company's Articles of Association, their corporate purpose is the research, development and marketing of all types of IT equipment, hardware, software and domestic appliances. Online sales via the Internet and/ or similar distribution channels, import, export, dealership, marketing, distribution, intermediation, retail and wholesale trade, production, handling, manufacturing and provision of hardware and physical media software related services via the sale of user licences, electronic products and components, domestic and telecommunication appliances. Online activities as well as the supply of IT and training services. Promotion, construction, purchase, transferral, intermediation, lease (except financial leasing), sublease, direct and indirect installation or exploitation, consulting services, urban land management, management and custody of all types of real estate assets and plots of land under any planning classification, buildings, bungalows, apartments, villas, developments, sport fields, home dwellings, industrial or business premises, hospitality businesses, with or without furnishings, on their own behalf and on behalf of third parties, and publicly or privately owned.

It currently undertakes as its main activity the marketing and implementation of in-house developed facial recognition biometric software under code 845 of the Economic Activities Tax classification (IAE as per its Spanish Acronym).

Since 1st July 2014, the Company has been listed in the Alternative Stock Market under the Expanding Companies segment (MAB-EE as per its Spanish acronym), and since 25th February 2020 it is listed on Euronext Growth in Paris according to the information provided on note 19 of subsequent facts.

For this reason, the Company is subject to the control and supervisory regime governed by Regulation (EU) no. 596/2014 on Market Abuse, approved by the consolidated text of Stock Market Act, approved by the Royal Legislative Decree 4/2015, of 23rd October, and related provisions, as well as the Circulars issued by the Alternative Stock Market (MAB as per its Spanish acronym).

b) Group Composition

The Company owns the 100% of share capital of FacePhi APAC, LTD, new subsidiary company incorporated for an indefinite period on 15th October 2019, with registered address in Pangyo (South Korea) as part of its internationalization and business development strategy. There exists with this company a group relationship as envisaged in Art. 42 of the Code of Commerce.

On 31st December 2019, and according to the steps taken by the legal advisors of the Company, the subsidiary company FacePhi APAC, LTD, has not started its business operations. It is awaiting to obtain the last legal and administrative permits to be able to operate in the Asian market.

For this reason, and according to art. 43.1 3ª of the Code of Commerce, in view of the low relevance and interest for the true and fair image of the equity, its financial position and profit/loss of the parent company, the Administration Body has decided to benefit from the exemption of the obligation to consolidate and not to prepare the consolidated financial statements for the financial year ending 31st December 2019.

However, in note 15 of this report all information related to equity, as well as balances and transactions undertaken during the financial year with subsidiary companies from the group and other related parties is provided.

2. Basis of presentation

a) Regulatory framework applicable to the Company's financial reporting

These financial statements have been prepared by the Board of Directors in accordance with the regulatory framework applicable to the Company's financial reporting established by:

- Code of Commerce and other trading legislation.
- Consolidated Text of the Corporations Act.
- General Accounting Plan (as approved by Royal Decree 1514/2007 passed on 16th November) and subsequent amendments.
- Mandatory rules approved by the Institute of Accounting and Account Audits (ICAC as per its Spanish acronym) further to the implementation of the General Accounting Plan and additional regulations.
- Any other applicable Spanish accounting legislation currently in force.

These financial statements have been obtained from the Company's accounting records and are presented in accordance with the above mentioned applicable regulatory framework regarding accounting information and, more specifically, the accounting principles and regulations contained therein, in order to provide a true and fair view of the Company's equity, its financial position and profit/ loss, as well as the cash flows corresponding to financial year 2019.

The Company's financial statements are presented in Euros, rounded to the nearest full figure, which is the Company's functional and presentation currency.

There are no extraordinary reasons whereby any legal accounting dispositions may have not been implemented in order to provide a true and fair image.

These financial statements shall be submitted to the Annual General Shareholders' Meeting where they are expected to be approved without any modifications. In regards to the financial statements for financial year 2018, these were approved by the Annual General Shareholder's Meeting held on 21st June 2019.

b) Non-mandatory accounting principles

No non-mandatory accounting principles have been applied. In addition to the above, the Company's Board of Directors has prepared these financial statements in consideration of all mandatory accounting principles and rules of application that have a significant effect in the above mentioned financial statements. No mandatory accounting principles were ignored.

c) Critical aspects of measuring and estimating uncertainty

All responsibility concerning the information contained within these financial statements lies with the Company's Administrators.

In preparing the attached financial statements, certain assessments, assumptions and estimations were required to be made by the Company's management that affect the application of the regulations and the value of its assets, liabilities, income, expenses and commitments. Any estimations and assumptions adopted are based on historical data and other reasonable factors under the current circumstances. In these regards, following is a detailed breakdown of all aspects that involved a greater degree of judgment, complexity or for which the assumptions and estimates were significant in the preparation of the financial statements:

- Useful lives of intangible and tangible fixed assets: Estimated useful lives and the corresponding depreciation charges for the relevant fixed assets are determined by the Company's management. This estimation is based upon their expected useful life, in view of their actual depreciation caused by their operation, use and benefit (notes 3.1 and 3.2).
- Estimation of the potential wear and tear of intangible fixed assets based upon the achievement of future cash flows arising from the fulfilment of the Business Plan set out by the Company (see note 3.3).
- Fair value of non-listed financial assets. There are a number of valuation techniques involved in determining the fair value of financial instruments that are not listed in an active market. In this case, the Company uses its own criteria to select the appropriate method and makes assumptions based mainly on existing market conditions at each balance sheet's date (note 3.4).
- Application of the going concern principle (note 2.d).
- Recoverability of tax credits for tax losses and deferred tax assets recognised in the balance sheet (see note 12).

These estimations were made in accordance with the best available information on the analysed facts at the date of preparation of these financial statements. However, it is possible that subsequent events taking place in the future may require them to be amended (upwards or downwards) in forthcoming financial years. If required, this would be performed in a prospective manner pursuant to rule 22 of the General Accounting Plan by recognising the effects of changes in the estimations on the corresponding profit/ loss account.

d) Principle of going concern

These financial statements were prepared and submitted under the principle of going concern, i.e., by assuming that the Company shall continue its business in the future.

During financial year 2019, the Company significantly increased its turnover by +83% going from the 4.48 million achieved in 2018 to reach 8.2 million Euros in 2019.

In 2019, the Company's EBITDA likewise increased to the amount of 3,076,208.91 Euros compared to 1,279,804 Euros in 2018 (855,929 Euros in 2017), following the trust deposited in our project by the financial markets, as shown in the development of our share price in the alternative stock market in 2019.

At 31st December 2019, the Company's equity amounted to 4,382,193.89 Euros, being 2,588,176 Euros at 31st December 2018.

It is considered that the Company will continue with its activity, margins and international expansion in the upcoming years.

Recurrent revenues

Segmented between the sale of recurring or perpetual licences, the Company's income types also include other sources including services such as support, maintenance, certification, consulting, upgrades or specific development. Currently, recurring licence sales represent 60% of the Company's turnover. Therefore, FacePhi's future success shall depend upon the renewal of recurring licences, attracting new customers, selling new licences or products to its existing customers, increasing the number of recurring licences sold or developing new products. Notwithstanding the foregoing, the entire base of already installed perpetual licences generates a recurring margin of between 15 and 22% of each bank's corresponding turnover in concept of support, maintenance and upgrade services.

Company performance forecast.

It is expected that the company will consolidate its position in all existing markets and expand further within the banking sector with the addition of new countries, continents and customers. In line with its business plan, we also foresee a substantial increase in its turnover and customer base in the forthcoming months and years.

The Company has seen a substantial increase in the implementation and development of its business plan, mostly due to the success achieved following the integrations and production readiness, as well as the integration of high class, top rated customers from the banking industry. Thanks to the highly satisfactory ease of integration and user acceptance experienced by the initial customers who purchased the technology, this has resulted in reductions in future clients' decision times for the acquisition of the technology, as this is a tried product already in production and tested by millions of users. Having customers undergoing production has represented a major milestone that has seen the Company become a front row "player" in terms of banking authentication systems.

For all the above reasons, the Company's Administrators have decided to prepare these financial statements under the principle of going concern.

e) Comparison of information

For comparison purposes, in addition to the amounts included in the balance sheet, the profit/ loss account, the statement of changes in equity, the statement of cash flows and the management report for financial year 2019, the Company's Administrators have also provided the figures corresponding to financial year 2018 as approved by the Annual General Shareholders' meeting on 21st June 2019.

Also included in the report is the qualitative information from the previous financial year, except where specifically regarded as not necessary by any accounting rule.

f) Changes to accounting criteria and correction of errors

During financial year ending 31st December 2019, the Company has not carried out any adjustments due to changes in the accounting criteria applied during financial year 2018 and it was not required to correct any errors from the current or previous financial years either.

3. Basis of measurement

These financial statements were prepared in conformity with the principles and the valuation and classification rules included in the current General Accounting Plan.

Below is a list of the most significant accounting principles and valuation standards applied in the preparation of these financial statements.

3.1 Intangible fixed assets

Intangible fixed assets are recognised at purchase or production cost. Production cost includes purchase cost, consumable materials and costs directly related to the produced unit and a part systematically calculated of indirect, variable or fixed costs incurred during the transformation process.

Capitalization of productions cost is performed through the heading "Work undertaken by the Company on it own asset" from the profit/loss account. Intangible fixed assets are shown in these financial statements at cost, including any applicable accumulated deductions arising from depreciation and accumulated impairment losses.

Any assets with useful lives that cannot be reliably estimated are depreciated over a period of ten years.

In either case, and at least on an annual basis, it must be assessed whether there are indications of a possible loss in value in order to check for impairment where applicable.

a) Research and development expenses

All *research expenses* are recognised as an expense in the period in which they are incurred. However, these may be capitalised as intangible fixed assets as soon as they meet the following requirements:

- They are specifically itemised by project and the related costs are clearly identified so that they can be allocated over time.
- There is a clear connection between the research project and the expected and achieved results. This requirement is assessed in generic terms for each group of activities interconnected by a common purpose.
- There are sound reasons for expecting technical success and economic and commercial profitability for the corresponding project.

Research expenses are depreciated over a period of 5 years.

On the other hand, *development expenses* are directly capitalised as soon as these meet the following requirements:

- There is a specific itemized project that makes it possible to measure the expenditure attributable to the project's development reliably.
- There is a clearly established allocation, assignment and distribution of the costs for each project over a period of time.
- There are justified reasons to expect technical success for the project development at all times, both if it was intended to directly exploit its benefits or to sell the resulting project to any third party once completed, provided that there is a market available.
- There are reasonable assurances to guarantee the project's financial profitability.
- There are reasonable assurances to guarantee funding for the different projects until these are completed. In addition to ensuring the availability of adequate technical and other resources to complete the project and to use or sell the intangible asset.
- There is an intention to complete the intangible asset and use or sell it.

In each financial year while the project remains active, the Company verifies compliance with all the above conditions and capitalises the resulting amount from the moment when these conditions are met.

All Development expenses are recognised as an expense in the period in which they are incurred. Any development costs that were previously recognised as an expense are not capitalised in subsequent financial years. These are depreciated on a straight-line basis along the estimated useful life of each corresponding project without exceeding 5 years. Development costs are capitalised in conformity with the conditions stated above in this same section.

Should there be any variations to the favourable project circumstances that allowed for the capitalisation of its development costs, any amounts outstanding to be depreciated shall be charged to profit/ loss in the financial year when these circumstances have changed.

Estimations regarding the potential impairment of intangible fixed assets are based upon the achievement of future cash flows arising from the fulfilment of the Business Plan set out by the Company adjusted using a market discount rate. The above-mentioned plan supports the commercial success of any research and development costs that have been capitalised as well as their recoverability.

As at 31st December 2019, the Company estimated that there were no indications of impairment on its intangible fixed assets since the Administrators have high expectations in the fulfilment of the business plan, which demonstrates that, based on their forecasts, the total amount corresponding to intangible fixed assets and tax credits shall be recovered in full over the forthcoming financial years.

b) <u>IT applications</u>

Licences for IT software purchased from third parties are capitalised on the basis of the costs incurred to purchase them and prepare them for use in the specific software. IT applications are depreciated on a straight-line basis over a period of 4 years.

All IT software maintenance expenses are recognised as expenses in the period in which they are incurred. All costs that are directly related to the production of unique and identifiable IT software controlled by the Company, and provided that it is probable that they will yield economic benefits that outweigh their costs for a period of over a year are recognised as intangible assets. Direct costs include expenses for staff developing the IT software and an appropriate percentage of the general overheads.

IT software development costs recognised as assets are depreciated over their estimated useful lives (not exceeding 4 years).

c) <u>Industrial property</u>

Intellectual property is measured according to the costs incurred to obtain ownership or usage rights, or the assignation in use of its different expressions, provided that the economic conditions arising from the agreement should be inventoried by the purchasing company. These shall include, among others, patents of invention, utility models protection certificates, industrial design and patents of introduction.

Intellectual property rights are recognised at purchase or production cost. This heading shall include the carrying amounts of any capitalised development costs when the corresponding patent or similar is granted, including any intellectual property registration and processing costs, and provided that the necessary legal conditions are met for their registration in the relevant registers, notwithstanding any amounts that may also be recognised following the purchase of the corresponding rights from third parties. Research costs shall continue to be depreciated as usual and shall not be included in the intellectual property's carrying amount under any circumstances. They have an estimated useful life of 20 years.

3.2 Tangible fixed assets

All tangible fixed assets elements are recognised at purchase or production cost less any accumulated depreciation and, where applicable, any recognised impairment losses.

Any tangible fixed asset's expansion, modernisation or refurbishments costs are only capitalised as an increase in the asset's value when they represent an increase in their productivity, capacity or useful life, and provided that it is possible to know or estimate the carrying amounts of any elements removed from the inventory following their replacement.
Major repair costs are capitalised and depreciated over the asset's estimated useful life, whereas recurring maintenance costs are charged to profit/ loss in the financial year in which they are incurred.

Except in the case of lands that are not depreciated, the depreciation of tangible fixed assets is calculated on the straight-line basis and based upon their nature, and in view of their actual depreciation caused by their operation, use and benefit.

Their useful lives are as follows:

(In Euros)

Element	Annual percentage	Remaining useful life	Method
Other installations	10%	10	Straight line basis
Furniture	10%	10	Straight line basis
IT equipment	25%	4	Straight line basis
Other tangible fixed assets	10%-20%	5-10	Straight line basis

All assets' residual values and useful lives are reviewed, and adjusted if necessary, at each balance sheet date.

Should their carrying amount exceed their estimated recoverable amount, the former is immediately reduced to match the latter (Note 3.3).

Any profit/ loss arising from the disposal of any tangible fixed assets is calculated by comparing the proceeds obtained from the sale with the carrying amount and posting the balance to profit/loss.

3.3 Losses for impairment in value of non financial assets

Assets subject to depreciation are tested for impairment losses whenever any event or change in circumstances indicates that the carrying amount may not be recoverable. Impairment losses in the value of these assets are recorded when its net carrying amount is higher than its recoverable amount, the latter being the fair value after deducting any sale related costs and its value in use, whichever is higher. For the purposes of evaluating impairment losses, assets are grouped into the lowest level at which separate cash flows may be identified (cash generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of the impairment at each balance sheet date.

During financial years 2019 and 2018, the Company has not recorded any impairment losses on their fixed assets, as the Administrators have deemed that the carrying amounts of these assets does not exceed their recoverable amount.

3.4 Financial assets

Loans and other receivables:

Loan and other receivables comprise financial assets arising from the sale of goods or supply of services under the Company's normal business. Also those that, although not originating in trade activities, are neither equity instruments nor derivatives, and where the payments to be received are either fixed or determinable, and cannot be negotiated in an active market, such as guarantee deposits or fixed-term bank deposits.

These financial assets are initially recognised at fair value, including any directly attributable transaction costs incurred, and are subsequently carried at their depreciated cost with any interest income recognised on the basis of the effective interest rate, which is defined as discount rate that matches the carrying amount of the instrument with the expected flow of projected future cash flows until its maturity. Notwithstanding the foregoing, any trade receivables with a maturity of under one year are measured, both initially and subsequently, at their nominal value if the effect of not adjusting the cash flows is not significant.

At least at the end of each financial year, the Company undertakes the necessary corrections in value due to impairment when there is objective evidence that it will not be possible to collect all amounts due.

Losses due to impairment in value are the balance between the carrying amount of the relevant asset and the current value of estimated future cash flows discounted at the effective interest rate at the time of their initial recognition. Value adjustments recognised and, where applicable, reversed are charged and credited to profit/ loss.

Investments in equity of group companies, multigroup and associated companies

Group companies are those over which the Company has control, either directly or indirectly through dependent companies, pursuant to art. 42 of the Code of Commerce or when the companies are controlled in any way by one or several natural or legal persons acting jointly or being placed under single management by agreements or provisions included in the Articles of Association.

Control is understood as the power to govern financial and operating policies of a company with the aim of obtaining benefits from its activity, taking into consideration in this sense the potential voting rights, either exercisable or convertible, owned by the Company or third parties at the end of the financial year.

Associated companies are those over which the Company has significant influence, either directly or indirectly through dependent companies. Significant influence is understood as the power to intervene in the decisions of financial and operating policies of a company, without this meaning there exists control or joint control over the same. When assessing whether there exists significant influence, the potential voting rights, either exercisable or convertible, at the end of the financial year must be taken into consideration, as well as the potential voting rights owned by the Company or other companies.

After their initial recognition, they are measured at their costs, after deducting the accumulated amount of the correction in value due to impairment losses.

When certain investment no longer meets the conditions to be classified under this category, it is reclassified as investments available for sale and they will be measured as such from the date of reclassification.

At least at the end of each financial year, the Company undertakes the necessary corrections in value when there is objective evidence that the carrying amount of an investment will not be recoverable. The amount of the correction in value will be the balance between their carrying amount and the recoverable amount, the latter being the fair value after deducting the sale costs and the current value of the future cash flows arising from investment, whichever is higher.

3.5 Equity

The share capital is represented by shares. Any costs arising from the issuing of new shares or options are directly deducted from equity as a reduction in the reserves.

Own equity instruments owned by the Company

The acquisition of equity instruments by the Company is shown at acquisition cost separately as a reduction of shareholders' equity in the balance sheet. In the transactions undertaken with own equity instruments no results are recognised in the profit/ loss account.

Transaction costs related to own equity instruments, including issuing costs related to a business combination are recognised as a reduction of reserves once any tax effect has been considered.

Dividends related to equity instruments are recognised as a reduction of equity at the time they are approved by the Annual General Shareholder's meeting.

3.6 Financial liabilities

Debts and other payables

This category includes trade and non trade payables. Borrowings are classified as current liabilities unless the Company has unconditional rights to defer their repayment for at least 12 months after year end.

These debts are initially recognised at fair value, including any directly attributable transaction costs incurred, and are subsequently carried at their depreciated cost on the basis of the effective interest rate. This effective interest rate is defined as the discount rate that matches the carrying amount of the instrument with the expected flow of projected future cash flows until its maturity.

Notwithstanding the foregoing, any trade payables with a maturity of under one year that do not have a contractual interest rate are measured, both initially and subsequently, at their nominal value if the effect of not adjusting the cash flows is not significant.

If existing debt is renegotiated, no substantial changes to the financial liability are deemed to exist when the new lender is the same as the original lender and the current value of the cash flows, including net commissions, does not differ by more than 10% from the current value of the outstanding cash flows from the original liability calculated using the same method.

<u>Derecognition</u>

Financial liabilities are derecognised by the Company when the obligations giving rise to them cease to exist.

In the event of an exchange of debt instruments with substantially different terms, these shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Likewise, the Company shall record substantial changes to the current terms of the financial liability.

Any balances between the carrying amount of either the full financial liability or the part derecognised and the consideration paid, plus any costs attributable to the transaction, that shall also include any assets transferred other than cash or the liability assumed, shall be recognised in profit/ loss in the corresponding financial year.

In the event of an exchange of debt instruments where the terms are not substantially different, the original financial liability is not removed from the balance sheet and any commissions paid are recognised as an adjustment to the carrying amount. A new depreciated cost for the financial liability shall be determined by applying the effective interest rate that matches the carrying amount of the financial liability at the date of modification with the cash flows to be paid according to the new terms.

3.7 Cash and cash equivalents

Cash and other cash equivalents include cash on hand and sight bank deposits at financial institutions. This heading also includes other short term investments with high liquidity provided that they are easily convertible into fixed cash amounts and that they mature soon, being its maturity of under three months.

The Company shows in the cash flow statement payments and collections corresponding to financial assets and liabilities with high turnover at its net amount. To this end, a turnover period is considered to be high when the period between the acquisition date and the maturity does not exceed six months.

The Company classifies cash flows corresponding to received and paid interests as operating activities. Dividends received from dependent and associates entities are classified as operating activities, being those paid by the Company classified as financing activities.

3.8 Classification of current and non current assets and liabilities

Assets and liabilities are classified as either current or non current in the Company's balance sheet. For these purposes, current assets and liabilities are those that meet the following criteria:

- Assets are classified as current when the Company either expects to realise, sell or consume them within its normal operating cycle, or when they are held primarily for the purpose of trading, they are expected to be realised within twelve months from the balance sheet date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least twelve months from year end.

- Liabilities are classified as current when the Company either expects to settle them within its normal operating cycle, or when they are held primarily for the purpose of trading, they are due to be settled within twelve months from the balance sheet date or the Company does not have an unconditional rights to defer settlement of the liability for at least twelve months from year end.
- Financial liabilities are classified as current when the Company expects to settle them within twelve months from year end date although the original term was for a period longer than twelve months, and an agreement to refinance, or to reschedule repayments on a long-term basis is completed after the reporting period and before the financial statements are prepared.

All other assets and liabilities that do not meet the above conditions are classed as "non current".

3.9 Grants, donations and legacies

Refundable grants are recognised as liabilities until the conditions required for them to be considered non-refundable are met. On the other hand, non refundable grants are directly posted to equity and recognised as income on a systematic and rational basis that correlates to the expenses arising from the grant. Non refundable grants received from shareholders are posted directly to shareholders' equity.

For these purposes, a grant is considered non refundable when it is based upon an individual agreement, all the conditions established therein have been met and there are no reasonable doubts that it will be collected.

Monetary grants are measured at the fair value of the amount received, while non monetary grants are measured at the fair value of the item received. In both cases, these shall be the current values at the time of their initial recognition.

Non refundable grants related to the purchase of tangible or intangible fixed assets and real estate investments are recognised as income for the year in proportion to the depreciation of the corresponding assets or, if applicable, when these are either sold, or when there is an impairment adjustment or they are derecognised in the balance sheet. On the other hand, non refundable grants related to specific expenses are posted to profit/ loss account in the same financial year in which the corresponding expenses have been incurred and those granted to off-set an operating deficit are posted in the year in which they are granted, except when used to offset an operating deficit in future financial years, in which case, they are posted to profit/ loss in the corresponding financial years.

3.10 Current and deferred tax

Income tax expense/ income is the amount of tax becoming due during the financial year and it comprises both current and deferred tax expense/ income.

Both the current and deferred tax expense (income) are recognised in profit/ loss. However, the tax effect of any items directly posted to equity are also recognised in equity.

Current tax assets and liabilities are measured as the amounts that are expected to be paid or received from the Tax Authorities pursuant to currently enacted or substantively enacted regulations at year end.

Deferred tax is calculated in accordance with the liability method, based upon the temporary differences arising between the accounting treatment of assets and liabilities and their carrying amounts. However, if the deferred tax arises from the initial recognition of an asset or liability as part of a transaction that is neither a business combination nor has affected the accounting profit or taxable profit at the time when the transaction took place, these shall not be recognised. Deferred tax is determined by applying the regulations and tax rates that have been enacted or substantively enacted by the year end and that are expected to apply when the relevant deferred tax asset is realised or the deferred tax liabilities are settled.

Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available in the future against which these deductible temporary differences can be offset.

3.11 Staff benefits

a) Redundancy compensation

Redundancy compensations are paid to staff as a consequence of the Company's decision to terminate their employment before the normal retirement age. These compensations are recognised by the Company when it is demonstrably committed to terminate the staff member's terms of employment in accordance with a detailed approved plan, without the possibility of withdrawal. Any compensations that are not due to be paid in the twelve months following the date of the balance sheet are deducted from their current value.

b) Profit sharing and bonus payment plans

A liability and an expense corresponding to the financial year end bonus is calculated and recognised by the Company using a formula that takes into account the evolution of its capitalisation during the relevant financial year. A provision is also recognised when contractually bound or where there is a past practice that has created a constructive obligation.

c) Non-competence agreement

There are several employment agreements signed by the Company that include non-competence clauses. However, the Administrators have considered that the conditions are not met to record a liability and an expense due to the low, almost nil probability of occurrence.

d) Payments based on equity instruments

Any transactions involving the exchange for goods or services, included those provided by staff, that are settled by the Company with own equity instruments or according to an amount calculated on the basis of these, such as share options or share appreciation rights, are considered as transactions with payments based on equity instruments.

At 31st December 2019, there were no incentives schemes or staff and/ or directors remuneration policies where the relevant payments and settlements involved any own equity instruments.

Measurement

In the case of transactions involving staff that are settled with equity instruments, both the services provided as well as the increase in equity to be recognised are measured at the fair value of the equity instruments assigned at the date of the assignment agreement.

Any transactions settled with equity instruments in exchange for goods or services other than those provided by staff where the value can be estimated reliably shall be measured at the fair value of the goods and services received at the date when these are received. If the fair value of the goods and services received cannot be estimated reliably, the goods or services received and the corresponding increase in equity shall be measured at the fair value of the equity instruments assigned on the date when the Company has obtained the goods or received the services.

Once the goods and services received have been recognised in conformity with the stipulations included in the above paragraphs, as well as the corresponding increase in equity, no further equity adjustments shall be possible after the vesting date.

In the case of transactions settled in cash, the goods and services received and the corresponding liabilities recognised shall be measured at the fair value of the liability on the date when the requirements for their recognition were met.

At the end of each reporting period and until the liability is settled, the fair value of the liability is measured, with any changes in its fair value recognised in profit/ loss for the year.

3.12 Provisions and contingencies

Provisions for environmental restoration, restructuring costs and litigation are recognised when the Company has a current legal or implicit obligation as a result of past events, it becomes probable that an outflow of resources may be required to settle the obligation and the amount can be reliably estimated. Provisions for restructuring costs include fines applied following early termination of property leases and redundancy compensations paid to staff. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the consideration required to settle the obligation using an interest rate that reflects current market assessments of the time value of money and the risks specific to the liability. Any adjustments arising from the restatement of these provisions are recognised as a financial expense when these are accrued.

Provisions maturing in one year or less that do not have a significant financial effect are not discounted.

When part of the disbursement required to settle the provision is expected to be paid by a third party, the reimbursement is recognised as a separate asset provided that its collection is practically assured.

On the other hand, contingent liabilities are those possible obligations arising from past events which may or may not materialise, depending on one or more future events outside the Company's control.

Although these contingent liabilities are not recognised, they are shown in a detailed breakdown provided in the report.

3.13 Revenue recognition from rendered services

Revenue from rendered services is measured at the fair value of the consideration to be received and represents the amounts receivable for services provided in the Company's normal course of business, net of returns, rebates, discounts and value added tax.

Income is recognised by the Company when it can be measured reliably, it is probable that the future economic benefits will flow towards the Company and if the specific conditions for each of the activities are met as detailed below. It is not considered that the amount of the revenues can be measured reliably until all sale related contingencies have been resolved. All Company estimates are based upon historical data, taking into consideration the type of customer, transaction and the specific terms in each arrangement.

Revenues arising from the sale of rights to use (licensing) the facial biometrics recognition technology software are recognised by the Company when all risks and rewards of ownership have been transferred to the buyer and the above mentioned conditions stated in the above paragraph are met. At the same time, a charge is made to profit/ loss depending on the licensing period, that may be in perpetuity or for a defined term as stated in the agreement.

Any income arising from maintenance and support services are recognised on the basis of their period of accrual.

3.14 Leases

When the Company acts as the lessee – Operating leases

Leases where the lessor retains a substantial part of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit/ loss for the financial year in which they become due on a straight line basis over the term of the contract.

3.15 Foreign currency transactions

Transactions in foreign currencies are converted to the Company's functional currency by applying the exchange rates prevailing at the date of the transaction. Any profit/ loss resulting from the settlement of the above foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end are recognised in profit/ loss, except when deferred in equity as in the case of qualifying cash flow hedges and qualifying net investment hedges.

3.16 Transactions with Group companies

Transactions among Group companies are recognised at fair value of the consideration to be given or received. Any balance between said value and the agreed value is recognised according to the underlying economic substance.

(In Euros)

4. Intangible fixed assets

Below is a breakdown of all movements recorded in the "Intangible fixed assets" heading:

	Euros						
	Balance at 31.12. 17	Additions	Retirements	Balance at 31.12.18	Additions	Retirements	Balance at 31.12.19
Cost:							
Research	56,958	-	-	56,958	-	-	56,958
Development	1,700,582	482,866	-	2,183,448	594,556	-	2,778,004
Industrial property	6,078	5,300	-	11,378	-	-	11,378
IT applications	27,899	-	-	27,899	213,751	-	241,650
Total cost	**1,791,517**	**488,166**	**-**	**2,279,683**	**808,306**	**-**	**3,087,989**
Accumulated depreciation:							
Research	(45,567)	(11,392)	-	(56,958)	-	-	(56,958)
Development	(618,437)	(340,116)	-	(958,553)	(436,690)	-	(1,395,243)
Industrial property	(274)	(401)	-	(676)	(569)	-	(1,245)
IT applications	(8,870)	(4,651)	-	(13,521)	(10,458)	-	(23,979)
Total accumulated depreciation	**(673,148)**	**(356,560)**	**-**	**(1,029,708)**	**(447,716)**	**-**	**(1,477,425)**
Net carrying amount	**1,118,369**			**1,249,975**			**1,610,565**

a) Research and Development

Capitalised research and development expenses at 31st December 2019 and 2018 are those corresponding to the following milestones:

	Euros
Description: 2019 project	**Amount**
Improvements Software Development Kit (SDK) FACEPHI	594,556
Total	**594,556**

	Euros
Description: 2018 project	**Amount**
Improvements Software Development Kit (SDK) FACEPHI	482,866
Total	**482,866**

Capitalised developments at 31st December 2019 and 2018 have consisted mainly of improvements to security features against fraud, interactive guides to assist users during registration and multiplatform applications technology integration tools. Following the tests and trials undergone, it is considered that these technologies are in working order and that their development has concluded.

a) The Company's Administrators consider that the research and development costs capitalised meet each and every one of the conditions established in section 3.1 a) of this report since the full amount corresponding to the Company's turnover as reflected in the profit/ loss account coincides with the returns obtained from the marketing of its capitalised projects.

b) Intellectual property

FacePhi Biometría are the owners of the Selphi and FacePhi Beyond Biometrics trademarks, and their ownership grants the protection of these trademarks both within the EU territory (EU trademarks No. 015106354 and 015114853 respectively) as well as within the US territory, pursuant to the trademarks granted by the USPTO (United States Patent and Trademark Office certificate no. 79190080 and 79190126).

(In Euros)

Likewise, the following EU Trademarks have been registered under no. 017896710 LookΦ no. 017948110 inPhinite; no. 017948113 4Phingers; no. 017948116 Phivox; no. 017948119 SignPhi; no. 017948878 SelphID. Following the entry into force of the Business Secrets Act 1/2019 passed on 20th February a new scenario shall be established with more legal certainty for any confidential knowledge treated as secrets (algorithms, know-how, etc.) than before, resulting in further protection against the potential breach of business secrets. Currently, the Company owns as assets the ownership rights of the following registered trademarks:

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

c) IT applications

Main additions in financial year 2019 correspond to the acquisition of software codes from certain suppliers that subsequently are used in the "onboarding" technologies developed by the Company.

d) Fully depreciated intangible fixed assets.

At 31st December 2019, there were fully depreciated intangible fixed assets amounting to 56,958 Euros and 720,381 Euros, corresponding to the Research and Development heading, respectively. At 31st December 2018, 56,958 Euros corresponding to the Research heading.

e) Other information

In financial year ending 31st December 2019, the Company has not recognised any grants in connection with intangible fixed assets. However, in financial year 2018, the Company recognised grants for capitalised R&D expenses in the amount of 113,945 Euros. (See note 10.2).

At 31st December 2019 and 2018, there were no firm commitments for investments or to sell any intangible fixed assets with any third parties.

No financial expenses were capitalised and there were no intangible fixed assets abroad. All intangible fixed assets were assigned to operations and were not affected by any restrictions or guarantee deposits. No reversals or corrections were made either to the carrying amounts of any intangible fixed assets due to impairment losses.

(In Euros)

5. Tangible fixed assets

Below is a breakdown of all movements recorded in the Tangible fixed assets heading:

	Balance at 31.12.17	Additions	Retirements	Balance at 31.12.18	Additions	Retirements	Balance at 31.12.19
Cost:							
Technical fittings and other fixed assets	60,023	15,196	-	75,219	8,232	-	83,451
Total cost	**60,023**	**15,196**	**-**	**75,219**	**8,232**	**-**	**83,451**
Accumulated depreciation:							
Technical fittings and other fixed assets	(24,372)	(9,528)	-	(33,900)	(10,568)	-	(44,468)
Total accumulated depreciation	**(24,372)**	**(9,528)**	**-**	**(33,900)**	**(10,568)**	**-**	**(44,468)**
Net carrying amount	**35,651**			**41,319**			**38,983**

a) Fully depreciated assets

At 31st December 2019, there were fully depreciated tangible fixed assets amounting to 12,387 Euros (10,355 Euros in financial year 2018).

b) Insurance

The Company has taken out insurance policies to cover the risks that the different elements included within the tangible fixed assets heading are subject to. It is considered that the above policies provide sufficient cover.

c) Other information

No financial expenses have been capitalised, there were no tangible fixed assets abroad and they were not subject to any restrictions or affected by guarantee deposits. No reversals or corrections were made either to the carrying amounts of any tangible fixed assets due to impairment losses.

Likewise, at 31st December 2019 and 2018, there were no firm commitments for investments to purchase or sell any tangible fixed assets.

6. Leases and other transactions of similar nature

Below is a list of future minimum payments corresponding to non cancellable operating leases:

Future minimum payments	2019	2018
Under 1 year	44,969	46,698
Between 1 and 5 years	32,981	60,273
Over 5	---	---
Total	77,951	106,972

(In Euros)

Following is a breakdown of the lease amounts charged to expenses in the financial year including the description of the most significant lease agreements:

Lease description	Expense in financial year 2019	Expense in financial year 2018	Expiry date	Replacement	Price review criteria
Offices, parking spaces and storage room	38,897	37,181	01/10/2022	N/A	YES (CPI)
IT equipment	1,745	2,051	10/11/2019	N/A	NO
IT equipment	369	247	27/05/2019	N/A	NO
IT equipment	193	1,935	31/03/2019	N/A	NO
IT equipment	504	---	21/05/2024	N/A	NO
Transport elements	30,659	30,272	03/01/2022	N/A	NO
Total	**72,368**	**71,685**			

On 21st May 2019, the Company entered into an IT operating lease agreement due to expire after a period of 5 years. Its monthly instalments net of VAT amounted to 69 Euros.

In the same line, on 22nd January 2018, the Company entered into an IT operating lease agreement due to expire after a period of 12 months. Its monthly instalments net of VAT amounted to 194 Euros.

During financial year 2017, the Company entered into two separate vehicle operating lease agreements in favour of members to the Board of Directors that are still in force. Their monthly instalments amount to 1,256 Euros per vehicle, and they are due to expire on the 3rd January 2022. Since it is not expected that the Company's management will take advantage of the purchase option upon expiry, both agreements have been classed as operating leases.

Likewise, on the 1st October 2017 a new agreement was entered into by the Company to lease the office space from where its business is based for a further 5 year period and a monthly payment of 2,800 Euros including an early termination clause that requires a minimum of 2 months' notice in addition to the payment of 3 months' compensation. A total of 5,400 Euros was paid by the Company in concept of guarantee deposit.

7. Risk policies and management

The management of the financial risks by the Company is aimed at establishing the required procedures to control its exposure to different types of risks. These include market risks (including currency exchange rates, interest rates, and other pricing risks), credit and liquidity risks. Risk management is controlled by the Company's Board of Directors with the support of the management's control departments.

Credit risk

Credit risk is due to potential losses arising from the non-compliance with contractual obligations of Facephi's counterparties, in other words, from failure to recover financial assets in the established amount and period. In regards to banks and financial institutions, the Company only operates with entities of renowned solvency and prestige.

Among the main Company debtors, none are affected by any specific credit risks in regards to the settlement of outstanding balances becoming due at the end of financial year due to their high credit rating.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and realisable assets and the availability of sufficient funding in the form of sufficient credit facilities to cover credit obligations and the capacity to settle market positions. Any liquidity risk is considered to be sufficiently mitigated thanks to the extension of our funding lines with financial entities, as well as financing agreements for convertible debt issuance entered into with Nice & Green, S.A. on September 2019 for an amount of 4,000,000 Euros. (See note 11).

Market risk

a. Interest rates risk

As the Company does not have a considerable amount of remunerated assets, income and cash flows from operating activities are not significantly affected by fluctuations in market interest rates.

The Company's interest rate risk arises from non current borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to interest rate risk on the fair value.

At the end of financial year, the Administrators considered that the estimated risks arising from interest rate fluctuations are not significant in view of the debts currently maintained by the Company.

b. Foreign exchange rates risk

Since the Company operates internationally, some of its business is therefore exposed to foreign exchange risks. Foreign currency risk arises from recognised assets and liabilities. Below is a breakdown of financial assets and liabilities denominated in foreign currency, as well as the transactions denominated in foreign currency in notes 13.

Foreign currency risk arises from future commercial transactions, as well as recognised assets and liabilities. In order to minimise this risk, the Company maintains an appropriate balance between foreign currency collections and payments.

c. Cash flow interest rate risk

Income and cash flows from operating activities of the Company are not significantly affected by fluctuations in market interest rates.

No significant risks arising from cash flow interest rates are deemed to exist for the Comany.

d. Price risk

No significant market risks are deemed to exist for the Comany.

Fair value assessment

It is assumed that the carrying amount of trade payables and receivables approximates their fair value. For financial reporting purposes, the fair value of financial liabilities is estimated by discounting future contractual cash flows at the current market interest rate which can be obtained by the Company for similar financial instruments.

(In Euros)

8. Financial assets

8.1 Analysis by category

Below are the carrying values for each category of financial assets as established in the registration and valuation standards rule for "Financial instruments", except in the case of balances with Public Authorities (note 12):

	Euros			
	Credit, derivatives and other			
	Short term		Long term	
	2019	2018	2019	2018
Loans and receivables (Note 8.3) (*)	8,251,124	3,723,258	497,985	488,749
TOTAL	**8,251,124**	**3,723,258**	**497,985**	**488,749**

(*) Does not include balances with Public Authorities.

In the case of financial assets carried at cost or depreciated cost, there are no significant differences between their carrying amount and their fair value.

8.2 Analysis by maturity

At 31st December 2019 the carrying amounts of financial instruments on the assets side with fixed or determinable maturities classified by year of maturity were as follows:

	Financial assets					
	2020	2021	2022	2023	Subsequent years	Total
Other financial investments:						
Other financial assets (*)	8,251,124	489,585	8,400	---	---	8,749,109
	8,251,124	**489,585**	**8,400**	**---**	**---**	**8,749,109**

(*) Does not include balances with Public Authorities (note 12).

At 31st December 2018 the carrying amounts of financial instruments on the assets side with fixed or determinable maturities classified by year of maturity were as follows:

	Financial assets					
	2019	2020	2021	2022	Subsequent years	Total
Other financial investments:						
Other financial assets (*)	3,723,258	---	480,349	8,400	---	4,212,007
	3,723,258	**---**	**480,349**	**8,400**	**---**	**4,212,007**

(*) Does not include balances with Public Authorities (note 12).

(In Euros)

8.3. Loans and receivables

	Euros 2019	Euros 2018
Non current loans and other receivables:		
Third party receivables (note 10.2)		---
Other financial assets	497,985	488,749
	497,985	**488,749**
Current loans and other receivables:		
Trade accounts receivables	8,929,016	3,579,106
Losses due to impairment in trade receivables	(749,097)	(61,445)
Group company receivables (note 15)	65,000	---
Advance payments to suppliers	---	4,760
Advance payments to staff	1,200	250
Other Public Authorities' payables (note 12.1)	30,202	281,248
Other financial assets	5,004	200,587
	8,281,325	**4,004,506**

The heading Advance payments to suppliers mainly corresponded to advance payments made in concept of commissions for services to be supplied.

Other financial assets

In financial years 2019 and 2018, the heading for “Other current financial assets” represented a current deposit renewable on an annual basis.

On the other hand, at 31st December 2018, there existed a financial loan granted to a senior executive director for an amount of 195,580 Euros (note 15).

Likewise, at 31st December 2019, the heading “Other non current financial assets” included guarantee deposits paid for the lease of office space in the amount of 8,400 Euros (same amount at 31st December 2018), in addition to the sum of 489,585 Euros (480,349 Euros at 31st December 2018), corresponding to fixed term bank deposit made on 1st March 2018 in the amount of 550,000 US Dollars to pledge 500,000 US Dollars for a variable interest rate loan under agreement with the European Investment Fund for a limit of 1,000,000 Euros (see note 11.3.a). This fixed term deposit will expire in 3 years, with an interest rate of 0.05%.

Impairment of trade receivables

Below is a breakdown of all movements recorded in the Impairments provision heading:

	Euros 2019	Euros 2018
Opening balance	**61,445**	**13,250**
Provision for impairments in value of receivables	687,652	48,195
Reversal of unallocated amounts	-	-
Closing balance	**749,097**	**61,445**

The Company’s management considers that the credit risk is sufficiently guaranteed due to the solvency of debtors they work with (mainly financial entities). However, in January of financial year 2020, legal action has been brought to recover a credit with a national customer for a total amount, including VAT, of 750,200 Euros.

(In Euros)

In accordance with art. 80 VAT Act, the Company has requested to recover VAT in the settlement of January 2020, in the amount of 130,200 Euros. Mainly due to this reason, during financial year 2019, there were losses due to bad debt amounting to 687,652 Euros. During financial year 2018, there were no losses due to bad debt.

Any corrections in value recognised due to impairment losses affecting trade receivables have been included under the "Loss, impairment and variations in trade provisions" heading in the profit/ loss account (Note 13.e.) These amounts charged to the impairment losses accounts are usually written off when there are no expectations to recover any further cash. In regards to the rest of accounts included within the "Loans and other receivables" heading, these have not been affected by any impairment losses.

9. Cash and cash equivalents

Following is a breakdown of the Cash and other cash equivalents heading as at 31st December 2019 and 2018:

	Euros	
	2019	**2018**
Cash in Euros	37	---
Cash in foreign currency	4,346	4,793
Bank, credit facilities, sight current accounts in Euros	267,039	196,982
Bank, credit facilities, sight current accounts in foreign currency (note 13.f)	115,259	185,801
Total	**386,682**	**387,576**

At 31st December 2019 and 2018, there were no restrictions affecting the availability of current account balances.

10. Equity

A breakdown of the movements taking place in the different sections of the Company's Equity side during financial year ending 31st December 2019 and 2018 is provided in the attached statement of changes in equity.

10.1 Shareholders' equity

a) Capital

At 31st December 2018, the Company's share capital amounted to 531,083.32 Euros represented by 13,277,083 shares with a nominal value of 0.04 Euros each. These shares, numbered from 1 to 13,277,083, were fully subscribed and paid up and had identical voting and financial rights.

On 20th December 2019, the Annual General Shareholder's meeting approved to increase the Company's share capital by means of the offset of principal and interests of the loan granted by Nice & Green, S.A., according to the loan agreement executed between the parties on 16th September 2019 (note 11), and whose amount at the time of this increase reflects a balance of 500,292 Euros. The new shares are issued at an issue rate (nominal value plus share premium) of 1,713 Euros per share, corresponding 0.04 Euros to the nominal value and 1.673 to the share premium. Therefore, it is agreed to increase the Comany's share capital by a net amount of 11,682 Euros, by means of the creation of 292,056 new shares and a share premium of 488,609 Euros.

(In Euros)

Said increase was notarized on 31st January 2020 in the deed granted before Notary Public Mr. Ignacio Javier Torres López, from the association of notaries of Castilla-La Mancha, with protocol number 77, and recorded with the Commercial Registry of Alicante on 24th February 2020.

For this reason, at 31st December 2019, the Company's share capital amounts to 542,766 Euros represented by 13,569,139 shares with a nominal value of 0.04 Euros each. These shares, numbered from 1 to 13,569,139, were fully subscribed and paid up and had identical voting and financial rights.

Below is a list of all members to the Board of Directors with holdings exceeding 10% of the Company's share capital either directly or indirectly:

	%	
	2019	**2018**
Salvador Martí Varó	10.30	13.03
Javier Mira Miró	8.60	9.67
Juan Alfonso Ortiz Company	10.13	11.70

All shares issued have been fully paid up. There are no transfer restrictions on shares.

b) Share premium

	Euros	
	2019	**2018**
Share premium	2,812,602	2,323,993
	2,812,602	**2,323,993**

As a consequence of the increase of share capital above-indicated, the share premium has increased by 488,610 Euros on 31st December 2019.

This is a freely available reserve.

c) Own shares

At 31st December 2019, the Company held total treasury shares amounting to 240,354 Euros (150,723 Euros at 31st December 2018) corresponding to 125,998 shares (172,729 shares at the end of the previous financial year) representing 0,95% (1.30 % in 2018) of the Company's share capital and, therefore, below the limit established by article 509 of the Corporations Act which sets out a 10% maximum limit.

Following approval by the General Shareholders' Meeting held on 2nd June 2014, the Company's Board of Directors agreed the purchase of a maximum of 200,000 treasury shares. Pursuant to the above agreement, a scheme for the purchase of treasury shares was launched on 17th June 2016 that will continue until the full amount of expected shares have been purchased. Currently, the Company has acquired a total of 172,729 shares. Below is a breakdown of all movements recorded in this heading during 2018:

	2018	Purchases	Sales	2019
Treasury shares cost	150,723	597,251	507,620	240,354

During financial year 2019, the Company has sold treasury shares for a net profit amounting to 145,219 Euros (10,639 Euros at 31st December 2018) that were posted to the “Voluntary Reserves” heading.

(In Euros)

After closure of the financial year, on 27th February 2020, the General Shareholders' Meeting agreed to authorize the Administration Body the purchase of treasury shares in the following terms:

- For a maximum period of 5 years since the adoption of the agreement.
- For a maximum of shares amounting to the 10% of the share capital.

With a minimum and maximum countervalue of +/- 10% of market value at the acquisition date, in the case of acquisition for value.

d) Stock options

During financial years 2019 and 2018, the Company did not issue any stock options.

e) Reserves and profit/ loss in previous financial years

	Euros	
	2018	**2018**
Legal reserve	-	-
Voluntary reserve	610,194	464,975
Losses in previous financial years	(798,042)	(1,965,517)
	(187,848)	**(1,500,542)**

Legal reserve

No allocations were made by the Company to its legal reserve pursuant to Article 274 of the Spanish Corporations Act due to outstanding losses pending to be settled from previous financial years.

This reserve is not available for distribution and should it be used to offset losses in the event that no other reserves were available, it must be replenished with future profits.

Voluntary reserves

At 31st December 2019 and 2018, voluntary reserves include the benefits from previous financial years that were not distributed or allocated to statutory reserves.

These are freely available reserves.

As stated in the attached Statement of Changes in Equity, during 2019 and previous financial years, the Company has used this heading to record expenses incurred following the increases in share capital undertaken in previous financial years as well as the returns obtained from the treasury share transactions (see note 10.c.).

f) Allocation of profits for 2018 and proposed distribution of profits for the current financial year

Below is the proposed allocation of profits for the financial year ending 31st December 2019 that is pending approval by the Annual General Shareholders' Meeting:

Allocation basis	**2019**	**2018**
Financial year profits net of Corp. Tax	1,288,436	1,167,475
Allocation		
Offset to losses in previous financial years	798,042	1,167,475
Legal reserve	108,553	---
Voluntary reserves	381,841	---

(In Euros)

Below is the allocation of profits for financial year ended 31st December 2018 as approved by the Annual General Shareholders' Meeting held on 21st June 2019:

Dividend allocation restrictions

The Company is required to allocate 10% of its financial year's profit towards a legal reserve until it reaches at least 20% of its share capital. While this reserve remains below 20% of the share capital, it may not be distributed to shareholders.

After the reserves stipulated by law or in the Company's Articles of Association have been covered, dividends may only be distributed with a charge to profit/ loss for the year, or to unrestricted reserves:

- if the equity value is not, nor will be as a result of the distribution, lower than the share capital. To this end, the profits attributed directly to equity may not be subject to either direct or indirect distribution. If there were losses from previous years which bring the value of the Company's equity to below the share capital figure, profits shall be used to offset those losses.

- If the Company's assets include intangible assets arising from the capitalisation of R&D expenses and/or goodwill. In such case, dividends may only be distributed if the amount of reserves that are available is, at least, the same as the net amount of non-depreciated intangible assets.

The Company has not distributed dividends since the date of incorporation.

10.2. Grants

Below is a breakdown of the amounts and descriptions included in the balance sheet at 31st December 2018 and 2018 under the "Grants, donations and legacies" heading, including any movements taking place in the current and previous financial year:

Financial year ending 31 December 2019

Body	Public Authority	Year	Amount Granted	Balance pending to be repaid at 31/12/2018	Additions (Removals)	Transferred to 2019 profit/ loss	Tax effects	Balance pending to be repaid at 31.12.17
Europe (H2020)	European	2017	1,692,600	216,890	---	(67,063)	16,766	166,592
			1,692,600	**216,890**	**---**	**(67,063)**	**16,766**	**166,592**

Financial year ending 31 December 2018

Body	Public Authority	Year	Amount Granted	Balance pending to be repaid at 31.12.17	Additions (Removals)	Transferred to 2018 profit/ loss	Tax effects	Balance pending to be repaid at 31/12/2018
Valencian Institute of Business Competitiveness (IVACE, as per its Spanish acronym)	Regional	2017	11,336	8,502	---	(11,336)	2,834	---
Europe (H2020)	European	2017	1,692,600	164,637	113,945	(44,274)	(17,418)	216,890
			1,703,936	**173,139**	**113,945**	**(55,610)**	**(14,584)**	**216,890**

H2020 is Europe's flagship funding scheme for research and innovation projects. Between 2014 and 2020, it had a total budget of approximately 80,000 million Euros. The SME instruments scheme was specifically designed to promote highly innovative SME's with a great ambition for growth and international projection in order to help them achieve market success.

At the end of financial year 2016, the Company joined the European Commission scheme in order to receive funding towards their operational development expenses in the following 24 months during the implementation of the FACCES project for the use of facial recognition in banking security.

This scheme stated that the amount granted would not exceed 1,692,600 Euros, corresponding to 70% of the total costs for operational development amounting to 2,418,000 Euros.

In these regards, at 31st December 2018 there was a balance of 253,890 Euros pending to be received (note 12.1). During the financial year 2019, said amount has been fully received.

Part of the costs incurred in relation to the eligible project correspond to R&D staff costs that were capitalised as intangible fixed assets. While on the other hand, we also have operating expenses, so the grant covers both capital and operating expenses, that according to the costs incurred by the Company in previous financial years they were divided in the proportion of 19.81% and 80.19% respectively. At 31st December 2018 the Company recognised a capital grant and eligible expenses in the amounts of 113,945 Euros and 546,485 Euros (note 13.c), that were posted to equity and the profit/ loss account respectively.

11. Financial liabilities

11.1 Analysis by category

Below are the carrying amounts for each category of financial instruments as established by the registration and valuation standards rule for "Financial instruments", except balances with Public Authorities (note 12):

	Euros			
	Non current financial liabilities			
	Debt with financial institutions		Derivatives and other	
	2019	2018	2019	2018
Loans and payables (Note 11.3)	472,750	591,693	---	5,839
TOTAL	**472,750**	**591,693**	**---**	**5,839**

	Euros			
	Current financial liabilities			
	Debt with financial institutions		Derivatives and other	
	2019	2018	2019	2018
Loans and payables (Note 11.3)	2,598,262	1,893,335	---	818,743
TOTAL	**2,598,262**	**1,893,335**	**---**	**818,743**

Since the effect of discounts is neither significant nor material, both the current and non current payables' carrying amounts are very similar to their fair value. The carrying amount of all Company debts is denominated in Euros.

(In Euros)

11.2 Analysis by maturity

At 31st December 2019, the carrying amounts of financial instruments on the liabilities side with fixed or determinable maturities classified by year of maturity were as follows:

	Financial liabilities					
	2020	2021	2022	2023	Subsequent years	Total
Financial institutions payables	2,598,262	362,385	110,365	---	---	3,071,012
Other financial liabilities (*)	2,602,501	---	---	---	---	2,602,501
	5,200,763	**362,385**	**110,365**	**---**	**---**	**5,673,513**

(*) Does not include balances with Public Authorities.

At 31st December 2018, the carrying amounts of financial instruments with fixed or determinable maturities classified by year of maturity were as follows:

	Financial liabilities					
	2019	2020	2021	2022	Subsequent years	Total
Financial institutions payables	1,893,335	466,890	124,804	---	---	2,485,029
Other financial liabilities (*)	818,643	5,835	---	---	---	824,478
	2,711,978	**472,725**	**124,804**	**---**	**---**	**3,309,507**

(*) Does not include balances with Public Authorities.

11.3. Debts and other payables

	2019	2018
Non current debt:	**472,750**	**597,533**
Financial institutions payables	472,750	591,693
Other financial liabilities	---	5,839
Current debt:	**2,604,038**	**1,914,256**
Financial institutions payables	2,598,262	1,893,335
Other financial liabilities	5,776	20,921
Trade and other payables	**2,743,435**	**1,047,400**
Current suppliers	(301)	251
Other payables	2,505,495	776,227
Staff (outstanding salaries)	91,531	21,244
Other Public Authorities' payables (Note 12.1)	146,710	249,678
Debts and other payables	**5,820,222**	**3,559,189**

a) Debt with financial institutions

Below is a breakdown of the most significant terms and conditions for any financial loans and credit facilities in force at 31st December 2019 and 2018:

(In Euros)

Type of transaction	Maturity	Limit	31/12/19 Current	31/12/19 Non-current	31/12/18 Current	31/12/18 Non-current
Loan	20/10/2019	100,000	---	---	29,073	---
Loan (1)	28/02/2019	60,000	---	---	3,648	---
Loan	31/10/2019	45,000	---	---	13,083	---
Loan	31/05/2020	200,000	30,135	---	69,107	29,139
Loan (1)	30/06/2020	100,000	16,326	---	34,254	19,652
Loan	31.12.18	846,300	---	---	165,477	---
Loan	30/11/2020	45,000	14,315	---	15,042	14,319
Loan (2)	06/03/2021	1,000,000	336,747	84,886	332,234	421,572
Loan	19/01/2019	110,000	---	---	36,667	---
Loan	31/07/2021	200,000	67,202	39,810	65,905	107,011
Loan	17.01.20	117,398	37,997	---	---	---
Loan (3)	20.11.22	200,000	66,667	133,333	---	---
Loan	08.01.20	96,507	96,500	---	---	---
Loan	21.03.22	500,000	164,917	214,721	---	---
Credit loan	28/05/2019	100,000	---	---	97,978	---
Credit loan	04.04.20	200,000	192,257	---	---	---
Credit loan	28.02.20	60,000	56,246	---	---	---
Credit loan	12.03.20	100,000	92,141	---	---	---
Credit loan	04.04.20	100,000	75,382	---	---	---
Credit loan	27.05.20	200,000	177,047	---	---	---
		Total	**1,423,879**	**472,750**	**862,467**	**591,693**

(1) Loans guaranteed by a member to the Board of Directors.

(2) Loan signed by an agreement with the European Investment Fund. Pledged with a fixed term bank deposit for 500,000 US Dollars (see note 7).

(3) Co-investment loan to the promoter, for the commercial implementation in the South Korean subsidiary, funding of staff expenses, lease and promotion.

Interest rates for debt with financial institutions is Euribor plus a market spread. At 31st December 2019, the Company had recognised the sum of 11,180 Euros in concept of interests accrued that were pending to be settled (563 Euros at 31st December 2018).

All payments pending to be received in relation to the H2020 scheme grant and, more particularly, in relation to FACCESS Grant Agreement no. 733711 were pledged to guarantee the repayment of the Company's debt with Bankia S.A. amounting to 846,300 Euros. There were currently no debt agreements linked to security rights or mortgaged assets. Due to the Company not having received the full amount corresponding to the grant at 31st December 2018, the above loan had expired and was pending to be settled for the sum of 165,477 Euros. However, this debt was cancelled on 11th January 2019 following the negotiation of a new loan in the amount of 169,260 Euros expiring on 11th July 2019, where the collection of the grant payments was again pledged to the lender.

The Company's management have considered that the Company shall be able to duly comply with all its contractual obligations arising from its current loans at the end of financial year. During the financial year there have been no contractual breaches or delays that may result in the lender's right to claim prepayment for the loans agreed.

(In Euros)

b) Credit facilities and invoice discounting

Following is a list of credit facilities and the amounts available to the Company:

	Withdrawn		Limit		Available	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Credit facilities	593,073	97,978	660,000	100,000	66,927	2,022
Invoice discounting	1,136,036	1,015,141	1,225,000	1,092,576	88,964	77,435
Credit cards	27,167	15,164	113,783	57,241	86,616	42,077
	1,756,276	**1,128,283**	**1,998,783**	**1,249,817**	**242,507**	**121,534**

At 31st December 2019, the average interest rate of non current debt with financial institutions was 2.55% (1.82% in the previous financial year).

c) Other current and non current financial liabilities

Below is a breakdown of the most significant transactions that were in force at the end of financial year:

			2019		2018	
Type of transaction	Maturity	Limit	Current	Non-current	Current	Non-current
Profit participation loan (IVF Bank)	15.03.2020	116,700	5,835	---	23,340	5,835
Other	---	---	5,776	---	(2,419)	4
		Total	**11,611**	**---**	**20,921**	**5,839**

In addition to this, this heading included a profit participation loan granted on 15th June 2013 by the Valencian Finance Institute (IVF as per its Spanish acronym) for the initial amount of 116,700 Euros, to be repaid over a period of 7 years, including a 2-year grace period. This loan accrues interest consisting of a fixed Euribor 3 months rate + 3.50% and a variable component. This variable component is accrued annually according to an annual interest rate based on a % of the Company's total annual profit before tax calculated on the basis of the Company's average equity. This figure is then deducted from the fixed percentage rates to obtain the resulting rate that cannot exceed 8% or be lower than 0.

d) Other payables

This heading includes payables related to the Company's normal business.

e) Information regarding average suppliers' payment period. Information regarding average suppliers' payment period. Third additional disposition. «Reporting obligation» established by Act 15/ 2010 passed on 5th July.

For the purposes established in article 6 of the Resolution issued by the Institute of Accounting and Accounts Auditing (ICAC per its Spanish acronym) on 29th January 2017 in regards to the type of information to be included in the annual report concerning the payment deferrals to suppliers in commercial transactions, and regulated by the third additional disposition. "Reporting obligation" established by Act 15/2010 of 5th July amending Act 3/2004 of 29th December on combating late payment in trade transactions, below is the above mentioned information for financial years ending 31st December 2019 and 2018:

(In Euros)

Concept	2019	2018
	Days	Days
Average suppliers' payment period	105	31
Paid transactions ratio	129	27
Outstanding transactions ratio	64	62
	Euros	
Total payments made	2,379,851	1,779,703
Total payments outstanding	1,398,641	229,377

For these exclusive purposes, the concept of trade payables comprises all suppliers and other payables arising from the supply of goods or services that are included within the scope of the legal payment period regulation. Net purchases and external services' expenses therefore comprises all amounts recorded as such in conformity with the General Accounting Plan.

f) <u>Further information on financial liabilities</u>

On 16th September 2019, the Company signed an investment agreement with Nice & Green S.A. amounting to 4,000,000 Euros. This agreement came into fruition in a first investment tranche through a capitalisable loan for the sum of 500,000 Euros and subsequently in three other tranches with the issuance of warrants that are convertible into shares for an amount of 3.5 million Euros. The investment obligation ends in September 2020.

The loan disbursed corresponding to the first tranche accrued an interest rate of 3% and was capitalised
through a capital increase by conversion of loans at an amount less than 92% of the weighted average price
of the share in the 6 stock market sessions prior to the signing of the investment agreement (see note 10).

Additionally, the strike price of warrants will be established in the same way as the capitalisable loan once the corresponding disbursements have been requested by the issuer.

As a security for the agreement reached, members of the Company's Board of Directors, respectively, had lent Nice & Green S.A. 141,470 and 150,586 shares each respectively as a security for the loan to be capitalised.

The funds raised will be used to accelerate the organic growth that the Company is experiencing in geographical areas such as Latin America, the United States and Asia, among others. (see note 13.)

12. Public Authorities and tax status

12.1 Public Authorities' current balances

Following is a list of all Public Authorities' payable balances at 31st December 2019 and 2018:

(In Euros)

	Euros			
	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Deferred tax assets (note 12.4)	**57,862**		**420,368**	
Tax receivables:				
•VAT	30,202		27,330	
•Tax withholdings and prepayments.	---		28	
Amounts receivable in concept of grants:	---		253,890	
Other Public Authorities' receivables	**30,202**		**281,248**	
Deferred tax assets (note 12.4)		**55,531**		**72,297**
Social security payables		20,833		17,564
Tax payables:				
•VAT		---		122,267
•Income tax retentions		125,877		109,847
Other Public Authorities' payables		**146,710**		**249,678**

12.2 Financial years open to inspection and inspection actions

In accordance with current regulations, tax returns are not considered definitively settled until they are inspected by tax authorities, or until their statute of limitations has expired four years after being submitted. At 31st December 2019, the Company has all applicable main tax declarations submitted since 31st December 2015 open for inspection by the tax authorities.

The Company's management considers that they have adequately submitted all applicable tax declarations. However, in the event of an inspection, this may lead to differences in the Management's interpretation of current tax regulations regarding the tax treatment of specific transactions and, therefore, may result in additional tax liabilities. Should these tax liabilities materialise, the Management expects that these shall not significantly affect the Company's financial statements.

12.3 Reconciliation between accounting profit/ loss and current income tax expense

Corporation tax for this financial year is calculated on the basis of accounting or financial profit/loss determined by the application of generally accepted accounting principles, which do not necessarily coincide with taxable profit, which is the taxable base.

The reconciliation of accounting profit/ loss and the taxable base for corporate tax is as follows:

	Euros			
	Increase	Decrease	2019	2018
Net profit for the year. (loss)			**1,718,446**	**852,559**
Permanent differences:				
••Other non claimable expenses	1,593	---	1,593	6,251
Previous taxable base			**1,720,039**	**858,810**
Compensation of tax losses			---	(858,810)
Taxable profits			**1,720,039**	**---**

(In Euros)

Taxable Base rate (25%)		430,010	---
Tax credit for tax losses of previous financial years		(265,647)	---
International double taxation deductions			---
•Current financial year		(67,504)	---
•Previous financial years		(96,859)	---
Positive net tax payable		---	---
Tax withholdings and prepayments		---	---
Amounts to be refunded		**---**	**---**

At the end of financial years 2019 and 2018, these permanent differences correspond to non claimable expenses arising from non tax claimable fines and surcharges.

Following is a breakdown of the calculation of Corporation tax expense /(income):

	Euros	
	2019	**2018**
(Income) Withheld tax deductions	(67,504)	(105,452)
Expense/ Withheld tax deductions	67,504	---
Taxable Base rate - Current expense	430,010	---
Current tax expense/ (income)	**430,010**	**105,452**
Acknowledgment of tax credit for tax losses	---	(265,647)
Application/(Acknowledgment) of deductions for the current financial year	---	(49,629)
Deferred tax expense/ (income)	**---**	**(314,916)**
Total Corporations tax expense/ (income)	**430,010**	**(314,916)**

At the end of the previous financial year at 31st December 2018, and based upon the returns obtained in said financial year and the forecasts for future financial years, the Company had recognised the sum of 265,647 Euros in concept of tax credit for tax losses which were not included in the tax forecast for said year.

Likewise, and for the same reason, the Company also recognised the sum of 154,721 Euros in concept of outstanding international double taxation deductions (Taxpayer borne tax, article 31 of the Corporation Tax Act).

Therefore, and in conformity with the criteria described in note 2.c, the effects of these changes in the estimation criteria regarding the achievement of future taxable profits was posted in a prospective manner to the profit/ loss account at 31st December 2018 under the deferred tax income heading in the amount of 420,368 Euros.

12.4. Deferred tax assets and liabilities

<u>Deferred tax assets:</u>

According to the principle of prudence, deferred tax assets corresponding to deductible temporary differences, unused tax losses and deductions from previous financial years and other unused tax credits are only recognised to the extent that it is probable that taxable profits will be available in the future against which those may be applied.

(In Euros)

Below is a breakdown of the recognised tax losses from previous financial years and applied in the tax forecast for 2019:

	Euros		
	Opening balance	Applied in financial year	Closing balance
Outstanding tax losses from financial year 2014	286,053	(286,053)	---
Outstanding tax losses from financial year 2015	708,881	(708,881)	---
Outstanding tax losses from financial year 2017	67,653	(67,653)	---
Balance at 31st December 2019	**1,062,586**	**(1,062,586)**	**---**

	Opening balance	Applied in financial year	Closing balance
Outstanding tax losses from financial year 2014	1,144,863	(858,810)	286,053
Outstanding tax losses from financial year 2015	708,881	---	708,881
Outstanding tax losses from financial year 2017	67,653	---	67,653
Balance at 31st December 2018	**1,921,397**	**(858,810)**	**1,062,586**

Below is a breakdown of all outstanding deductions based on the Corporations Tax declarations submitted and the tax forecast for the current financial year at 31st December 2019 and 2018:

Arising from year	2019	Arisen in financial year	Applied in financial year	
2015	3,309		(3,309)	---
2016	2,944		(2,944)	---
2017	43,016		(43,016)	---
2018	105,452		(47,590)	57,852
2019(*)	---	67,504	(67,504)	
Total	**154,721**	**67,504**	**(164,363)**	**57,852**

(*) 2019 Corporation tax estimation

Below is the breakdown of the deferred tax heading:

	Euros	
	2019	**2018**
Deferred tax assets:		
- Tax credits arising from tax losses to be offset	---	265,647
- Tax credits arising from deductions	57,852	154,721
Deferred tax liabilities:		
- Temporary differences	(55,531)	(72,297)
Net deferred tax balance	**2,321**	**348,071**

(In Euros)

Below is the breakdown of the deferred tax gross amounts:

	Euros	
	2019	
	Deferred tax assets	Deferred tax liabilities
At 31st December 2018	**420,368**	**(72,297)**
Changed/ (added) to equity	-	
Changed/ (added) to profit/loss	(362,505)	16,766
At 31st December 2019	**57,862**	**(55,531)**

	2018	
	Deferred tax assets	Deferred tax liabilities
At 31st December 2017	**---**	**(57,713)**
Changed/(added) to equity	---	(28,486)
Changed/(added) to profit/loss	420,368	13,903
At 31st December 2018	**420,368**	**(72,297)**

13. Income and expenses

a) Net Revenue

Following is a breakdown of the Company's net revenue from its regular business by geographical area:

	%	%
Markets	**2019**	**2018**
Spain	6.91	14.70
Other EU countries	---	---
Other countries	93.09	85.30
	100	**100**

Following is a breakdown of the Company's net revenue from its regular business by line of business:

	%	%
Line of business	**2019**	**2018**
Services provided	100	100
	100	**100**

At 31st December 2019, the Company had recorded the amount of 850,832 Euros corresponding to the estimated income from support and maintenance services to be accrued in the following financial year (372,236 at 31st December 2018) under the "Short term accruals" heading in the liabilities side of the attached balance sheet.

(In Euros)

b) Supplies

The expenses incurred for using licenced programmes and software necessary for developing the products that the Company will subsequently make commercially available under licence are included under the "profit/loss account" heading, which amount to 1,095,910 Euros at 31st December 2019. (120,022 Euros in 2018).

c) Work undertaken by the Company on its own assets.

	2019	2018
Work undertaken by the Company on its own assets	594,556	482,866
	594,556	**482,866**

In the previous financial years, the Company has been developing the SDK FacePhi product which has resulted in the capitalisation of certain intangible fixed assets in the amounts shown in the table above. (See note 4).

d) Operating subsidies incorporated to profit/ loss

At 31st December 2019, in accordance with the criteria described in note 3.8, the Company's Management posted to the profit/loss account the sum of 67,063 Euros (620,376 Euros at 31st December 2018), of which 29,617 Euros corresponded to the IVACE grant (Valencian Institute of Business Competitiveness) past due in 2018 (see note 10.2).

e) Staff expenses

	2019	2018
Salaries, remunerations and similar expenses	1,748,177	1,552,343
Social security payable by the Company	196,366	163,731
Other social contributions	---	41
	1,944,543	**1,716,115**

Following is a table showing the average amount of staff employed by the Company during the current financial year classified by categories:

	2019	2018
Senior Executives	2	2
Technical, scientific and intellectual professionals and/ or support staff	15	13
Administration	6	5
Sales and similar	3	3
Total average staff	**26**	**23**

Likewise, following is a table showing the average amount of staff at the end of the current financial year classified by gender:

(In Euros)

	2019			2018		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Board Members	2	-	2	2	-	2
Technical, scientific and intellectual professionals and/ or support staff	13	2	15	12	1	13
Administration	1	5	6	2	3	5
Sales and similar	3	-	3	3	-	3
Total staff at the end of financial year	**19**	**7**	**26**	**19**	**4**	**23**

At 31st December 2019, the Company has employed two members of staff with a degree of disability equal or greater than 33% (from 1st to 31st December 2018).

f) Other operating expenses

Following is a breakdown of Other operating expenses by year:

	Euros	
	2019	**2018**
External services:		
Research and development expenses	163	---
Leases and licensing fees	72,368	71,685
Repairs and maintenance	5,452	6,300
External consulting services	1,773,448	1,467,394
Insurance premiums	27,051	18,482
Bank charges and similar	76,642	38,007
Publicity, advertising and public relations	323,132	387,888
Supplies	25,642	32,847
Other services	452,726	461,784
Taxes	805	1,804
Loss, impairment and variations in trade provisions due to bad debt (note 8)	687,652	---
Other operating expenses	**3,445,081**	**2,486,192**

Under the heading "External consulting services" were included expenses paid for consultant services during financial years 2019 and 2018 as well as in relation to the Alternative Investment Market (MAB).

g) Foreign currency: Exchange differences

There were assets expressed in foreign currencies amounting to 8,314,215 Euros (3,438,404 Euros in 2018). Below is a breakdown of the most significant elements:

(In Euros)

Element	Currency	Euros 2019	Euros 2018
Trade receivables (foreign currencies)	USD	7,705,025	2,767,461
Cash (current account in foreign currency)	USD	115,259	185,801
Cash (in foreign currency)	USD	4,346	4,793
Fixed term deposits (in foreign currency)	USD	489,585	480,349
	Total	**8,314,215**	**3,438,404**

Below is a breakdown of the total liabilities expressed in foreign currencies amounting to 2,346,889 Euros (1,585,105 Euros in 2018):

Element	Currency	Euros 2019	Euros 2018
Suppliers (in foreign currency)	USD	2,213,366	569,964
Advance payments (in foreign currency)	USD	133,523	1,015,141
	Total	**2,346,889**	**1,585,105**

Below is a list of the main transactions involving foreign currencies other than the Euro:

Transaction (Expense)/ Income	Currency	Euros 2019	Euros 2018
Sales	USD	7,628,353	4,480,826
Services received	USD	(1,333,395)	(1,286,143)

Below are the sums corresponding to exchange differences recognised in profit/loss account with a separate section for those arising from transactions settled during the period and those that remained outstanding at 31st December 2019 and 2018:

Financial instrument	Currency	Exchange differences 2019	Exchange differences 2018
Positive cash differences and financial investment	USD	75,878	5,815
Negative cash differences	USD	(19,773)	---
Negative customer payments differences	USD	2,312	56,615
Positive customer payments differences	USD	(28,814)	(48,150)
Negative supplier payments differences	USD	55,719	13,480
Positive supplier payments differences	USD	(24,282)	(10,042)
Total for transactions settled during financial year		**61,040**	**17,718**

Financial instrument	Currency	Exchange differences 2019	Exchange differences 2018
Negative customer balances differences	USD	31,284	---

(In Euros)

Positive customer balances differences	USD	---	(22,716)
Negative advance payments balances differences	USD	19,373	10,447
Positive payable balances differences	USD	(23,060)	---
Total outstanding transactions		**27,597**	**(12,269)**
Total exchange differences applied to financial year		**88,637**	**5,449**

14. Board of Directors' members and Senior Management remunerations

In conformity with the Appointments and Remunerations Committee's proposal dated 19th December 2018, the remunerations for the Governing Body and the Board of Directors for financial year 2019 were finally approved by the Annual General Shareholder's meeting held on 21st June 2019 according to the following amounts and concepts:

- Senior management salary remunerations: an overall amount of 720,000 Euros. In addition to the above amount, a 5% sum equal to the gross amount to be paid in the event of exceeding one million Euros in turnover.
- In concept of Board of Directors remunerations, the sum of 200,000 Euros for expenses and 50,000 Euros to compensate members to the Audits Committee and the Remunerations Committee.

In conformity with the above agreement, the remunerations accrued at 31st December 2019 were as follows:

a) Board of Directors' member remunerations as per the articles of association and loans

Gross amounts received in financial year 2019 until 31st December in concept of salaries and remunerations for Board of Directors' members amounted to 197,111 Euros, with 80,000 Euros corresponding to the Senior Management (200,000 Euros, with 80,000 Euros corresponding to the Senior Management in the previous financial year).

Likewise, Board of Directors' members have received further compensations corresponding to the vehicles purchased by the Company through operating lease agreements (see note 5).

b) Senior Management remunerations and loans

Total remunerations accrued until 31st December 2019 amounted to 800,000 Euros, with 720,000 Euros corresponding to salaries and remunerations and 80,000 corresponding to expenses payable to the Board of Directors (the same amount as the previous financial year).

In addition, at 31st December 2019, the Company accrued the sum of 87,306 Euros which was pending to be settled and was equal to the variable remuneration of 5% of the gross amount to be paid in the event of exceeding one million Euros in turnover, as described above.

During financial year 2019, the Company granted a refundable advance payment to one of the Senior Executives and also member to the Board of Directors in the amount of 340,000 Euros (195,860 Euros at 31st December 2018) (see note 7). Said loan was paid off by the debtor by selling the Company’s treasury shares. This transaction was authorised by the Board on 8th April 2019. (see note 8.1).

(In Euros)

c) Conflicts of interest involving the Administrators

During the current financial year, and in conformity with their duty to avoid any conflict of interests in the Company, the Administrators who have held positions in the Board of Directors have complied with their obligations pursuant to article 228 of the consolidated text of the Corporations Act. Likewise, both themselves as well as their related parties have avoided incurring in any of the cases of conflict of interest set out in article 229 of the above Act, except by prior authorisation, none of which were granted in the current financial year.

15. Balances and transactions with Group companies and other related parties' transactions

For the purposes of submitting and preparing these financial statements, and according to the financial reporting framework identified in note 2, another company is understood to be part of the group when both are related by a direct or indirect control relationship, analogous to the provision in article 42 of the Code of Commerce for groups of companies; or alternatively, and according to rule 13 of preparation of financial statements, when the companies are controlled by any means by one or more individuals or legal entities acting jointly or under a single management by means of agreements or articles of association.

In this regard, and as indicated in note 1, below is a list of the companies part of the group and related to the Company under these circumstances:

Company from the Group (Art. 42 Code of Commerce)	**% participation**	**Address**	**Main activity**
FacePhi APAC, LTD	100%	Pangyo (South Korea)	Marketing of facial biometric solutions
Group entity (Decision-making unit)	**% control**	**Address**	**Main activity**
CF Intercity Sant Joan	100%	San Juan (Alicante)	Sport association

a) Financial investments in Group companies

<u>Equity instruments</u>

The Company contributed 100% of the share capital ofFacePhi APAC, LTD,a new subsidiary incorporated on 15th October 2019 for an indefinite time, with registered address in Pangyo (South Korea) as part of its internationalisation and business development strategy . The Company was incorporated with a seed capital of 100,000,000 KRW, which equals to an amount of 81,264 Euros, fully subscribed and paid up by the Company as single partner.

The shares in equity instruments in Group companies in accordance with the criteria described in note 3.4, are measured by the initial consideration at the currency exchange rate at the the purchase or subscription date. Since the subsidiary Company had not started their operating activity at 31st December 2019, no impairment on the investment value was deemed necessary, as the losses generated by the subsidiary are brought under its start-up expenses.

<u>Financial loans</u>

At 31st December 2019, the Company had entered into a loan agreement with Facephi APC Ltd for a sum of 88,051 Euros, with a maximum maturity of 3 years and payment of interests equal to the money legal interest.

<u>Other information</u>

(In Euros)

As the Company is the one with the most assets out of all the companies from the group, below is a table showing the required information in relation to the aggregated volume of assets, equity and profit/loss according to the latest available financial information:

Company Name	Total Assets		Equity		Profit/loss	
	2019	2018	2019	2018	2019	2018
Group companies						
FacePhi Biometria, S.A.	11,114,755	---	4,382,194	---	1,288,436	---
FacePhi APAC, LTD	43,793	---	39,794	---	(37,349)	---
Related companies:						
CF Intercity Sant Joan	193,493	---	127,968	---	3,023	---
Total aggregated volume	**11,352,041**	**---**	**4,549,956**	**---**	**1,254,110**	**---**

b) Balances and commercial transactions with Group companies

On 1st December 2019, the Company and Intercity San Joan FC, entered into an advertising sponsorship agreement for a term of 3 seasons, from 1st July 2019 to 30th June 2022, at the rate of 100,000 Euros per season. At 31st December 2019, the Company had recorded the amount of 50,000 Euros corresponding to the expenses of the first semester of the 2019-2020 season under the “Other operating expenses” heading in the profit/loss account.

At 31st December 2019, the Company granted an advance payment to Intercity San Joan FC in the amount of 65,000 Euros (note 8.3) that will be settled during the first semester of 2020 by billing the first annuity of the above mentioned agreement.

The commercial transactions made with related parties are negotiated on the basis of the market prices.

16. Environmental information

The Company did not possess any significant assets included in its tangible fixed assets aimed at minimising its environmental impact nor for the protection of the environment and it had not incurred any significant costs for the purposes of protection and improvement of the environment during the current financial year.

To date, the Company was not aware of any contingencies in connection with the protection and improvement of the environment nor regarding their possible impact in its profit/loss and equity.

No grants of an environmental nature were received.

17. Provisions and contingencies

The Company benefited from one deposit borrowed from a member to the Board of Directors in the amount of 16,326 Euros (58,662 Euros in 2018) to guarantee the payment of a loan taken out with a financial entity.

18. Other information

a) Auditor's fees

On 15th June 2017, the Annual General Shareholders' meeting agreed to appoint Auren Auditores SP, S.L.P. as external auditors to audit the Company's financial statements for financial years ending 31st December 2017, 2018 and 2019.

Estimated fees to be paid during financial year 2019 to Auren Auditores SP, S.L.P. in concept of account auditing services amounted to 19,500 Euros (19,000 Euros in 2018). On the other hand, at 30th June 2019, the sum of 11,400 Euros in concept of other audit and verification work had been accrued (7,550 Euros at 30th June 2018).

On the other hand, the same audit firm was entrusted with the auditing of the financial statements of one of the Group companies, accruing the sum of 8,500 Euros during financial year 2019 in concept of fees.

Likewise, at 31st December 2019 and 2018 no fees payable to other companies related to the firm Auren had been accrued in concept of tax consultancy services, special reports, verification and other services.

b) Off balance sheet arrangements

There were no arrangements nor contractual agreements not included in the balance sheet and concerning which there was no information included on a separate note to the report, including their potential financial impact, provided that this information was significant and helpful to establish the Company's financial position.

19. Post balance sheet events

Ongoing capital increases at the date of preparation of the report

In relation to the investment agreements in force as described in note 11.g, on 6th March 2020 the Company's Board of Directors, and under the delegation agreed in the General Meeting dated 20th December 2019, agreed to make a first issue of warrants convertible into shares for a conversion amount of 1,050,000 Euros, which shall not be converted at a price lower than 130% of the shares' nominal value, that is, at a price lower than 0.052 Euros. In addition, the number of equity warrants to be issued was determined by the maximum conversion amount of 1,050,000 Euros divided by the minimum conversion amount, that is 20,192,308. The above issue agreement came into fruition by public deed dated 12th March 2020, pending to be recorded.

In any case, the total nominal amount of the increases in share capital made to carry out the applications for the conversion of Equity Warrants was agreed that it cannot, under any circumstances, exceed 265,542 Euros.

On 20th March 2020, Nice & Green applied for the conversion of 252,780 equity warrants by submitting the corresponding exercise notice to the Company, which entitled them to subscribe 252,780 new shares at a nominal value of 0.04. The strike price of equity warrants was 2.7692 Euros corresponding to 92% of the lowest "VWAP" of the latest six market days, representing an amount of 699,998 Euros. Consequently, the new shares will have an issue rate per share of 2.7292 Euros of share premium and 0.04 of nominal, increasing the share premium and the nominal capital in 689,887 Euros and 10,111 Euros, respectively.

Taking into account that 20,192,308 equity warrants were issued, a total of 19,939,528 equity warrants are pending to be redeemed for a maximum conversion amount of 350,002 Euros.

On 1st April 2020, the conversion was converted into a public deed in accordance with the deed executed by Mr. Ignacio Javier Torres López, notary public from the Association of Notaries of Castilla-La Mancha, under number 316 of his protocol, pending to be recorded at the date of preparation of these financial statements.

On the other hand, on 7th April 2020, Nice & Green informed of the exercise of its right to convert 106,886 Equity Warrants for a conversion amount of 350,000 Euros.

As a result of the above, the Company's will execute a deed to increase the share capital aiming at covering the issue of the issued equity warrants. The Company's new shares to be issued to carry out the conversion of 106,886 Equity Warrants will have an issuance rate per share of 3.2745 Euros, of which 3.2345 Euros will correspond to the share premium and 0.04 Euros to the share capital. Consequently, the increase in the Company's share capital will be granted for a nominal amount of 4,275 Euros.

<u>Approval to trade on Euronext Growth in Paris</u>

On 19th February 2020 FacePhi received approval to begin trading on Euronext Growth in Paris starting 25th February 2020. In this sense, the Company will trade under the dual listing formula, allowing investors to operate in both markets (Euronext or MAB) equally.

<u>Risk analysis regarding COVID-19</u>

The appearance of the COVID-19 Coronavirus in China in January 2020 and its recent worldwide spread to a large number or countries has made the virus outbreak to be qualified as a pandemic by the World Health Organization since last 11th March.

Taking into account the market complexity due to their globalisation and the current lack of an efficient medical treatment against the virus, the consequences on the Company's transactions will depend to a large extent on the evolution and spread of the pandemic in the coming months, as well as the response and adaptation capabilities of all the affected economic agents.

In view of the above, at the date of preparing these Financial Statements, it is too early to assess in detail or quantify the possible impact of the COVD-19 on our main activity and operating transactions due to the uncertainty on its consequences in the short, medium and long term. In any case, the consequences arising from COVID-19 are not considered a post event that requires adjustment on the financial statements from financial year 2019, notwithstanding the fact that they may be recognised in the financial statements from financial year 2020.

In this regard, at the date of preparing these financial statements, an actual fall in the ongoing commercial transactions or the planned activity for the first months of 2020 has not occurred as a consequence of the COVID-19, and it is not possible to assess if this situation will be maintained in the future and to which extent.

However, taking into consideration the measures taken by the governments of the countries in which the Company operates to manage the COVID-19 health crisis, the Company Administrators and Management have preliminarily evaluated the current situation according to the best information available. Due to the above mentioned considerations, this information may be incomplete. The following aspects are highlighted as a result of the evaluation made:

- Staff health risk: it is the Company's priority to guarantee first of all the health of all its staff, which is why since the beginning of the health crisis, hygiene measures have been put in place and trips to risk areas have been restricted. After the pandemic was declared, and the state of alarm/emergency was declared in some territories, remote work measures have been implemented to the extent allowed by the different roles, making individual decisions in each territory, with the purpose of keeping our staff healthy.

- Liquidity risk: the general situation in the markets may predictably cause a general increase in liquidity tensions in the economy, as well as a contraction of the credit market. In this regard, the Company has a strong financial position, with credit lines and funding through convertible debt, although not available for a significant amount, which, together with the implementation of specific plans for improving and efficiently managing liquidity, will allow to address said tensions.

- Transaction risk: the changing and unpredictable situation may lead to the risk of temporary interruption of some activities and transactions regarding ongoing licensing proposals and proposals for implementation of our technology, developed by the Company. The Company's Management considers that, since our business is basically focused on marketing technological products, and since this is one of the industries with less exposure risk to the COVID-19 crisis according to experts, the risk of this situation affecting significantly to our activity may be considered low. Nevertheless, work teams with our representatives in the Company's different markets have been arranged and specific procedures for constantly monitoring and managing the evolution of the ongoing transactions have been established aiming at minimising its impact on them.

- Risk of change of financial indicators: the above mentioned factors may cause a decline in the amounts under relevant headings for the Company such as "Net revenue", "Ebitda" or "Profit after tax", or Company's key indicators (Net financial debt/Ebitda ratio) in the next intermediate financial statements. Nevertheless, for the time being it is not possible to reliably assess its impact taking into account the determinants and restrictions indicated above.

Lastly, it should be highlighted that Facephi's Company Administrators and Management are constantly supervising the evolution of this situation with the purpose of successfully addressing the financial and non-financial impacts that may occur.

* * * * * *

Yo, Sara Mojica Aracil, con DNI español 48579713X, traductora de español-inglés, certifico que la presente traducción del documento "Memoria CCAA19" es una traducción fiel y completa del documento original.

MANAGEMENT REPORT

FacePhi is a global leader in facial recognition technology.

FacePhi has successfully completed and finished the consolidation of inPhinite. Launched in 2018, inPhinite is a combination of biometric and other type of security systems to create a comprehensive ID authentication and digital integration solution that allows users to access, verify and operate with different services and products from mobile and web applications. An easy-to-integrate framework that allows customers to decide which components they want to enable in order to provide a better, more tailored end user experience. In addition to this, inPhinite has been granted the Interoperability Test certification for SelPhi® by FIDO UAF, the world's largest ecosystem for standards-based, interoperable authentication processes.

Including new technologies such as “Digital onboarding” or “voice recognition” through collaborations shall increase FacePhi's product portfolio by creating new opportunities to increase our turnover from current and potential clients. Currently, we have five products in the market:

- SelPhi: Facial biometric authentication
- Look&Phi: Periocular biometric authentication
- SelphID: Digital onboarding and KYC (Know Your Customer)
- PhiVox: Voice biometric authentication and call centre
- IdentiPhi: Selfie vs image ID matching
- SignPhi Written biometric authentication
- 4Phingers Fingerprint biometric authentication

FacePhi’s **SelPhi®** is still **FIDO UAF certified.** Facephi’s technology has passed the interoperability test FIDO UAF created by **FIDO**, the largest ecosystem for standards-based, interoperable authentication processes. This certification improves the usability of authentication, eliminates the use of passwords (**Passwordless Experience**), provides an easy and fast process (transparent for users) and uses only a device (mobile or tablet). The **FIDO UAF** protocol also ensures protection against phishing, man-in-the-middle or replay attacks.

FacePhi is a **global leader in facial recognition technology.** With a strong concentration in the financial sector, our product is rapidly becoming a service used by banks all over the world. Its implementation doesn't just save money, it is also a way to **attract clients and build loyalty**, while increasing the **security of transactions**.

This innovative technology enhances the **user experience effortlessly** by simply using the camera on their mobile device to take a selfie; this then becomes their method of identification and interaction with the bank’s mobile application.

Biggest risks and uncertainties faced by the Company

The main risk factors are not significantly different from those included in the Information Document concerning the Company's Incorporation on the Market (DIIM for its Spanish acronym) of June 2014 or those included in the Reduced Increase Documents (DAR for its Spanish acronym) of March 2015 and February 2016, which were properly updated. It should be taken into account that these risks are not the only ones the Company may have to face and that they may have a material adverse effect on FACEPHI BIOMETRIA, S.A.'S share price, which could lead to a partial or complete loss of the investment made. The most relevant risk factors are indicated below, notwithstanding other least relevant factors that may exist or that may be unknown at the time of drafting this management report.

Risks related to the excessive exposure of technological innovation

FacePhi is part of an industry under intensive research and technological innovation. This means that the product needs to be constantly updated and thus, the range of products available in the market is subject to a quick shelf life or obsolescence. Innovation requires an investment in human resources, equipment and marketing that FacePhi shall be in a position to deal with.

New companies or new technologies that directly affect the Company

Technology is always growing and evolving, which is why new strong companies offering a product with a higher competitive advantage may be created or a more efficient type of technology or biometric, or with a broader social acceptance, may appear.

In the event this happens, as the competition increases, the market share they acquire is deducted from the market share that the companies in this industry currently have. In that scenario, production and customers may decrease and, consequently, the share price could be adversely affected. Despite the above, FacePhi is continuously researching and developing in order to further evolve and improve its own technology. This benefits the Company and gives them a competitive advantage against those companies that want to come into the industry.

Protecting the Algorithm in the Registry

It should be noted that mathematical algorithms cannot be patented and, therefore, they cannot be registered before the Spanish Patent and Trademark Office to protect them against potential competitors. Although the algorithm's authorship is protected by Royal Legislative Decree 1/1996 of 12th April passing the consolidated text of the Intellectual Property Act and that the algorithm is constantly changing, there is a certain risk that the software may not be exclusive.

Intellectual Property Rights

FacePhi Biometría owns the Selphi and FacePhi Beyond Biometrics trademark registrations, and their ownership grants the protection of these brands both within the European Union territory (EUTM No. 015106354 and EUTM 015114853, respectively) as well as within the territory of the United States of America, pursuant to the trademarks granted by the USPTO (United States Patent and Trademark Office Serial Nos. 79190080 and 79190126). Likewise, the following EU Trademark certificates have been obtained under registration Nos. 017896710 LookΦ 017948110 inPhinite; 017948113 4Phingers; 017948116 Phivox; 017948119 SignPhi; 017948878 SelphID. Following the entry into force of the Trade Secrets Act 1/2019 of 20th February, a new scenario shall be established with more legal security for any secret knowledge (algorithms, know-how, etc.) than before, resulting in further protection against the potential breach of trade secrets.

On 13th June 2019, an application for the subsequent designation of international trademark No. 1305244 FACEPHI BEYOND BIOMETRICS (figurative) was filed for protection in South Korea, Philippines, Indonesia and Singapore.

One of FacePhi's most important assets is its programmes and software (algorithms), thanks to its efforts to comply with the fundamental international conditions for protecting trade secrets.

Trademark registrations: The company currently owns as an asset the following trademark rights:

1. FACEPHI BEYOND BIOMETRICS
2. SELPHI, YOU BLINK, YOU´RE IN
3. LOOK & PHI
4. INPHINITE
5. FOURPHINGERS
6. PHIVOX
7. SELPHI ID
8. SIGNPHI

"FacePhi Beyond Biometrics" is protected in the following territories: European Union, USA, South Korea and Singapore. (The protection in the Philippines and Indonesia is pending to be accepted by the Offices). This trademark has also been applied for registration before the national offices in Argentina and Ecuador.

"Selphi, you blink, you´re in", is protected in the European Union and the USA. The other above mentioned trademarks are protected in the European Union.

Risks arising from the loss of key staff

As FacePhi is a young company linked to its founders and managers, it is inevitable to highlight the risk arising from their departure or removal from the Company's management. Although this is not expected to happen voluntarily as they are still the main shareholders, the risk of this happening for a different reason cannot be ruled out. In addition, the passing or departure of key staff may adversely affect the Company's business, profit/loss, prospects or financial, economic or asset situation.

Risks related to the share price

Developments in the share price. From the date of its debut on the Market, FacePhi has experienced high volatility as a result of, fundamentally, the share's own characteristics. Facephi is a very small capitalisation company ("Small cap"). Facephi has a small capitalisation given its current size, even comparing it to the other listed companies in the MAB-EE to the date of this report, with a market capitalisation of around 41.4 million Euros at the end of 2019.

Risk of social acceptance

If consumer preferences and/or the market changed, since the technological industry is constantly developing, consumer trends may change, which may, to a greater or lesser degree, affect the use of facial biometrics as opposed to other biometric or security systems.

Risks arising from Covid-19

On 13th March, the European Commission warned that the European Union economy would shrink 1.1% in 2020, as opposed to the 1.4% growth predicted in January, as a result of the pandemic. The fall would be due to the interruption of the production lines of intermediate products manufactured in China and other Asian countries, the consequences of the restrictions on the mobility of people and liquidity restrictions. Nevertheless, these estimations may fall short as the disease progresses and there is more data available regarding its actual impact on the economy.

In the case of Spain, the great significance of the services sector on the GDP, together with the fragmentation of their business network, comprised by 80% SMEs, are an additional challenge. After the state of emergency was declared, experts estimate that Spain's economic activity will be maintained at 60%. Public administration (95%), agriculture (90%), construction (80%) and information technology and communications (75%) will continue virtually at full capacity, whereas the industries with the most restrictions on the mobility of people and business activity included in the state of emergency will be very affected.

The impact of coronavirus on economy will not only adversely affect companies with a partial or full decrease in their activity in the short term, but it will change consumer behaviour and the market in the medium term, pushing companies to reinvent their products and services to adapt them to a new reality, which will deeply change the entities that they must urgently design and plan to be ready.

Theft or hacking of essential information and technology code

The risk of a potential hacker attack is always present despite having a secure internal system. In the event of a leakage of information that would make internal data publicly available, as well as the algorithms used in its technology, another company may plagiarise the source code and offer it to consumers as its own product.

Recurrent revenues

Segmented between the sale of recurring or perpetual licences, the Company's income types also include other sources including services such as support, maintenance, certification, consulting, upgrades or specific development. Currently, recurring licence sales represent over 50% of the Company's turnover. FacePhi's future success shall depend upon the renewal of recurring licences, attracting new customers, selling new licences or products to its existing customers, increasing the number of recurring licences sold or developing new products.

Analysis of the business evolution and profit/loss and the company’s situation.

At 31st December 2019, the Company’s revenue was 8,194,946 Euros, +83% more than 2018. This represents an absolute change increase of 3,714,120 Euros in comparison to 2018.

Facephi’s income is characterised by its strongly marked seasonal variation (most income is generated in the last quarter and months of the year). However, expenses are more linear during the year, which adversely affects the half-year proft/loss with half-yearly losses and low turnover year by year.

In 2018, the turnover was 1,780,157 Euros, which was an increase as opposed to 2017, i.e., 66% more than the previous financial year.

EUROS	2019	2018 A	2017 A
Net revenue	**8,194,946.30 €**	**4,480,826.15 €**	**2,700,669.00 €**
Abs. Var.	3,714,120.15 €	1,780,157.15 €	692,950.00 €
Relativa % Var.	**83%**	66%	35%

There has been a very positive evolution in revenue in the last few financial years. Latin America continues to be its main market.

Following is a breakdown of the Company's net revenue by line of *Services*:

	%	
Line	**2019**	**2018**
Services provided	100.00	100.00
	100.00	**100.00**

In 2019, the Company's EBITDA likewise increased to the amount of 3,076,209 Euros as opposed to 1,279,804 Euros in 2018 (855,929 Euros in 2017), following the trust deposited in our project by the financial markets, as shown in the development of our share price in the MAB in 2019.

Euros	2019	2018	2017	2016
EBITDA	**3,076,208.91 €**	**1,279,804.00 €**	**855,929.00 €**	**195,273.00 €**
Absolute variation	1,796,404.91 €	423,875.00 €	660,656.00 €	790,538.00 €
Relative variation	140%	49,5%	338,3%	

EBITDA in 2019 represented a quantum leap from the values seen in 2018 and 2017. Facephi's income is characterised by its strongly marked seasonal variation (most income is generated in the last quarter and months of the year). However, expenses are more linear during the year, which adversely affects the half-year profit/loss with half-yearly losses and low revenue year by year.

At 31st December 2019, the Company's equity amounted to 4,382,194 Euros, whereas at 31st December 2018 amounted to 2,588,176 Euros.

	2019	2018	2017
EQUITY	4,382,193.89 €	2,588,176.00 €	1,382,362.00 €
Absolute variation	1,794,017.89 €	1,205,814.00 €	526,664.00 €
Relative variation	69%	87%	62%

Equity in 2018 considerably increased to 2,588,176 Euros from the amount of 1,382,362 Euros in 2017.

At 31st December 2019, the Company's equity was positive, as it was in the previous financial years 2017, 2016 and 2015, which, for the purposes of the commercial regulation, is balanced and above the requirements established in the Corporations Act (art. 327). The profit participation loan granted by the Valencian Finance Institute on 15th June 2013 is taken into account in the calculations.

At 31st December 2019, the total bank debt (short and long term) amounted to 3,071,011 Euros, 24% higher than at the end of 2018 (in comparison to a +83% increase in revenue), due to the increase in credit lines and advance payment lines with several institutions for the advance on current assets.

Euro	2019	2018	2017
Debt with financial institutions	**3,071,011.25 €**	**2,485,028.00 €**	**1,550,708.00 €**
Absolute variation	585,983.25 €	934,320.00 €	1,331,685.00 €
Relative variation	24%	60%	608%

The *net* bank debt increased as a result of the increase in granted loans.

Euros	2019	2018	2017
Debt with financial institutions	**3,071,011.25 €**	**2,485,028.00 €**	**1,550,708.00 €**
Cash	386,681.70 €	387,576.00 €	207,336.00 €
Net debt	**2,684,329.55 €**	**2.097,452.00 €**	**1,343,371.00 €**
Absolute variation	**586,877.55 €**	**754,081.00 €**	**1,620,510.00 €**
Relative variation	28%	56%	

The interest coverage ratio in 2019 was 24.9 times, as opposed to 23 times in 2018.

Ratio	2019	2018	2017
Interest coverage (Ebitda/Financial expenses)	24.9	23.0	26.4

The DFN (Net financial debt)/Ebitda ratio in 2019 decreased to 0.87 times as opposed to 1.64 times in 2018.

Ratio	2019	2018	2017
DFN / Ebitda	0.87	1.64	1.57

The Company has a positive cash flow position. Cash flow levels in 2019 showed a balance of 386,682 Euros resulting in an ideal liquidity level, amounting to 387,576 euros at 31st December 2018.

Euros	2019	2018	2017
Cash and cash equivalents	386,681.70 €	387,576.00 €	207,336

Working capital

The Company presented a positive working capital of 2,541,439 million Euros at 31st December 2019, amounting to a positive sum of 1,063,269 Euros at the end of 2018.

EUROS	2019	2018
Working capital	€ 2,541,439	€ 1,063,269

On the other hand, the Company's administrators and main shareholders have expressed their commitment to financially support the firm as materialised in the different capital increases undertaken in the latest financial years. The updated business plan is strongly backed by the Administrators and main shareholders.

Intellectual Property (Know-how, Trade Secrets, Trademarks)

Protecting the algorithm in the Registry: It should be noted that mathematical algorithms cannot be patented and, therefore, they cannot be registered before the Patent Offices (according to European regulations) to protect them against potential competitors. In Spain, the algorithm's authorship is protected by Royal Legislative Decree 1/1996 of 12th April passing the consolidated text of the Intellectual Property Act.

Following the entry into force of the Trade Secrets Act 1/2019 of 20th February, a new scenario shall be established with more legal security for any secret business assets (algorithms, know-how, knowledge, protocols, etc.) than before, resulting in further protection against the potential breach of said trade secrets.

On the other hand, programmes, algorithms, software generally speaking, are protected by virtue of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Berne Convention for the Protection of Literary and Artistic Works and the Directive (EU) 2016/943 of the European Parliament and of the Council, of 8th June 2016, on the protection of undisclosed know-how and business information.

One of FacePhi's most important business assets is its programs and software (algorithms), thanks to its efforts to comply with the fundamental international conditions for protecting trade secrets.

Technical certifications: Compliance with the requirements established by ISO 27001 Standard on Information Security Management Systems (ISMS): measures to protect information against any threat, aiming at preserving the confidentiality, integrity and availability of information.

Trademark registrations: The company currently owns as an asset the following trademark rights:

1. FACEPHI BEYOND BIOMETRICS
2. SELPHI, YOU BLINK, YOU´RE IN
3. LOOK & PHI
4. INPHINITE
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"FacePhi Beyond Biometrics" is protected in the following territories: European Union, USA, South Korea and Singapore. (The protection in the Philippines and Indonesia is pending to be accepted by the Offices). This trademark has also been applied for registration before the national offices in Argentina and Ecuador.

"Selphi, you blink, you´re in", is protected in the European Union and USA. The other above mentioned trademarks are protected in the European Union.

Information on Regulatory Compliance

Excellence in service, commitment to results, responsible environmental managing, interest in people, safety and health, social commitment and integrity, and transparency, are the commitments of the Governing Body. These commitments are part of FacePhi Biometría S.A.'s corporate responsibility policy.

The Board of Directors is the ultimate responsible for supervising the company's performance in this regard, as established in the recommendations of the Code of Ethics and the Board's Regulations. The Board is responsible for approving FacePhi's Corporate Responsibility Policy, and at least once a year receives feedback on the implementation and general monitoring of said policy.

In addition, the Board of Directors is in charge of leading the effective integration of the corporate responsibility into the company's strategy and daily management, thereby achieving a strong culture of corporate responsibility. The implementation of a Prevention Plan on Criminal Risks is the result of carrying out the Board of Director's responsibility and eagerness to look out for the proper implementation and monitoring of the commitments made.

Information on criminal compliance: FacePhi's Prevention Plan on Criminal Risks. With this *Compliance System*, the company intends to establish a culture of compliance in the minds and actions of all FacePhi's members of staff. FacePhi's *Compliance System* is divided into three levels of action: Prevent, Detect and Respond. These levels comprise an integral system of activities through which we want to guarantee that our business is always carried out in accordance with applicable legislation and regulations, as well as based on our own internal principles and guidelines.

Information on Data Protection - RGPD - Applicable regulations: The company has appointed a Data Protection Officer and has communicated this fact to the Control Authority. Their email address is dpo@facephi.com. On the company's website https://www.facephi.com/en/content/privacy-policy/ all the information concerning the protection of personal data can be found, pursuant to Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016 and the recent Spanish Organic Act 3/2018, of 5 December, on the Protection of Personal Data and guarantee of digital rights. As a result, FacePhi has adapted its protocols and privacy policies.

Information on RDI.

Capitalised research and development costs at the end of 2019 are those corresponding to the following projects:

Description: 2019 project	Amount
Improvements Software Development Kit (SDK) FACEPHI	594,556
Total	**594,556**
Description: 2018 project	**Amount**
Improvements Software Development Kit (SDK) FACEPHI	482,866
Total	**482,866**
	Euros
Description: 2017 project	**Amount**
Improvements Software Development Kit (SDK) FACEPHI	360,812
Total	**360,812**
	Euros
Description: 2016 project	**Amount**
Improvements Software Development Kit (SDK) FACEPHI	307,736
Total	**307,736**

Capitalised developments at 31st December 2019 have consisted mainly of improvements to security features against fraud, interactive guides to assist users during registration and technology integration tools in multiplatform applications. Following the tests and trials undergone, it is considered that these technologies are in working order and that their development has concluded.

The Company's Administrators consider that the capitalised research and development expenses comply with each and every one of the conditions established in the applicable regulation for their capitalisation.

Information on staff

Corporate Social Responsibility is part of **FacePhi's** identity, and as a result it has implemented **its own social commitment plan** that devotes part of its time to activities that make society a better place.

Following is a table showing the average amount of staff during the current financial year classified by categories:

	31.12.19	31.12.18
Senior Executives	2	2
Technical, scientific and intellectual professionals and/ or support staff	15	13
Administration	6	5
Sales and similar	3	3
Total average staff	**26**	**23**

Likewise, following is a table showing the average amount of staff employed by the Company at the end of the current financial year classified by gender:

	31.12.19			31.12.18		
	Male	Female	Total	Male	Female	Total
Board Members	2		2	2	-	2
Technical, scientific and intellectual professionals and/ or support staff	13	2	15	12	1	13
Administration	1	5	6	2	3	5
Sales and similar	3		3	3	-	3
Total staff at the end of financial year	**19**	**7**	**26**	**19**	**4**	**23**

The Company has employed two members of staff with disabilities since 22nd May 2019. There was no staff with disabilities during financial year 2018.

Information on environment.

Expenses arising from corporate actions concerned with environmental protection and improvement are posted to profit/ loss in the financial year in which they are incurred.

Any costs incurred in additions to tangible fixed assets intended to minimise the Company's environmental impact and/ or the protection and improvement of the environment, these are recognised as investments in fixed assets.

The Company did not possess any significant assets included in its tangible fixed assets aimed at minimising its environmental impact nor for the protection of the environment and it had not incurred any significant costs for the purposes of protection and improvement of the environment during the current financial year.

To date, the Company was not aware of any contingencies in connection with the protection and improvement of the environment nor regarding their possible impact in its profit/loss and equity.

No grants of an environmental nature were received.

Average suppliers' payment period and measures to be taken during next financial year to reduce payment period to the maximum period allowed by law, as established in regulations on combating late payment.

In accordance with the provisions of the Resolution issued by ICAC on 29th January 2016, below is information on the average suppliers' payment period in commercial transactions:

Concept	2018	2019
	Days	Days
Average suppliers' payment period	31	105

Paid transactions ratio	27	129
Outstanding transactions ratio	62	64
	Amount	**Amount**
Total payments made	1,779,703	2,379,851
Total payments outstanding	229,377	1,398,641

This complies with the provisions set out by the Resolution issued by ICAC on 29th January 2016.

At 31st December 2019, the Company achieved an average suppliers' payment period of 105 days, which was 31 days in 2018.

For these exclusive purposes, the concept of trade payables comprises all suppliers and other payables arising from the supply of goods or services that are included within the scope of the legal payment period regulation. Net purchases and external services' expenses therefore comprises all amounts recorded as such in conformity with the General Accounting Plan.

Major events for the Company taking place after the end of financial year.

There were no major events for the Company taking place after the end of financial year except for the following milestones:

- FacePhi debuted 2020 with a new agreement with Credicorp Bank, S.A. that strengthens its presence in Panama. With the aim of continuing the line of growth up-to-date, FacePhi faced the new financial year with the first agreement of 2020 that was signed with Credicorp Bank, S.A., a transaction which reinforces its presence in Panama.

- FacePhi grows strong in Argentina thanks to a new agreement with Santander Bank Argentina. FacePhi just reached an agreement with the banking entity Santander Argentina, through its technological partner, Compusistem.

- On 25th February 2020, FacePhi was listed on Euronext Growth, where it made its debut in the French stock market with a trading price set at 7.98 Euros per share. FacePhi, a leading company in multifactor biometric solutions specialised in the financial industry, began to trade at the Euronext Growth in Paris, a stock market specialised in small and medium capitalisation companies. The technological company made its debut this morning in the French stock market via the admission of 13,277,083 shares. The share value was set at 7.98 Euros, representing a market capitalisation on the first day of trading of around 105.95 million Euros. The company began to trade under the modality of dual listing, trading in the Euronext Growth market in Paris and the Alternative Investment Market (MAB) in Spain, where it has been active since 2014. This last move made by FacePhi comes after the company managed to close 2019 as the most-growing value on the Spanish Stock Exchange that year and where its stock appreciated by more than 300%.

- On 23rd January 2020, FacePhi acquired Ecertic to boost digital onboarding in its trade portfolio. FacePhi is completing the acquisition of Ecertic, a strategic operation which aims to boost the digital onboarding service within its trade portfolio and to consolidate its leadership within the field of identification and authentication, both nationally and internationally.

- Important investment agreement: on 18th September 2019, an investment agreement was signed with Nice & Green S.A. amounting to 4 million Euros (4,000,000 €). This agreement came into fruition through a capitalisable loan for the sum of 0.5 million Euros and the issuance of warrants that are convertible into shares for an amount of 3.5 million Euros. The funds raised are being used to accelerate the organic growth that the Company is experiencing in

  geographical areas such as Latin America, the United States and Asia, among others.
- Take off and first agreements (Kangbuk Samsung Hospital in Seoul) in Asia thanks to the Korean subsidiary FacePhi APAC. This allows FacePhi to expand its internationalisation and business development strategy with the opening of its first subsidiary in Seoul, in Pangyo, which is known as the Korean "Silicon Valley". This subsidiary will follow the business model of the current facial recognition company, thereby strengthening the Asian and Pacific markets to establish new business collaborations in the countries from both areas. The subsidiary, which will be called FacePhi APAC, operates from its offices located at Pangyo's Work&All, a space located in one of the most relevant business centers of the Korean capital. The Korean subsidiary will be managed by CEO Dongpyo Hong, who has extensive experience in the fintech field, as well as in security and biometry consulting services. Facephi APA has just incorporated its facial recognition technology in Seoul's Kangbuk Samsung Hospital in partnership with Korean company NSSMART, which developed an automatisation solution to operate the technology in this hospital.
- In addition to the above, the initial licensing agreements involving financial entities tend to begin with a limited, reduced amount of users at the start. However, once the technology is put to use by the bank's customers, we are seeing high levels of adoption and conversion leading to an increased number of uses and customers that translates into an increased number of orders for new user licences. This in turn allows us to increase turnover and to obtain further recurring income in the next few months with the same base of existing installations and without additional overheads.
- Following the Company's attendance to the most important worldwide banking exhibitions such as Money 20/20 in Singapore during financial years 2020, 2019 and 2018 and its US edition held in October, we expect to see the opening of the US and Asian markets in the short term resulting in additional income to our turnover in 2020 and subsequent financial years.
- A new sales channel consisting in establishing OEM type collaboration agreements to become the technology partners of renowned worldwide cyber security firms such as Fujitsu, ENTRUST, Easy Solutions and/ or BioConnect should translate into further income from the sale of licences while increasing our customer portfolio and case studies involving the use of FacePhi technology.

Company performance forecast.

It is expected that the company will consolidate its position in all existing markets and expand further within the banking sector with the addition of new countries, continents (America and Asia) and customers (not only in the banking sector). In line with its business plan, we also foresee an increase in its turnover and profitability in the forthcoming months and years.

Own shares. Reasons for the acquisitions and disposals made during the financial year

The total sum of treasury shares in 2019 amounts to 240,354 Euros, showing a balance of shares of 125,998 shares at 31st December 2019, and amounting to 150,723 Euros at 31st December 2018, which is below the limit set out by Article 509 of the Corporations Act that establishes a 10% maximum limit of the Company's total shares. At 31.12.2019, the total number of shares is 13,277,083 shares.

The Annual General Shareholders' meeting held at first call on 27th February 2020, with 67 shareholders attending in person or through a representative, representing a total of 59.69% of the share capital, approved the authorisation to the Governing Body to purchase treasury shares, under the terms contained in Article 146 of the Corporations Act and for the maximum period of time allowed by law, and also complying with the applicable limit of share capital according to the law in force at the moment of purchase for purchasing treasury shares. The Annual General Shareholders' meeting unanimously approved the authorisation to the Board of Directors to purchase its own shares under the following terms:

• Period: A maximum period of 5 years from the signing of the agreement.

• Number of shares: 10% maximum of the share capital.

• Reference price: The minimum and maximum consideration, for a purchase for valuable consideration, may range between +/- 10% of the market value at the purchase date.

				Euros
	2019	**2018**	**2017**	**2016**
Own shares	240,354	150,723	134,672	123,933
	240,354	**150,723**	**134,672**	**123,933**

All shares issued have been fully paid up. The remaining shares are 125,998 shares, with their value at the end of 2019 amounting to 240,354 Euros.

Yo, Sara Mojica Aracil, con DNI español 48579713X, traductora de español-inglés, certifico que la presente traducción del documento "INFORME DE GESTION 31 12 2019 vs 2018 final v2 fecha 16 abril" es una traducción fiel y completa del documento original.