BME - GROWTH
Palacio de la Bolsa
Plaza de la Lealtad, 1
28014 Madrid

Alicante, 30th April 2021

COMUNICATION- FINANCIAL INFORMATION- 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 3/2020 of BME Growth, we inform you about the following information related to the company FACEPHI BIOMETRIA, S.A. (hereinafter “FacePhi” or “the Company”, interchangeably).

FINANCIAL INFORMATION 2020

- Independent auditor´s report on the individual and consolidated annual accounts of the Company for the financial year 2020.
- Individual and consolidated annual financial statements of the Company for the financial year 2020 together with the management report.
- Annual report 2020.

In compliance with Circular 3/2020 of the segment BME Growth of BME MTF Equity, it is expressly stated that the information hereby communicated has been produced under the sole responsibility of the company and its administrators.

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

Sincerely,

____

Salvador Martí Varó

Chairman of the Board of Directors

FacePhi Biometria
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FACEPHI BIOMETRÍA, S.A.

Auditor´s Report,
Annual Accounts and Director’s Report
for the year ended December 31, 2020

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, 2020, 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, 2020, 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.

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Impairment of non-current assets

Risk description

As of December 31, 2020, the Company has registered, under the heading of "intangible fixed assets", non-current assets amounting to 2,392 thousand euros. These assets correspond mainly to computer applications and development expenses, which, due to meeting the requirements established by applicable financial reporting framework, have been recorded and valued in the balance sheet at the cost of acquisition or production. The Company's Board have evaluated the recoverable value of these assets by calculating their value in use. We have considered this area a key audit issue due to the relevance of the amounts affected and the complexity of the estimates and assumptions made by the Company's Directors in the impairment analysis process.

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

Audit response

Our audit procedures have included, among others:

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

Revenue's recognition

Risk description

As indicated in notes 3.14 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.

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Audit response

Our main audit procedures included at the end of the year ended December 31, 2020, 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, 2020, 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 2020 financial year, the formulation of which is the responsibility of the Company´s directors and does not form an integral part of the annual accounts.

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

Based on the work performed, as described in the previous paragraph, the information contained in the Director´s report is consistent with that contained in the annual accounts for the 2020 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 the company's audit committee dated April 30, 2021.

Appointment period

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

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

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

Original signed in Spanish by
Rafael Nava Cano
Registered in ROAC under Nº 11494
April 30, 2021

FACEPHI BIOMETRÍA, S.A.

In compliance with the provisions of the Corporate Enterprises Act and the Commercial Code, on 31 March 2021 the Board of Directors of the trading company FacePhi Biometría, S.A. drew up the annual financial statements for the year ended 31 December 2020, issued on 55 pages printed on both sides and numbered from 1 to 55, together with the management report for the same period drawn up on 11 pages numbered from 1 to 11.

The Board of Directors also empowered Juan Alfonso Ortiz Company, as Secretary of the Board, to sign said documents on all their pages.

THE BOARD OF DIRECTORS

Salvador Martí Varó
Chairman-Managing Director

Javier Mira Miró
Vice-Chairman-Managing Director

Juan Alfonso Ortiz Company
Member Secretary

Fernando Orteso de Travesedo
Independent Director

David J. Devesa Martínez
Director

Alicante 31 March 2021

FACEPHI BIOMETRÍA, S.A.

Annual Financial Statements and Management Report for the financial year ended on 31 December 2020

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Balance Sheet
as of 31 December 2020
(In Euros)

ASSETS	NOTES TO THE REPORT	2020	2019
A) NON-CURRENT ASSETS		**5,225,672**	**2,374,710**
I. Intangible assets	4	2,392,598	1,610,565
II. Tangible fixed assets	5	179,285	38,983
IV. Long-term investments in group and associated companies	8	2,050,617	169,315
V. Long-term financial investments	9	150,709	497,985
VI. Deferred tax assets	13.4	452,462	57,862
B) CURRENT ASSETS		**11,044,267**	**8,740,045**
III. Trade debtors and other accounts receivable	9	4,379,948	8,276,623
1. Trade accounts, sales and provision of services		4,153,331	8,179,920
3. Sundry debtors		100,000	65,301
4. Personnel	14.g	100	1,200
6. Others credits with government agencies	13.1	126,518	30,202
V. Short-term financial investments	9	513,377	5,004
VI. Short-term accruals		173,623	71,737
VII. Cash and cash equivalents	10	5,977,318	386,682
TOTAL ASSETS		**16,269,938**	**11,114,755**

NET EQUITY AND LIABILITIES	NOTES TO THE REPORT	2020	2019
A) NET EQUITY		**7,100,462**	**4,382,194**
A-1) Capital and reserves	11.1	6,984,168	4,215,602
I. Capital		577,141	542,766
II. Issue premium		7,222,153	2,812,602
III. Reserves		1,208,969	610,194
IV. (Treasury stock)		(341,760)	(240,354)
V. Profit (loss) from previous financial years		0	(798,042)
VII. Profit (loss) for the financial year		(1,682,335)	1,288,436
A-3O) Grants, donations and bequests received	11.2	116,294	166,592
B) NON-CURRENT LIABILITIES		**6,119,736**	**533,955**
I. Long-term provisions		26,494	5,675
II. Long-term debts	12	6,054,477	472,750
2. Debts with financial institutions		6,054,477	472,750
IV. Deferred tax liabilities	13.4	38,765	55,531
C) CURRENT LIABILITIES		**3,049,740**	**6,198,606**
III. Short-term debts	12	986,547	2,604,038
2. Debts with financial institutions		984,949	2,598,262
5. Other financial liabilities		1,598	5,776
V. Trade creditors and other accounts payable	12	1,304,235	2,743,736
2. Suppliers, Group and associated companies	16.b	278,537	0
3. Sundry creditors		838,076	2,505,495
4. Personnel (salaries pending payment)		53,712	91.531
6. Other debts with government agencies	13.1	133,910	146,710
VI. Short-term accruals	14.a	758,958	850,832
TOTAL NET EQUITY AND LIABILITIES		**16,269,938**	**11,114,755**

Notes 1 to 20 set forth in the Report form an integral part of the Balance Sheet as of 31 December 2020

Income Statement for the financial year ended on 31 December 2020

(In euros)

	NOTES TO THE REPORT	(Debit) Credit 2020	2019
A) ONGOING OPERATIONS			
1. Net turnover	14.a	7,198,754	8,194,946
b) Provision of services		7,198,754	8,194,946
3. Work performed by the Company for its assets	4 and 14.c	930,592	594,556
4. Supplies	14.b	(1,439,760)	(1,095,910)
a) Consumables		(71,379)	(567)
c) Works performed by other companies		(1,368,381)	(1,095,343)
5. Other operating revenue		10,004	9.731
6. Personnel expenses	14.d	(3,034,520)	(1,944,543)
a) Wages, salaries and similar		(2,690,588)	(1,748,177)
b) Social Security		(343,932)	(196,366)
7. Other operating expenses	14.f	(3,384,269)	(3,445,081)
a) External services		(2,996,613)	(2,756,624)
b) Taxes		(3,805)	(805)
a) Losses, impairment and variation of provisions for trade transactions	9	(383,851)	(687,652)
8. Amortisation of fixed assets	4 and 5	(529,528)	(458,285)
9. Allocation of subsidies for non-financial and other fixed assets	11.2	67,063	67,063
13. Other outcomes		(11,417)	7,794
A.1) OPERATING PROFIT (LOSS) (1+2+3+4+5+6+7+8+9+10+11+12+13) …		(193,081)	1,930,272
14. Financial revenue		173,466	358
15. Financial expenses		(129,182)	(123,547)
a) For debts with group and associated companies		(328)	0
b) For debts with third parties		(128,854)	(123,547)
16. Variation in the fair value of financial instruments	11.1.a	(943,978)	0
17. Exchange differences	14.g	(454,077)	(88,637)
18. Impairment and outcome of disposal of financial instruments		(282,697)	0
a) Impairment and losses	8.1	(282,697)	0
A.2) FINANCIAL OUTCOME (14+15+16 +17+18+19)		(1,636,468)	(211,826)
A.3) PROFIT (LOSS) BEFORE TAXES (A.1 + A.2)		(1,829,549)	1,718,446
20. Corporation tax	13.3	147,214	(430,010)
A.4) PROFIT/LOSS FOR FIN. YR FROM FROM ONGOING OPERATIONS (A.3 + 2		(1,682,335)	1,288,436
A.5) PROFIT (LOSS) FOR FINAN. YR (A.4 + 21)		(1,682,335)	1,288,436

Notes 1 to 20 set forth in the Report form an integral part of the Income Statement as of 31 December 2020

STATEMENT OF CHANGES IN NET EQUITY

A) Recognised income and expenditure as of 31 December 2020

(In Euros)

	Notes to the report	2020	2019
A) INCOME STATEMENT PROFIT (LOSS)		**(1,682,335)**	**1,288,436**
INCOME AND EXPENDITURE CHARGED DIRECTLY TO NET EQUITY			
III. Grants, donations and bequests received	***10.2***	0	0
VII. Tax effect	***12.4***	0	0
B) TOTAL INCOME AND EXPENDITURE CHARGED DIRECTLY TO NET EQUITY		**0**	**0**
TRANSFER TO THE INCOME STATEMENT			
X. Grants, donations and bequests received	***10.2***	(67,063)	(67,063)
XIII. Tax effect	***12.4***	16,766	16,766
C) TOTAL TRANSFERS TO THE INCOME STATEMENT		**(50,298)**	**(50,298)**
TOTAL RECOGNISED INCOME AND EXPENDITURE (A + B + C)		**(1,732,632)**	**1,238,139**

B) Statement of Changes in Net Equity for the financial year ended on 31 December 2020

(In Euros)

	Capital Authorised	Issue premium	Reserves	(Treasury stock)	Profit (loss) from previous financial years	Profit (loss) for the financial year	Subsidies, donations and bequests	TOTAL
A. FINAL BALANCE 2018 FINANCIAL YEAR	**531,083**	**2,323,993**	**464,975**	**(150,723)**	**(1,965,517)**	**1,167,475**	**216,890**	**2,588,176**
I. Restatement for changes of criteria 2018 and previous fin. yrs.								
II. Restatement due to errors in 2018 and previous fin. yrs.								
B) RESTATED BALANCE START OF 2018 FIN. YEAR	**531,083.32**	**2,323,993**	**464,975**	**(150,723)**	**(1,965,517)**	**1,167,475**	**216,890**	**2,588,176**
I. Total recognised income and expenditure						*1,288,436*	*(50,298)*	*1,238,139*
II. Transactions with partners or proprietors	*11,682*	*488,609*	*145,219*	*(89,631)*				*555,880*
1. Capital increases	11,682	488,609						500,292
5. Transactions with treasury stock (net)			145,219	(89,631)				55,588
III. Other changes to net equity					*1,167,475*	*(1,167,475)*		
2. Other variations–Allocation of profit for 2017					1,167,475	(1,167,475)		
C. BALANCE AT END OF 2018 FINANCIAL YEAR	***542,766***	***2,812,602***	***610,194***	***(240,354)***	***(798,042)***	***1,288,436***	***166,592***	***4,382,194***
I. Restatement for changes of criteria 2019								
II. Restatement due to errors in 2019 fin. year								
D. RESTATED BALANCE START OF 2020 FINANCIAL YEAR	***542,766***	***2,812,602***	***610,194***	***(240,354)***	***(798,042)***	***1,288,436***	***166,592***	***4,382,194***
I. Total recognised income and expenditure						(1,682,335)	(50,298)	(1,732,632)
II. Transactions with partners or proprietors	34,375	4,409,551	108,380	(101,405)				4,450,901
1. Capital increases	34,375	3,465,607	(126,682)					3,373,300
3. Conversion of financial liabilities to net equity (derived from equity warrants Note 11.1)		943,944						943,944
5. Transactions with treasury stock (net)			235,063	(101,405)				133,657
III. Other changes to net equity			490,394		798,042	(1,288,436)		
2. Other variations–Allocation of profit for 2018			490,394		798,042	(1,288,436)		
E) BALANCE AT END OF 2020 FIN. YEAR	**577,141**	**7,222,153**	**1,208,969**	**(341,760)**		**(1,682,335)**	**116,294**	**7,100,462**

Notes 1 to 20 set forth in the Report form an integral part of the Statement of Changes in Net Equity as of 31 December 2020

Cash flow statement
for the financial year ended on
on 31 December 2020
(In Euros)

	2020	2019
A) Operating cashflow		
1. Profit (loss) for the financial year before tax	**-1,829,549**	**-1,718,446**
2. Restatements of outcome:	**2,166,173**	**1,131,786**
a) Amortisation of fixed assets (+)	529,529	458,284
b) Value restatements for impairment (+/-)	635,902	687,652
c) Variation in provisions (+/-)	20,819	
d) Allocation of subsidies (-)	-67,063	-67,063
g) Financial revenues	-173,466	-358
h) Financial expenses	129,182	123,547
i) Exchange differences	147,327	-70,276
j) variation in the fair value of financial instruments (+/-)	943,944	
3. Changes in working capital	**1,622,559**	**-2,851,464**
b) Debtors and other accounts receivable (+/-)	3,262,957	-4,991,178
c) Other current assets (+/-)	-101,887	-66,654
d) Creditors and other accounts payable (+/-)	-1,446,638	1,727,773
e) Other current liabilities (+/-)	-91,874	478,596
4. Other operating cash flows	**-157,877**	**-190,693**
a) Interest paid (-)	-119,746	-123,547
a) Interest collected (+)	167,027	358
d) Payment (collection) of corporation tax (+/-)	-205,158	-67,504
5. Operating cash flow (+/-1 +/-2 +/-3 +/-4)	**1,801,307**	**-191,925**
B) Investment cash flows		
6. Investment outlays (-)	**-2,976,089**	**-985,853**
a) In group and associated companies	-1,317,559	-169,315
b) Intangible fixed assets	-1,288,582	-808,306
c) Tangible fixed assets	-163,283	-8,232
e) Other financial assets	-200,165	
g) Other assets	-6,500	
7. Collection for divestment (+)		
8. Investment cash flows (7-6)	**-2,976,089**	**-985,853**
B) Financing cash flows		
9. Collection and outlays for equity instruments	**2,624,728**	**555,879**
a) Issue of equity instruments	3,331,072	500,292
c) Acquisition of treasury stock	-1,757,521	-597,251
d) Disposal of treasury stock	1,051,178	652,839
10. Collection and payments for financial equity instruments	**3,954,800**	**564,898**
a) Issue		
2. Debts with financial institutions (+)	7,046,811	1,506,978
b) Return y amortisation of		
2. Debts with financial institutions (-)	-3,087,833	-942,080
4. Others (-)	-4,178	
11. Outlays for dividends and remuneration of other equity instruments		
12. Financing cash flows (+/-9 +/-10 -11)	**6,579,528**	**1,120,778**
D) Effect of exchange rate variations	**185,890**	**56,105**
E) Net increase/decrease in cash and cash equivalents (+/-A +/-B +/-C +/-D)	**5,590,636**	**-895**
Cash and cash equivalents at start of the financial year	386,682	387,576
Cash and cash equivalents at end of the financial year	5,977,318	386,682

Notes 1 to 20 set forth in the Report form an integral part of the Cash Flow Statement as of 31 December 2020

1. Nature and main activities of the Company

a) Nature and main activities

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

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

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

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

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

b) Composition of the Group

According to the information provided in note 7, the Company holds 100% of the share capital of certain subsidiaries and therefore is the Parent Company of a group of companies with which there is a relationship of ownership and control as provided for in Art. 42 of the Commercial Code.

On 31 March 2021 the Directors drew up, for the first time, the consolidated annual financial statements of Facephi Biometria, S.A. and its subsidiaries for the year ended 31 December 2020. These financial statements show a consolidated accounting loss of 1,737,393 euros and a consolidated net worth of 7,134,230 euros and shall be submitted to the Companies Registry of Alicante after approval by the General Meeting.

Nevertheless, Notes 8 and 16.b of this report provide all the information regarding the financial situation, the balances and transactions carried out during the year with the Group's dependent companies and other associated entities.

2. Reporting criteria

a) Regulatory framework for financial reporting applicable to the Company

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

- The Spanish Commercial Code and other commercial legislation.
- The consolidated text of the Corporate Enterprises Act.
- Royal Decree 1514/2007 of 16 November and its subsequent amendments that adopts the General Accounting Plan.
- The mandatory standards adopted by the Accounting and Auditing Institute for implementation of the General Accounting Plan and its complementary rules.
- The rest of the applicable Spanish accounting regulations.

b) True and fair view

These Annual Financial Statements have been obtained from the Company's accounting records and are reported in accordance with the regulatory framework for financial reporting set forth above and, in particular, with the accounting principles and standards contained therein in order to show a true image of the equity, financial position, results and cash flows generated during the 2020 financial year. The Cash Flow Statement has been drawn up in order to accurately report on the origin and use of the Company's monetary assets in the form of cash and cash equivalents.

The Annual Financial Statements are reported in euros – the Company’s functional and reporting currency – rounded to the nearest unit.

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

These Annual Financial Statements have been drawn up by the Company's Board of Directors and will be submitted for approval by the General Meeting. The Directors believe that they will be approved without any modification. The annual financial statements for financial 2019 were approved by the General Meeting held on 24 June 2020.

c) Non-mandatory accounting principles

Non-mandatory accounting principles have not been applied. Moreover, when drawing up these Annual Financial Statements the Board of Directors of the Company has taken all the mandatory accounting principles and standards that could have a significant effect on said financial statements into account. No mandatory accounting criterion has been ignored.

d) Critical aspects of assessing and estimating uncertainty

The Company’s directors are responsible for the information contained in these Annual Financial Statements.

The Company’s directors and senior managers were required to make certain estimates and assumptions when drawing up these Annual Financial Statements to value some of the assets, liabilities, revenues, expenses and commitments contained in the same. These estimates and assumptions are based on historical experiences and other factors that are considered reasonable under the current circumstances. The following is a breakdown of the aspects that have entailed a greater degree of judgement and complexity or those for which the hypothetical assumptions and estimation have been most significant during drafting of the annual financial statements:

- Provisions for impairment of investments in Group and associated enterprises. The accounting treatment of investment in Group and associated enterprises entails making estimates at the end of each financial year to determine whether the value of the investments has been impaired and whether it is appropriate to make a value restatement charged to the Income Statement for the period or, where appropriate, reverse a previously-recognised provision. Determining the need to recognise a loss by impairment or, where appropriate, reversal of the same involves making estimates that include, but are not limited to, analysis of the reasons for potential impairment (or recovery, as required), the value, the timing and the expected sum of the same.

For financial investments in Group and associated enterprises the recoverable value is calculated in accordance with the provisions of Note 3.4.

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

- Impairment of non-current assets, other than financial assets, requires making estimates to determine their recoverable value in order to assess potential impairment. To determine this recoverable value, the Company’s directors estimate the expected future cash flows from the assets in question or those of the profit centres of which they form part and use an appropriate discount rate to calculate the net present value of said cash flows. The cash flows depend on fulfilment of the projections included in the business plan for the next five years while the discount rates depend on the interest rate plus the risk premium (see Note 3.3).
- Deferred tax assets are recognised for all deductible timing differences, negative tax bases pending compensation and deductions pending application for which it is probable that the Company will have future taxable profits that enable application of these assets. The directors must make significant estimates to determine the amount of deferred tax assets that can be recognised taking the amounts and dates on which future taxable profits will be obtained and the reversal period of taxable timing differences into account. As of 31 December 2020, the Company has recognised deferred tax assets for a total of 452,462 euros (57,862 euros at 31 December 2019) associated with timing differences, tax bases pending compensation and deductions pending application (see Note 13).

These estimates are based on the best information available on the events under analysis on the reporting date of the Annual Financial Statements. Nevertheless, it is possible that future events may make it necessary to change them (upwards or downwards) in coming financial years. Said changes, if any, will always be made in a prospective manner in accordance with the provisions of Rule 22 of the Spanish General Accounting Plan, recognising the effects of the changed estimate in the associated Income Statement.

e) Going concern

The Company generated significant pre-tax losses amounting to 1,829,549 euros during the 2020 financial year. These losses were mainly due to the financial risks deriving from the issue of our own equity instruments to address the company's financing needs (see Note 11.1) and to the adverse financial outcome of variations in the exchange rates on the currency markets, especially the US dollar, during the 2020 financial year (Note 14).

Moreover, the Company was not able to meet its expectations with respect to the turnover forecast in its 2020 business plan since all commercial activities have been affected and our customers’ investment plans have been shelved as a consequence of the crisis derived from the COVID-19 pandemic. It has not been necessary to take extraordinary workforce restructuring measures or to expand the currently available financing lines, and there are no risks for the 2021 financial year in this respect.

However, the Company generated 720,298 euros of EBITDA in 2020 (compared to 3,076,208.91 euros in 2019).

(in euros)

Net equity stood at 7,100,462 euros as of 31 December 2020 (up from 4,382,193.89 euros at the end of the previous financial year) mainly as a result of the capital increase transactions conducted during the year (see note 11.1).

Under these circumstances, the Company's Board of Directors estimates that the cash flows generated by the business and the available financing lines will enable it to address its current liabilities and the expansion plan. For these reasons, the Annual Financial Statements have been drawn up on the going concern principle.

f) Comparison of the information

In accordance with Spanish commercial law, in addition to the figures for the 2020 financial year, those for the previous year are presented with each item on the Balance Sheet, the Income Statement, the Statement of Changes in Net Equity and the Cash Flow Statement for comparative purposes.

The Report also includes comparative information from the previous year except where an accounting rule specifically stipulates that it is not required.

g) Changes in accounting criteria and correction of errors

In the 2020 financial year the Company changed the criteria for classifying and reporting the intangible assets related to the computer applications and the improvements to the versions of the computer software that were included under the head of "Development" in Intangible Assets (Note 4), from the sale of which the company derives practically all its turnover. For this reason and for the purposes of compliance with comparability requirements, the Company has restated the accounting record of the production costs and accumulated amortisation of the aforesaid intangible asset items in the opening balances of the previous financial year ended on 31 December 2019 as set forth in the following table:

	Euros	
	Debit	**Credit**
Income Statement		
A) 1.1 Development		
- Cost		2,183,448
- Accumulated amortisation	1,395,243	
A) 1.5 Computer applications		
- Cost	2,183,448	
- Accumulated amortisation		1,395,243

3. Valuation standards

The Annual Financial Statements have been drawn up in accordance with the principles and standards of valuation and classification laid down in the currently applicable General Accounting Plan.

The following are the most significant accounting principles and valuation standards applied when drafting these Annual Financial Statements.

3.1 Intangible assets

Assets included in intangible fixed assets are recorded at their acquisition price or production cost. Intangible assets are reported at their cost value minus depreciation and, as appropriate, accumulated value restatements due to impairment.

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

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

They must be tested at least once a year to detect and assess any indications of value impairment.

a) Computer application development expenses

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

- The existence of a specific, individualised project that makes it possible to reliably estimate the disbursement attributable to completion of the project.
- The allocation, attribution and temporal distribution of the costs of each project are clearly established.
- There are well-founded reasons for a technically successful conclusion to the project at all times both for cases in which the project is aimed at direct operation and for sale of the resulting product to a third party if there is a market for the same once the project is concluded.
- The financial-commercial profitability of the project is reasonably assured.
- Financing to ensure completion of the projects is reasonably assured in addition to the availability of sufficient and suitable technical or other resources to finish the project and to use or sell the resulting intangible asset.
- The company intends to conclude development of the intangible asset in question and then to use or sell it.

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

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

Own personnel expenses and costs of services acquired from third parties that took part in development of the applications and computer software are included as an added expense of the same and are entered under the head of "Work performed by the company for its fixed assets” in the Income Statement.

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

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

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

As of 31 December 2020 the Company estimates that there is no indication of impairment of intangible fixed assets since the directors confidently expect the business plan to be fulfilled. This is evidence that, based on their forecasts, the total intangible assets and the tax credits will be fully recovered in coming years.

b) Computer applications

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

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

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

c) Intellectual property

Intellectual Property will be valued at the costs incurred for acquisition of the same or the right to use or to assign the use of the various versions of the program provided that, due to the economic conditions derived from the contract, said assets must be posted to the inventory of the acquiring company. Intellectual property includes but is not limited to: patents for inventions, utility model protection certificates, industrial design and patents of importation.

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

3.2 Property, plant and equipment

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

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

Major repair costs are capitalised and amortised over their estimated useful life. Recurring maintenance expenses are charged to the Income Statement for the year in which they are incurred.

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

(in euros)

The following are the estimated useful lives:

Item	Annual percentage	Years of useful life	Method
Other facilities	10%	10	Straight-line
Furnishings	5%-10%	10-20	Straight-line
Computer hardware	25%	4	Straight-line
Other tangible fixed assets	10%-20%	5-10	Straight-line

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

Whenever the book value of an asset is greater than its recoverable value, the former is immediately reduced to the amount of the latter (Note 3.3).

Gains and losses from the sale of property, plant and equipment are recognised in the Income Statement. The amounts are calculated by comparing the income obtained from the sale with the book value.

3.3 Impairment of non-financial assets

The Company assesses whether any non-current assets have suffered impairment at least once a year at the close of each financial year. If so, their recoverable values are estimated.

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

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

The Company's and its Group have updated their five-year business plan, which has been taken as the basis for carrying out a new impairment test for non-financial assets.

3.4 Financial assets

Classification and Valuation

a) Loans and receivables:

Loans and receivables are comprised of financial assets originating in the sale of goods or provision of services for the company's trade transactions or those which, while not being of a commercial nature, are not equity instruments or derivatives and the revenues from which are of a fixed or knowable amount and are not traded on an active market, as is the case with sureties or fixed-term bank deposits.

These financial assets are initially recognised at fair value including any directly attributable transaction costs, and subsequently at amortised cost, recognising accrued interest based on their effective interest rate (understood as the discount rate that equals the book value of the instrument with all its estimated cash flows until maturity). Notwithstanding the above, credits for commercial transactions with a maturity of no more than one year are valued – both at the time of initial recognition and subsequently – at their nominal value provided that the effect of not updating the cash flows is not significant.

Deposits and bonds are recognised for the amount disbursed to meet the contractual commitments linked to the same.

b) Investment in the equity of group, multigroup and associated companies

Group companies are understood to be those which the Company controls directly or indirectly by means of subsidiaries in accordance with article 42 of the Spanish Commercial Code or control is established by any means through one or more natural or legal persons acting jointly or the companies in question are under sole management pursuant to statutory agreements or clauses.

Control is defined as the power to direct the financial and operating policies of a company in order to obtain benefits from its activities. For these purposes, the potential voting rights that can be exercised or converted at the end of each accounting year held by the Company or by third parties constitute the control instrument.

Associated companies are those over which the Company exercises significant influence directly or indirectly through subsidiaries. Significant influence is the power to intervene in the financial and operating policy decisions of a company without entailing the existence of sole or joint control over the same. When assessing whether significant influence exists, the potential voting rights that can be exercised or converted at the end of each accounting year are considered, as are the potential voting rights owned by the Company or by third-parties.

Financial assets are initially recognised at fair value which, unless there is evidence to the contrary, will be the transaction price which in turn is equal to the fair value of the consideration plus any transaction costs directly imputable to the asset involved. Subsequently, they are valued at cost minus the accumulated value reduction due to impairment, if any.

If an investment no longer meets the conditions to be classified in this category it is reclassified under Investments Held for Sale and is valued as such from the reclassification date.

Value impairment of financial assets

a) Debt instruments:

Objective evidence of impairment to debt instruments – understood as accounts receivable, credits and debt securities – is understood to have occurred when an event occurs after their initial recognition that has a negative impact on their estimated future cash flows.

The Company considers that debt instruments for which there is objective evidence of impairment constitute impaired assets (doubtful assets), basically due to the existence of defaults, failures, refinancing and of data that proves that their projected future cash flows are less than previously estimated or collection of which may be delayed.

In the case of financial assets valued at amortised cost, the value of the impairment losses is equal to the difference between their book value and the net present value of their estimated future cash flows, discounted at the effective interest rate at the time of initial recognition of the asset. The effective interest rate on the closing date of the Annual Financial Statements is used for financial assets with variable interest rates. With respect to trade debtors and other accounts receivable, the Company considers that accounts with overdue items for which collection is doubtful and balances with companies that have incurred in insolvency proceedings to constitute doubtful debts. Provided it is sufficiently reliable, the Company considers the market value of instruments traded on an open market as a substitute for calculation of the present value of future cash flows.

Impairment reversal is recognised as income in the Income Statement and is limited to the book value of the financial asset that would be posted on the reversal date if the impairment had not been recognised.

b) *Equity instruments*

The Company considers that there is objective evidence that equity instruments have been impaired when, following initial recognition, an event or a combination of events occurs that entails impairment to the instruments to the extent that their book value will probably not be recoverable due to a prolonged or pronounced reduction of their fair value.

In the case of equity instruments valued at cost such as investments in the equity of group, multigroup or associated enterprises, impairment loss is calculated as the difference between their book value and the recoverable amount, considered to be either the fair value minus cost of sale or the present value of future cash flows derived from the investment, whichever is higher. Unless there is better evidence, the impairment estimate takes into consideration the equity of the investee corrected for the unrealised capital gains existing at the valuation date. For investments in equity group, multi-group and associate companies, reversal of valuation restatements due to impairment is recognised in the Income Statement and is limited to the book value of the investment on the reversal date as if the impairment had not been recognised. However, for financial assets held for sale and valued at cost it is not possible to reverse valuation restatements recognised in previous financial years.

Impairment test at 31 December 2020

In accordance with the above procedures, the Company has conducted the relevant internal impairment test on its financial investments in Group companies and implicit goodwill. In the opinion of the governing body, the intervention of an independent expert is required in this respect.

The following are the main assumptions used in the impairment test:

31 December 2020		
CGU	**Discount rate (WACC)**	**Growth rate 2021-2025**
Ecertic	7.89%	19%

In accordance with the above, it is not necessary to apply an impairment restatement to these assets at the end of the 2020 financial year.

Cancellation of financial assets

Financial assets are written off the Balance Sheet when the contractual rights to the cash flows of the financial asset have expired or when the risks and benefits inherent in their ownership have been substantially transferred.

Interest and dividends received from financial assets

Interest and dividends from financial assets accrued after the time of acquisition are recognised as income in the Income Statement. Interest is recognised using the effective interest rate method and dividends when the right to receive them is declared.

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

3.5 Financial liabilities

Classification and Valuation

Debits and payables

This category includes debits for both trade and non-trade transactions. This external financing is classified as a current liability unless the Company has an unconditional right to defer its settlement for at least 12 months after the Balance Sheet date.

These debts are initially recognised at their fair value plus any directly attributable transaction costs and are subsequently entered at their amortised cost on the basis of the effective interest rate method. Said effective interest is the discount rate that matches the book value of the instrument with the expected flow of future payments foreseen until the maturity of the liability.

Notwithstanding the above, debits for trade transactions with maturity at no more than one year that do not have a contractual interest rate are valued, both initially and subsequently, at their nominal value when the effect of not updating the cash flows is not significant.

In the event that existing debts are renegotiated, the company considers that there are no substantial modifications of the financial liability when the lender of the new loan is the same as the lender of the initial loan and the present value of the cash flows, including net commissions, does not differ by more than 10% from the present value of the cash flows pending payment of the original liability calculated by applying the same method.

Cancellation

The Company writes off a financial liability when the associated obligation has been extinguished.

Provided that they have substantially different conditions, the original financial liability is written off and the new financial liability is recognised in its place when an exchange of debt instruments occurs. A substantial amendment of the current conditions of a financial liability is recognised in the same way.

The difference between the book value of the financial liability – or the part of it that has been written off and that also includes any assigned assets other than the assumed cash or liability – and the consideration paid including directly attributable transaction costs, is recognised in the Income Statement for the year in which it occurs.
When there is an exchange of debt instruments that do not have substantially different conditions, the original financial liability is not written off from the Balance Sheet and the amount of the commissions paid is posted as an adjustment to its book value. The new amortised cost of the financial liability is determined by applying the effective interest rate (that which matches the book value of the financial liability on the adjustment date with the cash flows payable under the new conditions).

3.6 Net equity

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

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

Acquisition of equity instruments by the Company is recognised separately at the acquisition cost as a reduction of the equity on the Balance Sheet. No result is recognised in the Income Statement for transactions capitalised with treasury stock.

Once any tax effect has been taken into consideration, transaction costs related to treasury stock are recognised as a reduction in reserves.

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

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

Since the financial derivative created is not considered to constitute a hedging instrument, it is recognised at its fair value in the Income Statement at its valuation time at each accounting closure date.

The fair value of the derivative is determined using option pricing models that take volatility, the price of the underlying asset, the strike price of the option, the time until expiration of the option and the risk-free interest rate into account.

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

At the end of the financial year ended 31 December 2020 there were no options issues pending maturity and therefore there is no derivative recognised on the Balance Sheet on said date.

3.7 Cash and cash equivalents

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

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

3.8 Classification of assets and liabilities as current or non-current

Assets and liabilities reported on the Balance Sheet are classified into current or non-current. For these purposes, current assets or liabilities are those that meet the following criteria:

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

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

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

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

3.9 Subsidies, donations and bequests

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

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

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

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

3.10 Corporation tax

The corporation tax expense (income) is the amount that accrues to this item during the financial year and that includes both the current tax expense (income) and deferred tax.

Both current and deferred tax expense (income) are recognised in the Income Statement. However, the tax effect of items posted directly to Net Equity is recognised in Net Equity.

Current tax assets and liabilities are valued at the Company expects to pay or recover from the Tax Agency in accordance with currently applicable regulations or those approved and pending publication at the accounting closing date.

Deferred taxes are calculated by the liability method on the basis of the timing differences that arise between the tax bases of assets and liabilities and their book values. Nevertheless, deferred taxes are not recognised if they arise from the initial accounting entry of an asset or a liability in any transaction different from a business combination which, at the time the transaction is recorded, does not affect either the book outcome or the taxable base of the tax involved. Deferred tax is calculated by applying the regulations and the tax rates approved or about to be approved on the balance sheet date and expected to be applicable when the associated deferred tax asset is capitalised or the deferred tax liability is settled.

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

3.11 Employee benefits

a) <u>Severance payments</u>

Severance payments are paid to employees as a result of Company's decision to terminate their employment contract before the normal retirement age. The Company recognises these benefits when a demonstrable commitment has been made to dismiss workers in accordance with a detailed formal plan without the possibility of withdrawal. Benefits that are not to be paid in the twelve months following the balance sheet date are discounted to their current value.

b) Profit-sharing and bonus plans

The Company recognises a liability and an expense associated with the bonus for the financial year. The amount is calculated on the basis of a formula that takes the variation of the Company's capitalisation in said year into account. The Company recognises a provision when it is contractually obliged to do so or when past practice has created an implicit obligation.

As of 31 December 2020 there are no variable incentive plans or compensation policies for employees and/or managers that depend on the trading price of the Company’s shares.

c) Non-compete agreement

The Company has signed various employment contracts that contain noncompete clauses. The directors consider that conditions are not suitable to recognise a liability and an expense since the likelihood of occurrence is so low as to be almost non-existent.

d) Payments based on equity instruments

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

As of 31 December 2020 there are no incentive plans or compensation policies for employees and/or managers the payment and settlement of which is made using own equity instruments.

3.12 Provisions and contingencies

Provisions for environmental restoration, restructuring costs and litigation are recognised when they arise from a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions for restructuring include penalties for cancellation of the lease and severance payments to employees. Provisions for future operating losses are not recognised.

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

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

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

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

Said contingent liabilities are not subject to accounting records and their details are reported in the Management Report.

3.13 Business combinations

Business combinations are considered to consist of transactions in which the Company gains control of one or more enterprises, understood as an integrated group of activities and assets that can be managed to provide higher yield, lower costs or other benefits to the owners.

Mergers, spin-offs and non-monetary contribution of a business between Group companies are recognised by valuing the equity components acquired at their book values in the consolidated Annual Financial Statements of ultimate Spanish parent company on the date on which the transactions took place. If consolidated Annual Financial Statements are not drawn up, they are valued at the amounts applicable before the transaction in the individual Annual Financial Statements of the contributor. Any differences that may be detected are recognised against reserves. The effective accounting date is the start date of the financial year in which the transaction is approved.

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

3.14 Recognition of revenue from the provision of services

Revenue from the provision of services is recognised at the fair value of the consideration to be received and represents the amounts to be received for services provided in the ordinary course of business minus returns, rebates, discounts and value-added tax.

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

The Company recognises income derived from the sale of the right to use software (licensing) for biometric facial recognition technology once all the risks and benefits of the product have been transferred to the purchaser and the conditions set forth in the above paragraph have been met. It is then charged to the Income Statement on the basis of the licensing term (which may be in perpetuity or for periods defined in the contract).

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

3.15 Leases

<u>When the Company is the lessee - Operating lease</u>

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

3.16 Foreign currency transactions

Transactions in foreign currency are converted into the functional currency using the exchange rates prevailing on the date of the transactions. Gains and losses in foreign currency resulting from settlement of these transactions and from conversion of the monetary assets and liabilities denominated in foreign currency at the spot rates at the close of the fiscal year are recognised in the Income Statement.

(in euros)

3.17 Transactions with Group companies

Transactions between Group companies are recognised at the fair value of the consideration paid or received. The difference between said value and the agreed amount, if any, is posted in accordance with the underlying economic substance.

The transfer prices are properly substantiated and therefore the Company's Board of Directors considers that there are no significant risks from which serious liabilities could arise in the future due to this item.

3.18 Equity items of an environmental nature

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

The directors consider that as of 31 December 2020 and 2019 there are no contingencies of an environmental nature that could significantly affect the Group's equity, financial position or the consolidated results, and therefore there are no provisions or contingencies recognised under this head.

4 Intangible fixed assets

The following are the details and movement of the items included under the head of "Intangible fixed assets”:

	Euros						
	Balance at 31.12.18	**Additions**	**Transfers**	**Balance at 31.12.19**	**Additions**	**Transfers**	**Balance at 31.12.20**
Cost:							
Research	56,958	---	---	56,958	---	---	56,958
Development	482,866	594,556	(482,866)	594,556	930,592	(594,556)	930,592
Intellectual property	11,378	-	---	11,378	43,070	---	54,447
Computer applications	1,728,481	213,751	482,866	2,425,098	314,920	594,556	3,334,573
Total Cost	**2,279,683**	**808,306**	**---**	**3,087,989**	**1,288,582**	**---**	**4,376,571**
Accumulated amortisation:							
Research	(56,958)	---	---	(56,958)	---	---	(56,958)
Development	---	---	---	---	---	---	---
Intellectual property	(676)	(569)	---	(1,245)	(2,888)	---	(4,133)
Computer applications	(972,074)	(447,147)	---	(1,419,222)	(503,660)	---	(1,922,882)
Total Accumulated Amortisation	**(1,029,708)**	**(447,716)**	**---**	**(1,477,425)**	**(506,548)**	**---**	**(1,983,973)**
Net Book Value	**1,249,975**			**1,610,565**			**2,392,598**

In accordance with the intangible fixed assets set forth in Note 2.g, the opening balances of the 2019 financial year are affected by the repercussions of the change that took place at the end of financial 2018 in the Company’s criteria for classifying and reporting the intangible assets related to the computer applications and the improvements to the versions of the computer software that were included under the head of "Development" in Intangible Assets.

(in euros)

a) Research and Development

The Group continues to implement its investment policy and to improve its current facial biometric applications. The capitalised expenses during the fiscal year ended 31 December 2020 and 2019 correspond to the following milestones:

	Euros
Description: Project 2020	**Amount**
Improvements to FACEPHI Software Development Kit (SDK)	930,592
Total	**930,592**

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

Said expenses are recognised under the head of Development since there are good reasons to foresee commercial success on completion. They are entered under the head of Intangible fixed assets in accordance with their nature on said date. If there is good reason to consider that it will not come to a successful conclusion, the expenses would be written off and posted as losses to intangible fixed assets. Almost all the activity involved in development of new applications or improvements to current ones has been performed internally and recognised by capitalisation of production costs under the head of "Works performed by the company for its own assets" in the Income Statement.

The developments capitalised as of 31 December 2020 and 2019 mainly consisted of security improvements against fraud, interactive guides for the user when recording and tools for integration of technology in multiplatform applications. After conducting tests and trials, the Company considers that the developments are operative and have been brought to a successful conclusion and will be placed on the market next year.

b) Intellectual property

FacePhi Biometría is the proprietor of the Selphi and FacePhi Beyond Biometrics trademarks. Said ownership grants protection of these trademarks in both the European Union (EUTM 015106354 and EUTM 015114853 respectively) and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126.

European Union Trademark certificates with registration numbers MUE 017896710 LookΦ MUE 017948110 inPhinite; MUE 017948113 4Phingers; MUE 017948116 Phivox; MUE 017948119 SignPhi and EUTM 017948878 SelphID have also been obtained. Entry into force of Act 1/2019 of 20 February, the Trade Secrets Act, determines a scenario where legal certainty regarding knowledge considered to constitute trade secrets (algorithms, know-how, etc.) is greater than before and consequently provides stronger protection against potential breaches of trade secrets. The Company currently owns the property rights of the following registered trademarks that constitute assets:

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

c) Computer applications

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

(in euros)

Moreover, the additions for the 2020 financial year include 220,000 euros for software developments acquired from a Group company.

Additions during the 2019 financial year are associated with acquisition of software codes from certain suppliers that subsequently permit their products to be used in the “on-boarding” technologies developed by the Company itself.

d) Fully amortised intangible fixed assets

As of 31 December 2020 and 2019 there are fully amortised intangible fixed assets in accordance with the following breakdown.

	Euros	
	2020	2019
Research	56,958	56,958
Computer applications	1,040,326	720,381
Total cost	**1,097,284**	**777,339**

e) Other information

The Company has not recognised subsidies in relation to intangible fixed assets in the financial year ended 31 December 2020. However, in 2018 the Company recognised subsidies for capitalised R&D expenses for a gross sum of 113,945 euros (see note 11.2).

As of 31 December 2020 and 2019 the Company has no firm investment commitments to third parties nor plans to sell intangible fixed assets.

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

f) Non-current assets impairment test

The recoverable value of the Company’s non-financial assets has been assessed as a single cash-generating unit by estimating their value in use using cash flow projections based on estimates made by management for the next 5 years. The discount rate applied to the cash flow projections was 7.5% and the cash flows after the five-year period are extrapolated using a growth rate of 2%. No impairment has been detected in the value of the assets.

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

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

- Growth. The Group sets a prudent course based on information from the biometrics sector to maintain a growth rate of 15% for the financial projection period (2021-2025) and of 2% per annum as of 2026. The Company continues to invest in sales and marketing facilities in both the countries where it already operates and by opening new offices and continues to develop sales channels that will enable it to increase its turnover.
- EBITDA. The Company estimates that its EBITDA will undergo progressive growth, obtaining new contracts and optimising its human resource structure.

(in euros)

- Discount rate. A WACC in accordance with that calculated by analysts who follow the Company has been used.
- CAPEX. The Group estimates that its investments in intangible assets, mainly for development of and improvements to its technology, will continue to grow in line with the growth in turnover and the human resource structure.

Sensitivity to changes in hypotheses

In view of the differences between the book value of the Company's net assets under analysis and their value in use, Management considers it highly unlikely that any reasonable or possible change in any of the indicated hypotheses (e.g. a 1% increase in the WACC and/or decrease in the growth rate by 1%) would entail a rise in the book value to the extent that it exceeds the recoverable value.

5. Tangible fixed assets

The following is the breakdown and movement of the items that comprise Property, plant and equipment:

	Balance at 31.12.18	Additions	Dereg.	Balance at 31.12.19	Additions	Dereg.	Balance at 31.12.20
Cost:							
Technical facilities	---	---	---	---	1,347	---	1,347
Other facilities	3,366	---	---	3,366	28,801	---	32,167
Furnishings	37,898	---	---	37,898	37,088	---	74,986
Information processing equipment	29,458	8,232	---	37,690	91,332	---	129,021
Other tangible fixed assets	4,498	---	---	4,498	4,715	---	9,213
Total cost	**75,219**	**8,232**	**---**	**83,451**	**163,283**	**---**	**246,733**
Accumulated amortisation:							
Other facilities	(1,495)	(337)	---	(1,831)	(1,797)		(3,628)
Furnishings	(13,394)	(3,789)	---	(17,184)	(4,896)		(22,079)
Information processing equipment	(17,434)	(5,589)	---	(23,023)	(15,280)		(38,303)
Other tangible fixed assets	(1,576)	(853)	---	(2,430)	(1,008)		(3,438)
Total accumulated amortisation	**(33,900)**	**(10,568)**	**---**	**(44,468)**	**(22,980)**		**(67,448)**
Net Book Value	**41,319**			**38,983**			**179,285**

The main additions in 2020 correspond to furniture and other facilities associated with the expansion of the offices, including computer equipment (note 6).

a) Fully amortised assets

As of 31 December 2020 there is fully depreciated property, plant and equipment for the sum of 12,387 euros (the same amount as in the 2019 financial year).

(in euros)

b) Insurance

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

c) Other information

No financial expenses have been capitalised, there are no tangible fixed assets in other countries and there are no restrictions and sureties on the same. Neither has the Company made or reversed value restatements for impairment of any item of its intangible fixed assets.

As of 31 December 2020 and 2019 there are no firm purchase or sale commitments for property, plant and equipment.

6. Leases and other transactions of a similar nature

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

Minimum future payments	2020	2019
Up to one year	117,886	44,969
Between one and five years	101,447	32,981
More than five years	---	---
Total	**219,334**	**77,951**

The sum of the lease payments recognised as an expense for the year as the most significant characteristics of the lease contracts are as follows:

Description of the lease	Expenses for the year 2020	Expenses for the year 2019	Due date	Renewal	Price update criteria
Offices, garages and storage	55,539	38,897	06/06/2025	N/A	YES (CPI)
Computer hardware	---	1,745	10/11/2019	N/A	NO
Computer hardware	---	369	27/05/2019	N/A	NO
Computer hardware	---	193	31/03/2019	N/A	NO
Computer hardware	763	504	21/05/2024	N/A	NO
Computer hardware	3,416	---	18/06/2021	N/A	NO
Computer hardware	720	---	18/06/2024	N/A	NO
Transport vehicles	17,948	30,659	03/01/2022	N/A	NO
Transport vehicles	63,026	---	08/01/2023	N/A	NO
Total	**141,413**	**72,368**			

During 2017, the Company signed two operating vehicle leasing contracts, initially intended for the use of members of the Board of Directors. The monthly fee amounts to 1,256 euros per vehicle, and the expiration date is set for 03 January 2022. Both contracts were classified as operating leases due to the fact that exercising the purchase option at maturity was not considered at the time of initial recognition. On 18 March 2020 one of the contracts was cancelled early by subrogation by a third party. Moreover, on 08 January 2020 the Company entered into two operating rental contracts for vehicles intended for the use of members of the Board of Directors. The monthly fee amounts to 2,223 euros per vehicle and the contract expires in 3 years.

(in euros)

Since 01 October 2017 the Company has maintained an operating lease contract for the offices in which it conducts its business. This contract has a term of five years and the rent is 2,800 euros per month. Two months' prior notice and compensation of three month's rent payment are required for early cancellation. The Company has placed a rental bond of 5,400 euros.

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

7. Information on the nature and risk level from financial instruments

Financial risk management is carried out with the aim of establishing the required mechanisms to control the Group's exposure to various kinds of risk: market risk (including exchange rate risk, interest rate risk and price risk), credit risk and liquidity risk. Risk management is monitored by the Board of Directors of the Company with the support of the Management Control Departments.

Credit risk

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

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

	2020	2019
Not due	4,132,690	6,911,138
Due but not doubtful	20,641	1,138,582
Doubtful	1,102,302	879,297
	5,255,632	8,929,017
Impairment corrections (note 9.3)	(1,102,302)	(749,097)
Total	4,153,331	8,179,920

Liquidity risk

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

Market-related financial risks

a. Interest rate risk

The interest rate risk arises from long-term borrowings. Borrowing resources issued at variable rates expose the Company to cash flow interest rate risks. Borrowing at fixed interest rates exposes the Company to fair value interest rate risk.

(in euros)

b. Exchange rate risk

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

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

c. Interest rate risk on cash flows

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

There are no significant interest rate risks for the Company’s cash flows.

d. Price risks

The Company is not exposed to significant price risks.

Fair value estimate

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

8. Long-term financial investments in Group companies

The following are the movements recognised under the head of “Long and short-term investments in Group and associated enterprises” at the close of the 2020 and 2019 financial years:

	Balance at 31.12.18	Additions	Dereg.	Balance at 31.12.19	Additions	Dereg.	Transfers	Balance at 31.12.20
Equity instruments in multi-group and associated companies	---	81,264	---	81,264	2,000,000	---	---	2,081,264
Financial credits to group and associated enterprises	---	88,051	---	88,051	157,560	---	6,439	252,051
Interest on l/t credits to group and associated companies	---	---	---	---	6,439	---	(6,439)	---
Impairment of group holdings	---	---	---	---	(81,264)	---	---	(81,264)
Group co. credit impairment:	---	---	---	---	(201,434)	---	---	(201,434)
Total l/t investment in Group and associated enterprises	**---**	**169,315**	**---**	**169,315**	**1,881,301**	**---**	---	**2,050,617**

8.1 Equity instruments in Group companies

The following is the information with respect to Group companies as of 31 December 2020:

FacePhi APAC, Ltd.

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

(in euros)

In accordance with the criteria set forth in note 3.4, investments in equity instruments of Group companies are valued at the initial consideration at the exchange rate on the subscription or purchase date. The unaudited value of net equity on said date amounted to minus 207,178 euros, which is why the full value of the holding in said company and the long-term financial credit have been written down by 81,264 euros and 201,434 euros respectively. This company does not have a business plan or financial projections that would enable application of a discounted cash flow valuation method.

Ecertic Digital Solutions, S.L.

As reported by a Relevant Fact on 23 January 2020, on 20 April 2020 FacePhi Biometría, S.A. entered into an agreement to acquire 100% of the share capital of the trading company Ecertic Digital Solutions, S.L. for the sum of 2 million euros. Management believes that this transaction achieves the strategic objective of fostering the "digital onboarding" service in its commercial portfolio and consolidating its leadership in the field of identification and authentication on both the domestic and international markets. The transaction was settled by a cash payment of 1,159,999 euros and assignment of 164,706 shares of the Company's treasury stock valued at 840,001 euros according to their recognised fair value (note 11.1.b). On 30 April 2020 Ecertic pledged 25% of the value of these shares to the Company pursuant to a notarised instrument as a surety against failure to comply with the duty of permanence of the subsidiary's management and employees and/or as a non-compete guarantee of said personnel for a period of two years.

The unaudited value of net equity on the acquisition date stood at 372,806 euros. Therefore, the acquisition price implies the existence of an implicit goodwill fund amounting to 1,627,194 euros that has been attributed to the technology provided by said company for development of the digital "on boarding" solutions that the Company markets at the present time. Company management has conducted an internal impairment test on the recoverable value of the investment and the goodwill contributed by the subsidiary by means of the discounted cash flow valuation method by an independent expert with the result that no impairment of the value investment was detected (note 3.3).
The following was the equity position of the two companies obtained from the unaudited accounting records as of 31 December 2020 and 2019:

	FacePhi APAC, Ltd		Ecertic, S.L.	
	2020	**2019**	**2020**	**2019**
Called capital	81,264	81,264	8,867	5,236
Issue premium	---	---	703,365	492,359
Reserves	(126,007)	---	(389,892)	(248,787)
Profit (loss) for the financial year	(187,799)	(37,990)	62,289	(15,718)
Conversion differences	25,365	(4,120)	---	---
Subsidies	---	---	88,826	76,500
Net equity	**(207,178)**	**39,154**	**473,454**	**309,591**
% holding	100%	100%	100%	---
Theoretical value of holding	**---**	**39,154**	**473,454**	**---**

8.2 Financial credits

At the end of the previous financial year the Company entered into a loan agreement with Facephi APC Ltd for the sum of 88,051 euros, with maturity of up to three years and interest equivalent to the legal interest on the money markets. However, in order to finance the operating losses generated by the subsidiary, the Company has entered into a new credit agreement with a limit of 500,000 euros that cancels the previous agreement and expires on 31 December 2025. This new credit line accrues interest at the equivalent rate to the legal interest on the money markets and as of 31 December 2020 the sum of 252,051 euros had been drawn down. Interest accrued and capitalised on the principal of the loan amounts to

(in euros)

6,439 euros as of 31 December 2020.

In view of the losses made during incorporation and start-up of the new subsidiary and which have reduced its net worth to a negative amount, at the drafting date of these Annual Financial Statements the Company's governing body is assessing the option of assigning the financial loan to the subsidiary's equity in order to write off the losses accumulated to date. However, the financial loan has been impaired as of 31 December 2020 by the sum of 201,434 euros charged under the head of "Impairment and outcome of disposal of financial instruments" in the attached Income Statement.

9. Financial assets

9.1 Analysis by category

The following is the book value of each category of financial asset instrument provided for in the standard for recognition and valuation of "Financial Instruments" except for balances with government agencies (Note 13):

	Euros			
	Credits, derivatives and others			
	short-term		long-term	
	2020	2019	2020	2019
Assets at historical cost				
Equity instruments (Note 9.3)	---	---	125,063	---
Assets at amortised cost				
Trade debtors and other accounts receivable (Note 9.3) (*)	4,253,331	8,246,120	---	---
Loans to personnel	100	---	4,100	---
Other financial assets (Note 9.3)	513,377	5,004	21,547	497,985
TOTAL	**4,766,808**	**8,251,124**	**150,709**	**497,985**

(*) Does not include balances with government agencies.

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

9.2 Analysis by maturity

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as of 31 December 2020:

	Financial assets					
	2021	2022	2023	2024	Subsequent years	Total
Financial asset						
Equity instruments	---	---	---	---	125,063	125,063
Trade debtors and accounts receivable	4,253,431	---	---	---	---	4,253,431
Other financial assets (*)	513,377	18,960	1,700	---	4,986	539,023
	4,766,808	**18,960**	**1,700**	**---**	**130,049**	**4917517**

(*) Does not include balances with government agencies (note 13).

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as of 31 December 2019:

	Financial assets					
	2021	2022	2023	2024	Subsequent years	Total
Financial asset						
Trade debtors and accounts receivable	8,246,120	---	---	---	---	8,246,120
Other financial assets (*)	5,004	489,585	8,400	---	---	502,989

(in euros)

8,251,124	489,585	8,400	---	---	8,749,109

(*) Does not include balances with government agencies (note 13).

(9.3) Loans and receivables

	Euros	
	2020	2019
Long-term loans and receivables:		
Equity instruments	125,063	---
Loans to personnel	4,100	---
Other financial assets	21,547	497,985
	150,709	**497,985**
Short-term loans and receivables:		
Other financial assets	513,377	5,004
	513,377	**5,004**
Trade debtors and other short-term accounts receivable:		
Trade for provision of services	5,255,632	8,929,016
Impairment of credit for trade transactions	(1,102,302)	(749,097)
Group companies debtors (note 16)	100,000	65,000
Advance payments to suppliers	---	301
Advances to personnel	100	1,200
Other credits with government agencies (Note 13.1)	126,518	30,202
	4,379,948	**8,276,623**

The Company maintains collection conditions with its customers for up to one year and therefore, as of 31 December 2020, a significant percentage of the balance is for trade credits originating in the previous year.

Impairment of trade credits

The following are the movements of provisions for impairment:

	Euros	
	2020	2019
Initial balance	**749,097**	**61,445**
Provision for impairment of accounts receivable	353,205	687,652
Reversal of unused amounts	---	---
Final balance	**1,102,302**	**749,097**

During the 2020 financial year the Company cancelled clients for the sum of 30,646 euros due to final bankruptcies.

Company management considers that the credit risk is sufficiently guaranteed in view of the solvency of the debtors with whom it works (mainly financial entities). Nevertheless, in January of financial 2020 the Company filed a lawsuit to recover a credit with a domestic client for the sum of 750,200 euros (including VAT).This is the main reason why the Company recognised uncollectable trade credits amounting to 687,652 euros during the 2019 financial year.

Along the same lines, the Company requested the Tax Agency to refund the sum of 130,200 euros corresponding to VAT paid in January 2020. On 24 April 2020 the Tax Agency notified the Company that an inspection would be conducted to verify the request for refund of the Value Added Tax for the 01/2020 period. After conducting the inspection, the Tax Agency considers that the Company does not meet the requirements of art. 80 of the Value Added Tax Act (LIVA) to amend the tax base and therefore proceeds to reduce it by 130,200 euros. As a result, the Parties signed a notice of disagreement on 12 June 2020.

Despite the fact that the Company's management and legal counsel consider that, while the Tax Agency does not currently admit amendment of the tax base, the Company does meet other requirements for its reduction. Therefore, the Company is drawing up the relevant appeals and claims against the ruling of the Tax Inspectorate and will file them in the competent Administrative Litigation court. However, for reason of prudence, management has decided to reclassify the credit on the debtor's account and subsequently allocate the associated provision for impairment.

Investment in long-term equity instruments

On 21 December 2020 the Company called 125,000 shares with a par value of one euro (€ 1.00) representing 21.04% of the share capital of Ama Movie, A.I.E. (the association). This entity was incorporated for an indefinite period on 15 March 2018. It is domiciled in Madrid and its tax I.D number is V-88067806. Its corporate purpose is the production, edition, distribution and marketing of theatrical, cinematographic and audio-visual productions.

Due to the fact that the control and significant influence requirements applicable to associated and multi-group companies are not met by said investment despite holding more than 20% of the voting rights, in view of the impossibility of intervening in the group's financial and operating policy decisions, the Company's governing body has classified it as a financial instrument held for sale.

Other short and long-term financial assets

As of 31 December 2020 the "Other long-term financial assets" account includes the rental bonds for the offices for the sum of 13,386 euros (8,400 euros at 31 December2019) and 8,161 euros for a fixed-term deposit of $US 10,000 with maturity on 14 February 2022 as a guarantee placed with a customer for provision of licensing, support and consulting services. As a result of the valuation of the investment at the exchange rate in force at the end of the year, losses have been allocated for negative exchange differences for an amount of 1,001 euros.

On 11 November 2020 the Company granted a loan of 6,500 euros with maturity at a maximum of 33 months and return by monthly instalments of 200 euros to en employee. Consequently, the sums of 2,400 and 4,100 euros have been posted as short and long-term credits to employees respectively.

Moreover, on 31 December 2019 the Company recognised the sum of 489,585 euros for a fixed-term deposit (F.T.D.) of 550 thousand US dollars constituted on 01 March 2018 and which is pledged as collateral for a loan at a variable interest rate under the agreement with the European Investment Fund with a limit of 1,000,000 euros (see note 12.3.a). The term to maturity of this F.T.D. is 3 years at an interest rate of 0.05%, for which reason it has been reclassified on the closing date – 31 December 2020 – under the head of "Other s/t financial assets" with an equivalent value of 448,195 euros at the end of the financial year. A loss of 46,394 euros was recognised for exchange rate differences as a result of valuation of the investment at the exchange rate applicable at year's end.

Finally, the Company recognised 62,782 euros for undue charges by the financial institution related to restructuring of the financial debt capitalised during the year under the head of items pending application in the short term (Note 12.a).

10. Cash and cash equivalents

(in euros)

The following is a breakdown of the cash and cash equivalents item as of 31 December 2020 and 2019:

	Euros	
	2020	2019
Cash, euros	104	37
Cash, foreign currency	2,076	4,346
Banks and credit inst. demand c/c, euros	3,354,581	267,039
Banks and credit inst. demand c/c f.c. (note 14.f)	2,620,556	115,259
Total	**5,977,318**	**386,682**

The treasury account under Banks and Financial Institutions includes an entry of 412,346 euros (233,486 euros at 31 December 2019) for financial deposits in the trading and settlement entities of Euronext and MAB securities respectively, the funds of which are not freely available to the Company unless the liquidity provider estimates that the cash or shares at its disposal are excessive.

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

Previously, as a result of the financial restructuring agreement entered into on 14 December 2020, the Company had established a pledge right over the current accounts and other available liquid assets for the sum of 2,244,829 euros (see Note 12.3.a).

11. Net equity

The attached Statement of Changes in Net Equity shows the breakdown and movement of the various accounts under the head of Net Equity during the financial years ended on 31 December 2020 and 2019.

11.1 Capital and reserves

a) Share capital and share premium

The following is the composition of the Company's share capital and share premium as of 31 December 2020 and 2019:

	2020		2019	
	Capital	Issue premium	Capital	Issue premium
Authorised	577,141	7,222,153	542,766	2,812,602
	577,141	**7,222,153**	**542,766**	**2,812,602**

The following is the composition of the Company's share capital and share premium as of 31 December 2020 and 2019:

	Number of shares	Par value	Share capital	Issue premium
Opening balance as of 01 January 2020	**13,569,139**	**0.04**	**542,768**	**2,812,602**
Capital increase 01.04.2020	252,780	0.04	10,111	952,979
Capital increase 30.04.2020	106,886	0.04	4,275	555,810
Capital increase 27.07.2020	231,393	0.04	9,256	1,292,334
Capital increase 07.10.2020	170,182	0.04	6,807	986,222

(in euros)

Capital increase 15.10.2020	98,139	0.04	3,926	622,206
Balance at 31 December 2020	**14,428,519**	**0.04**	**577,141**	**7,222,153**

	Number of shares	Par value	Share capital	Issue premium
Opening balance as of 01 January 2019	**13,277,083**	**0.04**	**531,084**	**2,323,993**
Capital increase 20.12.2019	292,056	0.04	11,682	488,609
Balance at 31 December 2019	**13,569,139**	**0.04**	**542,766**	**2,812,602**

Pursuant to the framework financing agreement signed on 16 September 2019 with Nice & Green and in accordance with article 297.1.b) of the Corporate Enterprises Act (LSC), the Extraordinary General Meeting held on 20 December 2019 agreed to delegate the power to issue convertible equity warrants (EW) into Company shares for a maximum conversion sum of 3,500,000 euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. In accordance with art 417 of the LSC, the pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green. Said delegated power was limited by the condition that the total amount of the increases in share capital agreed on one or more occasions may not exceed the equivalent of half of the share capital at the time, i.e. 265,541.66 euros, under any circumstances.

The price of conversion into shares considered in the financing agreement may not be lower than 130% of the par value of the Company's shares, i.e., at a lower price per equity warrant than 0.052 euros, or higher than the conversion price resulting from 92% of the lowest weighted average price during the six trading days prior to the date on which the conversion right is exercised. The investment commitment ended on 31 December 2020.

a.1) Share capital and share premium formalised during 2020

The Board of Directors, in exercise of the power set forth above, issued the following capital increase transactions during the 2020 financial year and converted the EW into shares:

Issuance of equity warrants in March 2020

On 06 March 2020 the Board agreed to issue a first batch of warrants convertible into shares for the sum of 1,050,000 euros. Said agreement provides for a capital increase with the option of incomplete subscription once the investor confirms exercise of the right to convert the EWs into shares in the Company within the option period of 64 days.

On 20 March 2020 Nice & Green requested conversion of 252,780 EWs. Therefore the financier secured the right to subscribe 252,780 new shares with a par value of 0.04 euros each. The conversion price was 2.7692 euros, the equivalent of 92% of the lowest VWAP of the last six trading days, which in turn represents an effective total capital increase of 699,998 euros. Consequently, the new shares had an issue premium of 2.7292 euros and a par value of 0.04 euros per share, which means that the issue premium and nominal value contributed capital increases of 689,887 euros and 10,111 euros respectively.

The conversion to shares with the consequent increase in the Company’s share capital was formally executed on 01 April 2020 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 316 of his journal record.

On 07 April 2020 Nice & Green requested conversion of 106,886 EWs. Therefore the financier secured the right to subscribe the same number of new shares with a par value of 0.04 euros each. The conversion price was 3.2745 euros which represents an effective total capital increase of 349,998 euros. Consequently, the new shares had an issue premium of 3.2345 euros per share and a par value of 0.04 euros, which means that the issue premium and nominal value contributed capital increases of 345,723 euros and 4,275 euros respectively.

The conversion to shares with the consequent increase in the Company's share capital was formally executed on 30 April 2020 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 336 of his journal record.

Issuance of equity warrants of June 2020

On 29 May 2020 the Company's Board of Directors agreed to issue a second batch of warrants convertible into shares for the sum of 1,050,000 euros, subject to the same conditions as the first issue in March of the same year. Said agreement, which was formally executed on 12 June 2020, provides for a capital increase with the option of incomplete subscription once the investor confirms exercise of the right to convert the EWs into shares in the Company.

Nice & Green formally communicated their intention to exercise of the right of conversion to shares and on the same date paid the sum of 350,000 euros for conversion of 78,649 EW into the same number of new shares with a par value of 0.04 euros each. The Company's capital was increased by 3,146 euros to address the conversion. The conversion price was 4.4501 euros due to the fact that the issue and exercise of the conversion right occurred simultaneously.

On 15 and 16 July Nice & Green notified their intention to exercise the right to convert 152,744 EW into new shares with a par value of 0.04 euros for a total price of 700,000 euros. The conversion price was 4.5828 euros, which represents an effective total capital increase of 699,995 euros. Consequently, the new shares had an issue premium of 4.5428 euros per share and a par value of 0.04 euros, which means that the issue premium and par value contributed capital increases of 693,885 euros and 6,110 euros respectively.

Finally, the conversion to shares with the consequent increase in the Company's share capital by issuance of 231,393 new shares with a par value of 0.04 euros each was formally executed on 27 July 2020 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 601 of his journal record. The conversion price of the first 78,649 EW was 4.4501 euros and 4.5828 for the remaining 152,744, which represents an effective total capital increase of 1,049,991 euros of which the share premium contributed 1,040,735 euros and share capital 9,256 euros.

Issuance of equity warrants in September 2020

At its meeting on 08 September 2020 the Company's Board of Directors resolved to conduct a third and final convertible warrant issue for the sum of 1,400,000 euros under the same terms and conditions as previous issues. Said agreement, which was formally executed on 14 September 2020, provides for a capital increase with the option of incomplete subscription once the investor confirms exercise of the right to convert the EWs into shares in the Company.

Nice & Green formally communicated their intention to exercise of the right of conversion to shares on 18 September 2020 and paid the sum of 400,000 euros for conversion of 75,329 EW into the same number of new shares with a par value of 0.04 euros each. The EW conversion price was 5.31 euros, which represents an effective capital increase of 399,997 euros. Consequently, the new shares had an issue premium of 5.27 euros per share and a par value of 0.04 euros, which means that the issue premium and par value contributed capital increases of 396,983.83 euros and 3,013.16 euros respectively.

On 02 October 2020 Nice & Green communicated their intention to exercise the right to convert the EW to shares and paid a 500,000 euros in cash for conversion of 94,853 EW into the same number of new shares with a par value of 0.04 euros each. The conversion price was 5.2713 euros which represents an effective total capital increase of 499,999 euros. Consequently, the new shares had an issue premium of 5.2313 euros per share and a par value of 0.04 euros, which means that the issue premium and par value contributed capital increases of 496,204.50 euros and 3,794.12 euros respectively.

(in euros)

Finally, the conversion to shares with the consequent increase in the Company's share capital by issue of 170,182 new shares with a par value of 0.04 euro per share was formally executed on 07 October 2020 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 1,083 of his journal record. The conversion price of the first 75,329 EW was 5.31 euros and 5.2713 for the remaining 94,853, which represents an effective total capital increase of 899,995.61 euros, of which the share premium contributed 893,188.33 euros and the share price 6,807.28 euros.

In relation to this latest EW issue, on 15 October 2020 Nice & Green announced their intention to exercise the right to convert 98,139 EW into the same number of new shares with a par value of 0.04 euros per share and consequently paid the sum of 500,000 euros in cash. The EW conversion price was 5.0948 euros, which represents an effective capital increase of 499,999 euros. Consequently, the new shares had an issue premium of 5.0548 euros per share and a par value of 0.04 euros, which means that the issue premium and par value contributed capital increases of 496,073.02 euros and 3,925.56 euros respectively.

Finally, the conversion to shares with the consequent increase in the Company's share capital by issue of 98,139 new shares with a par value of 0.04 euro per share was formally executed on 15 October 2020 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 1,153 of his journal record. The conversion price of the 98,139 EW was 5.0948 euros, which represents an effective total capital increase of 499,998.58 euros, of which the share premium contributed 496,073.02 euros and the share price 3,925.56 euros.

<u>The effect of the aforesaid issues of convertible EW and their conversion into own equity instruments on the Income Statement and Net Equity as of 31 December 2020</u>

Since the fixed-for-fixed swap rule was not met in accordance with the valuation criteria and standards set forth in note 3.6.b, according to the EW issuance conditions a financial derivative is created during the life of the warrant issue and until the moment of conversion into shares.

The following breakdown shows that the variations in the fair value of the derivative during its life (i.e. from the date of issue to exercise of the conversion option) have been recognised for a total of 943,944 euros under the head of "16. Variation in the fair value of financial instruments" in the Income Statement as of 31 December 2020 as a financial cost and reflected in a balancing entry in Equity as an increase in the share premium equivalent to the cash amount received for the conversion, minus the accumulated fair value of the derivative until said moment:

	Number of shares	**Conversion price**	**Fair value**	**Share premium/cost**
Capital increase 01.04.2020	252,780	2.7692	3.81	263,092
Capital increase 30.04.2020	106,886	3.2745	5.24	210,087
Capital increase 27.07.2020	231,393	4.5377	5.6250	251,599
Capital increase 07.10.2020	170,182	5.2884	5.8351	93,034
Capital increase 15.10.2020	98,139	5.0948	6.3800	126,133

943,944

a.2) Share capital and share premium formalised during 2019

On 20 December 2019 the General Meeting agreed to increase the Company's share capital by offsetting the principal and interest of the loan granted by Nice & Green in accordance with the loan agreement entered into by and between the Parties on 16 September 2019. At the time of the agreement the Company's share capital amounted to 500,292 euros. The issue rate (par value plus issue premium) of the new shares was 1.713 euros per share. Par value accounted for 0.04 euros and the issue premium 1.673 euros. It was therefore agreed to increase the Company's share capital by the net amount of 11,682 euros by means of issuance of 292,056 new shares and an issue premium of 488,609 euros.

The capital increase was formally executed on 31 January 2020 pursuant to an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 77 of his journal record and finally registered in the Companies Registry of Alicante on 24 February 2020.

a.3) Issues of convertible warrants and capital increases in progress

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

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

As a complement to the agreement, the Company's directors Salvador Martí Varó, Javier Mira Miró and Juan Alfonso Ortiz Company have each agreed to lend Nice & Green 176,666 shares of which they are the proprietors.

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

Issuance of equity warrants in February 2021

On 15 February 2020 the Company's Board of Directors resolved, pursuant to the powers conferred by the General Meeting held on 25 January 2021, to issue an initial batch of warrants convertible to shares for the sum of 2,500,000 euros, subject to the same conditions as previous issues of the same kind. Said agreement, which was formally executed on 16

(in euros)

February 2021, provides for a capital increase with the option of incomplete subscription once the investor confirms exercise of the right to convert the EWs into shares in the Company.

On 18 February 2021 Nice & Green communicated their intention to exercise the right to convert the EW to shares and paid 850,000 euros in cash for conversion of 237,456 EW into the same number of new shares with a par value of 0.04 euros each. The EW conversion price was 3.5796 euros, which represents an effective capital increase of 849,997.50 euros. Consequently, the new shares had an issue premium of 3.5396 euros per share and a par value of 0.04 euros, which means that the issue premium and par value contributed capital increases of 840,449.26 euros and 9,498.24 euros respectively.

The capital increase was formally executed on 25 March 2021 pursuant to an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 215 of his journal record and on the date of these Annual Financial Statements is pending registration in the Companies Registry of Alicante.

Therefore, on the drafting date of these Annual Financial Statements the share capital stands at € 586,639, all fully called and paid up, divided into 14,665,975 shares numbered from 1 to 14,665,975 represented by book entries with a par value of four cents of a euro (€ 0.04) each, and all of the same class, identical, cumulable and indivisible.

a.4) Significant holdings

As of 31 December 2020 the following shareholders, who are also members of the Board of Directors, held significant direct or indirect holdings in the Company:

	%	
	2020	**2019**
Salvador Martí Varó	9.13	10.30
Javier Mira Miró (*)	7.82	8.60
Juan Alfonso Ortiz Company (**)	8.50	10.13

(*) There are 141,470 shares lent to Nice & Green as collateral according to a relevant fact published on 18 September 2019.

(*) There are 150,586 shares lent to Nice & Green as collateral according to a relevant fact published on 18 September 2019.

All shares issued are fully paid up. There are no restrictions on free transfer of the shares except for those lent to Nice & Green as a surety.

b) Treasury stock

The total amount of treasury stock held at 31 December 2020 is 341,760 euros (240,354 euros at 31 December 2019) represented by 60,129 shares (125,998 shares at the end of the previous financial year), the equivalent of 0.42% of the Company's share capital (0.95% in 2019). This is below the maximum limit of 10% provided for in article 509 of the Corporate Enterprises Act.

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

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

(in euros)

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

The following are the share movements during the 2020 financial year:

	2019	Acquisitions	Disposals	Disposals for Business Combinations	2020
Cost of treasury shares	240,354	1,757,521	(556,294)	(1,099,822)	341,760

The sum of 1,099,822 euros recognised as disposal of treasury stock corresponds to transfer of the packet of shares required for payment of the debt of 840,001 euros, derived from sale of the shares in Ecertic Digital Solutions, S.L. (see note 8).

The Company sold treasury stock during financial 2020 for a net outcome of 235,063 euros (145,219 euros at 31 December 2019) that has been recognised as a credit to Voluntary Reserves.

c) Reserves and profit (loss) from previous financial years

The following is a breakdown of reserves at the end of the year:

	Euros	
	2020	**2019**
Legal reserve	108,553	-
Voluntary Reserve	1,100,415	610,194
Losses from previous financial years	---	(798,042)
	1,208,968	**(187,848)**

Legal reserve

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

Voluntary reserves

As of 31 December 2020 and 2019 the voluntary reserves include profits from previous years that were not allocated to shareholders or assigned to legal reserves.

These reserves are freely available.

As set forth in the attached Statement of Changes in Net Equity, during financial 2020 the Company charged the sum of 126,682 euros (126,416 euros in previous years) net of tax effect against these reserves for the cost of issuance and expenses incurred as a result of the capital increases capitalised during the year and 235,063 euros (145,219 euros in 2019) for the results obtained from the sale and purchase of treasury stock (see Note 11.1.b).

d) Application of the outcome of the 2019 financial year and proposed allocation of the profits

(in euros)

The following is the proposed allocation of the outcome of the financial year ended 31 December 2020 pending approval by the General Shareholders' Meeting:

Allocation basis:	**2020**	**2019**
Profit (loss) for the financial year net of corporation tax	(1,682,335)	1,288,436
Allocation		
Losses from previous financial years	(1,682,335)	798,042
To legal reserve	---	108,553
To voluntary reserves	---	381,841

Allocation of the outcome of the financial year ended 31 December 2019 was approved by the General Meeting on 24 July 2020.

Limitations on distribution of dividends

The Company is obliged to allocate 10% of its profits for the financial year to the constitution of the legal reserve until it reaches an amount equal to at least 20% of the share capital. Only the part of this reserve that exceeds said 20% of the share capital may be allocated to shareholders.

Dividends may only be distributed against profit for the financial year or freely available reserves once the conditions provided for by Law or the Company's articles of association have been covered and if the value of net equity is not – or will not be as a result of the allocation – less than that of the share capital.

- For these reasons the profit attributed directly to equity may not be directly or indirectly distributed. Any profit must be used to offset losses in the event that losses from previous years if, due to losses from previous financial years, the value of the Company's net equity is below that of the share capital.
- If the Company's assets include intangible assets derived from capitalisation of R&D expenses and/or goodwill, dividends may only be distributed if the amount of the available reserves is at least equal to the net amount of the non-amortised intangible assets.

The Company has not distributed dividends since it was first incorporated.

11.2. Subsidies

The following table shows the amount and nature of the subsidies on the Balance Sheet as of 31 December 2020 and 2019 under the head of "Subsidies, donations and bequests" and their variations during this and the previous financial year:

At 31 December 2020

Awarding body	Agency	Year awarded	Amount awarded	Rest pend amort. 31.12.19	Addition (Deregist ration)	Transferred to 2020 profit (loss)	Tax effect	Rest pend amort. 31.12.20
Europea (H2020)	Europe	2016	1,692,600	166,592	---	(67,063)	16,766	116,294
			1,692,600	**166,592**	**---**	**(67,063)**	**16,766**	**116,294**

31 December 2019

(in euros)

Awarding body	Agency	Year awarded	Amount awarded	Rest pend amort. 31.12.18	Addition (Deregist ration)	Transferred to 2019 profit (loss)	Tax effect	Rest pend amort. 31.12.19
Europea (H2020)	Europe	2016	1,692,600	216,890	---	(67,063)	16,766	166,592
			1,692,600	**216,890**	**---**	**(67,063)**	**16,766**	**166,592**

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

The Company signed an agreement with the European Commission in 2016 to obtain aid to finance investment in development in the execution of the project known as "Facial Recognition in Banking Security (FACCES)" over a period of 2 years.

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

On the one hand, the costs incurred associated with the eligible project were for R&D personnel costs that were capitalised in Intangible Assets and, on the other hand, for operating costs, and therefore the subsidy has an equity-related component and a working capital component which, in accordance with the costs incurred by the Company in previous years, was allocated in the proportions of 19.81% and 80.19%, respectively.

12. Financial liabilities

12.1 Analysis by category

The following table shows the book value of each category of financial instrument laid down in the standard for recognition and valuation of Financial Instruments except for balances with government agencies (Note 13):

	Euros			
	Long-term financial liabilities			
At amortised cost:	Debts with credit inst.		Derivatives Others	
	2020	2019	2020	2019
Debits and items payable (Note 12.3)	6,054,477	472,750	---	---
TOTAL	**6,054,477**	**472,750**	**---**	**---**

	Euros			
	Short-term financial liabilities			
At amortised cost:	Debts with credit inst.		Derivatives Others	
	2020	2019	2020	2019
Debits and items payable (Note 12.3)	984,949	2,598,262	1,171,923	2,602,802
TOTAL	**984,949**	**2,598,262**	**1,171,923**	**2,602,802**

12.2 Analysis by maturity

The following are the amounts of financial liability instruments with a specific or determinable maturity period classified by year of maturity as of 31 December 2020:

(in euros)

	Financial liabilities					
	2021	2022	2023	2024	Subsequent years	Total
Debts with credit institutions	984,949	1,325,319	1,479,507	1,632,204	1,617,447	7,039,426
Other financial liabilities (*)	893,385	---	---	---	---	893,385
	1,878,334	**1,325,319**	**1,479,507**	**1,632,204**	**1,617,447**	**7,932,811**

(*) Does not include balances with government agencies.

As of 31 December 2019:

	Financial liabilities					
	2020	2021	2022	2023	Subsequen t years	Total
Debts with credit institutions	2,598,262	362,385	110,365	---	---	3,071,012
Other financial liabilities (*)	2,602,802	---	---	---	---	2,602,501
	5,201,064	**362,385**	**110,365**	**---**	**---**	**5,673,513**

(*) Does not include balances with government agencies.

12.3. Debits and payables

	2020	2019
Long term debts:	**6,054,477**	**472,750**
Debts with credit institutions	6,054,477	472,750
other financial liabilities	---	---
Short term debts:	**986,547**	**2,604,038**
Debts with credit institutions	984,949	2,598,262
other financial liabilities	1,598	5,776
Trade creditors and other accounts payable:	**1,304,235**	**2,743,736**
Group companies debtors (note 16.b)	278,537	---
Sundry creditors	838,076	2,505,495
Personnel (salaries pending payment)	53,712	91,531
Other debts with government agencies (Note 13.1)	133,910	146,710
Debits and payables	**8,345,259**	**5,820,523**

The following is a breakdown of the debts with credit institutions as of 31 December 2020 and 2019:

	Euros			
	2020		2019	
	Short-term	Long-term	Short-term	Long-term
Bank loans	928,702	6,054,477	830,806	472,750
Debts for drawn credit (debtor)	---	---	593,073	---
Advances on trade transactions	---	---	1,136,036	---
Credit cards	35,631	---	27,167	---
Uncollected accrued interest	20,616	---	11,180	---
Total	**984,949**	**6,054,477**	**2,598,262**	**472,750**

(in euros)

a) Loans with credit institutions

The following is a breakdown of the most important conditions of the financial loans in effect as of 31 December 2020 and 2019:

Type of transaction	Maturity	Limit	31.12.20 Short-term	31.12.20 Long-term	31.12.19 Short-term	31.12.19 Long-term
Loan	31.05.20	200,000	---	---	30,135	---
Loan (1)	30.06.20	100,000	---	---	16,326	---
Loan	30.11.20	45,000	---	---	14,315	---
Loan	17.01.20	117,398	---	---	37,997	---
Loan	08.01.20	96,507	---	---	96,500	---
Loan (2) (*)	06.03.21	1,000,000	---	---	336,747	84,886
Loan	31.07.21	200,000	39,850	---	67,202	39,810
Loan (3)	20.11.22	200,000	66,667	66,667	66,667	133,333
Loan	21.03.22	500,000	169,145	45,384	164,917	214,721
Loan	03.04.25	1,000,000	162,531	837,469	---	---
Syndicated loan	30.06.25	6,000,000	490,510	5,104,956	---	---
		Total	**928,702**	**6,054,477**	**830,806**	**472,750**

(1) Remuneration of members of the Board of Directors and senior management.
(2) Loan executed under agreement with the European Investment Fund. Pledged with a F.T.D. of $ 500 thousand (see note 7).
(3) Investment loan, the purpose of which is to set up the sales structure in the South Korean subsidiary, financing personnel expenses, rentals and advertising.

The interest rate for debts with credit institutions is the Euribor plus a margin considered to be consistent with market costs. As of 31 December 2020 the Company recognised the sum of 20,616 euros (11,180 euros at 31 December 2019) as accrued interest pending settlement.

The average interest rate on long-term debts with credit institutions as of 31 December 2020 is 4.93% (2.55% in the previous year).

Syndicated financial restructuring agreement

On 14 December 2020 the Company reached a syndicated credit line agreement with a limit of 13 million euros. The following banking entities are involved in this agreement: Banco Santander, CaixaBank, banco Sabadell and Deutsche Bank, and it is structured in three tranches:

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

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

(in euros)

Notwithstanding the unlimited personal liability of the Company acquired under the aforesaid contracts, the subsidiary Ecertic Digital Solutions, S.L. constitutes, on the same date, a joint and several surety executable on first request over all the obligations arising from said contracts. Furthermore, pledge rights in rem are constituted on the credit rights of the Operating Current Accounts and the Transitory Amortisation Account associated with the loan. The Company has enacted a movable property mortgage on the trademarks owned by the Group that are valued at 2,244,829 euros as collateral for the aforesaid obligations.

Based on the estimates of cash flows set forth in its business plan, Management considers that the Company will be able to comply punctually with all the contractual obligations derived from the loans and financial credits to which it is subject at year's end.

b) Credit accounts and discount lines

The Company has contracted liquidity in a policy to finance working capital for the following amounts:

	Euros					
	Drawn		Limit		Available	
	31.12.20	31.12.19	31.12.20	31.12.19	31.12.20	31.12.19
Credit policies	---	593,073	450,000	660,000	450,000	66,927
Syndicated Loans (B+C)	---	---	7,000,000	---	7,000,000	---
Advance invoices	---	1,136,036	250,000	1,225,000	250,000	88,964
Credit cards	35,631	27,167	119,895	113,783	84,264	86,616
	35,631	**1,756,276**	**7,819,895**	**1,998,783**	**7,784,264**	**242,507**

c) Sundry creditors

The Company accounts for creditors in the normal course of business under this head.

d) Information on the average period of payment to suppliers. Information on the average period of payment to suppliers. Additional Provision Three. "Duty of information" of Act 15/2010 of 5 July.

The following is the information as of 31 December 2019 and 2018 required for the purposes of article 6 of the Resolution issued by the Accounting and Auditing Institute on 29 January 2017 on the information to be included in the Report in relation to deferral of payments to suppliers in trade transactions and regulated by Additional Provision Three, Duty of Information, in Act 15/2010 of 5 July that amends Act 3 /2004 of 29 December that establishes measures to combat default and late payment in trade transactions:

Item	2020	2019
	Days	Days
Average period of payment to suppliers	21	105
Ratio of paid operations	21	129
Ratio of operations pending payment	21	64
	Euros	
Total payments made	7,013,762	2,379,851
Total pending payments	767,583	1,398,641

For these exclusive purposes, the Trade Creditors account encompasses the items of suppliers and various creditors for debts with suppliers of goods or services included within the scope of regulation of legal payment periods. The head of Net Purchases and Expenses for External

(in euros)

Services encompasses the amounts accounted for as such in accordance with the Spanish General Accounting Plan (PGC).

13. Government agencies and tax position

13.1 Current balances with government agencies

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

	Euros			
	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Deferred tax assets (Note 13.4)	**452,462**		**57,862**	
Deferred tax asset for:				
• VAT	126,518		30,202	
Other credits with government agencies	**126,518**		**30,202**	
Deferred tax liabilities (note 13.4)		**38,765**		**55,531**
Creditors, Social Security Bodies		46,916		20,833
Deferred tax liability for:				
• Personal income tax withholdings		86,994		125,877
Other debts with government agencies		**133,910**		**146,710**

The VAT debit balance at the end of the year refers to amounts to be compensated or returned in the settlements for Q4 2020 and 2019 respectively.

13.2 Financial years pending verification and inspection

In compliance with the currently applicable legislation, taxes are not considered finally settled until the returns have been inspected by the tax agency within the four-year limitation period. As of 31 December 2020, all the Company's tax returns since 31 December 2016 for the main taxes to which it subject are pending inspection.

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

13.3 Reconciliation of the accounting outcome and current expense for corporation tax

Corporation tax is calculated on the basis of the economic or accounting result obtained by applying generally accepted accounting principles and does not necessarily coincide with the fiscal outcome understood as the taxable base in each case.

The following is the reconciliation of the accounting outcome with the Company's corporation tax base:

(in euros)

	Euros			
	Increase	Reduction	2020	2019
Outcome of the financial year. (losses)			**(1,829,549)**	**1,718,446**
Permanent differences:				
• Other non-deductible expenses	14,051	---	14,051	1,593
• Changes in the fair value of financial instruments	943,944	---	943,944	---
• Impairment of holdings and loans to Gr comp.	282,697	---	282,697	---
Revenue/(Expenses) allocated to Net Equity				
• Capital increase expenses	---	(168,910)	(168,910)	---
Taxable base			**(757,767)**	**1,720,039**
Tax on the taxable base (25%)			(189,442)	430,010
Application of rebates due to prior years' NTB			---	(265,647)
Tax credits applied for international double tax				
• Current financial year			---	(67,504)
External services:			---	(96,859)
Corporation tax due			---	---
Withholdings and payments on account			---	---
Refund			**---**	**---**

At year's end 2020 and 2019 the permanent differences are due to non-deductible expenses for penalties, non-deductible tax surcharges and for variations in the fair value of financial instruments (derivatives) related to the various capital increases in accordance with the information provided in Note 11.1.

The accounting expense/(income) for Corporation Tax is calculated as follows:

	Euros	
	2020	2019
Recognition of deductions for withholdings at source	(205,158)	(67,504)
Application of deductions for the current year	205,158	---
Tx due on taxable base - current expenditure/(income)	(189,442)	430,010
Expense/(revenue) for current tax	**(189,442)**	**430,010**
Fiscal credit for capital increase expenses	42,227	---
Expense/(Revenue) for deferred tax	**42,227**	**---**
Total Expense/(Revenue) for Corporation Tax	**(147,214)**	**430,010**

13.4 Deferred tax assets and liabilities

Deferred tax assets

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

(in euros)

The following is a breakdown of the Company's deductions pending application according to the corporate tax returns and the tax forecast as of 31 December 2020 and 2019:

Year of origin	2019	Generated	Applied	2020
2018	57,862	---	---	57,862
2020(*)	---	205,158	---	205,158
Total	**57,862**	**205,158**	**---**	**263,020**

(*) 2020 corporate tax estimate

Year of origin	2018	Generated	Applied	2019
2015	3,309		(3,309)	---
2016	2,944		(2,944)	---
2017	43,016		(43,016)	---
2018	105,452		(47,590)	57,862
2019	---	67,504	(67,504)	
Total	**154,721**	**67,504**	**(164,363)**	**57,862**

According to the 2020 financial forecast, the Company has the following negative tax base items to offset with future tax rebates:

	Euros				
Year of origin	**Bases pending 2019**	**Originated in 2020**	**2020 compensation**	**Bases pending 2020**	**Tax credit**
2020 financial year	---	757,767	---	757,767	189,442
Total	**---**	**757,767**	**---**	**757,767**	**189,442**

The following is a breakdown of deferred taxes:

	Euros	
	2020	**2019**
Deferred tax assets:		
- Credits for N.T.B. to offset	189,442	---
- Credits for deductions	263,020	57,862
Deferred tax liabilities:		
- Timing differences	(38,765)	(55,531)
Net balance for deferred taxes	**413,697**	**2,331**

The following was the gross movement in deferred taxes:

	2020	
	Active deferred tax	**Deferred tax liability**
As of 31 December 2019	**57,862**	**(55,531)**
Charges/(credits) to net equity	42,227	16,766
Charges/(credits) in income statement	352,372	---
As of 31 December 2020	**452,462**	**(38,765)**

(in euros)

	2019	
	Active deferred tax	Deferred tax liability
As of 31 December 2018	**420,368**	**(72,297)**
Charges/(credits) to Net Equity	---	16,766
Charges/(credits) in Income Statement	(362,505)	---
As of 31 December 2019	**57,862**	**(55,531)**

14. Income and expenditure

a) Net turnover

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

	%	%
Market	**2020**	**2019**
Spain	11.27	6.91
Rest of the European Union	0.93	---
Other countries	87.80	93.09
	100	**100**

Net turnover can also be analysed by business line:

	%	%
Line	**2020**	**2019**
Provision of services	100	100
	100	**100**

As of 31 December 2020 the sum of 758,958 euros (850,832 euros at 31 December 2019) has been recognised under the head of "Short-term accruals" in Current Liabilities on the attached Balance Sheet. This item accounts for the entire turnover estimate from support and maintenance services for the following financial year.

b) Supplies

Costs amounting to 1,439,760 euros (1,095,910 euros in 2019) accrued for licensed use of certain computer software required for development of products that the Group will subsequently place on the market under license are recognised as of 31 December 2020 under the head of Supplies on the Income Statement.

c) Work performed by the Company for its assets

	2020	2019
Work performed by the company for its asset	930,592	594,556
	930,592	**594,556**

(in euros)

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

d) Operating subsidies posted to outcome for the financial year

In accordance with the criteria set forth in note 3.8, as of 31 December 2020 Group management has allocated the sum of 67,063 euros to the Income Statement (the same amount at 31 December 2019) (Note 11.2).

e) Personnel expenses

	2020	2019
Wages, salaries and accessory exp.	2,690,588	1,748,177
Company Soc. Sec. payments	343,932	196,366
Other social expenses	---	---
	3,034,520	**1,944,543**

The following is the average number of employees throughout the financial year by category:

	2020	2019
Senior management	2	2
Scientific and intellectual support technicians and professional staff	44	15
Clerical workers	7	6
Sales force	4	3
Total average employment	**57**	**26**

These employees were distributed by gender as follows:

	2020			2019		
	Men	Women	Total	Men	Women	Total
Executive directors	2	---	2	2	-	2
Scientific and intellectual support technicians and professional staff	30	14	44	13	2	15
Clerical workers	2	5	7	1	5	6
Sales force	3	1	4	3	-	3
Total workforce at the end of the financial year	**37**	**20**	**57**	**19**	**7**	**26**

As of 31 December 2020 the Company employs 1 employee with a disability equal to or greater than 33% (2 at 31 December 2019).

An average of two employees with a disability equal to or greater than 33% were employed during the 2020 financial year (the same number as in the 2019 financial year).

f) Other operating expenses

The following is a breakdown of Other Operating Expenses by year:

(in euros)

	Euros 2020	Euros 2019
External services:		
Research and Development	---	163
Leases and royalties	141,413	72,368
Repairs and upkeep	7,362	5,452
Freelance professional services	1,958,146	1,773,448
Insurance premiums	37,243	27,051
Banking and similar services	100,307	76,642
Advertising, promotion and public relations	216,139	323,132
Supplies	38,098	25,642
Other services	497,906	452,726
Taxes	3,805	805
Losses, impairment and variation of provisions for uncollectible trade transactions (Note 9)	383,851	687,652
Other operating expenses	**3,384,269**	**3,445,081**

g) Foreign currency: Exchange differences

The overall value of assets denominated in foreign currency (f.c.) amounts to 6,129,958 euros (8,314,215 euros in 2019). The following are the most significant items:

		Euros	
Item	**Currency**	**2020**	**2019**
Trade (foreign currency)	USD	3,064,135	7,705,025
Treasury (f.c. c/c)	USD	2,620,556	115,259
Treasury (cash f.c.)	USD	2,076	4,346
Fixed-term deposit (f.c.)	USD	443,191	489,585
	Total	**6,129,958**	**8,314,215**

The following liabilities denominated in foreign currency amount to 437,964 euros (1,585,105 euros in 2019):

		Euros	
Item	**Currency**	**2020**	**2019**
Creditors (f.c.)	USD	437,964	2,213,366
Credit advances (f.c.)	USD	---	133,523
	Total	**437,964**	**1,585,105**

The following are the main transactions made in currencies other than the euro:

		Euros	
Transaction (Expense)/Income	**Currency**	**2020**	**2019**
Sales	USD	6,320,187	7,628,353
Services received	USD	(1,462,367)	(1,333,395)

The following table shows the exchange differences arising from transactions that were settled during the period under analysis and those arising from transactions pending settlement as of 31 December 2020 and 2019:

(in euros)

Financial instrument	Currency	Exchange differences 2020	2019
Positive cash differences	USD	201,996	75,878
Negative cash differences	USD	(16,106)	(19,773)
Negative differences from trade collections	USD	25,517	2,312
Positive differences from trade collections	USD	(66,761)	(28,814)
Negative differences for payments to suppliers	USD	421	55,719
Positive differences for payments to suppliers	USD	(24,208)	(24,282)
Total for transactions settled in the financial year		**120,859**	**61,040**

Financial instrument	Currency	Exchange differences 2020	2019
Negative differences due to trade balances	USD	278,112	31,284
Positive differences for trade balances	USD	---	---
Negative differences due to financial investment balances	USD	47,968	---
Negative differences due to credit advance balances	USD	---	19,373
Positive differences due to credit balances	USD	---	(23,060)
Negative differences due to credit balances	USD	7,137	---
Total for transactions pending maturity		**333,217**	**27,597**
Total exchange differences allocated for the year		**454,077**	**88,637**

15. Remuneration of members of the Board of Directors and senior management.

In accordance with the proposal of the Appointments and Remuneration Committee on 18 December 2019, subsequently ratified by the General Meeting held on 24 July 2020, the Board of Directors received the following remuneration for the 2020 financial year:

- The joint sum of 840,000 euros plus an additional amount equal to 5% of gross profit in excess of one million euros.
- In view of the seasonality in the Company's turnover, an additional bonus of 125,000 euros to be shared equally between the two executives was approved and shall be paid provided that turnover increases by 50% or more compared to the same period of the previous year by 30 June 2020.
- In addition, the allocation for the Board committees was divided into 250,000 euros as per diem allowances and 50,000 euros for remuneration of members of the Audit Committee and the Remuneration Committee.

Furthermore, in view of the uncertainty caused by the Covid-19 pandemic, on 27 March 2020 the Appointments and Remuneration Committee resolved to complement the incentives agreed on 18 December 2019 by allocating an extraordinary bonus of 100,000 euros to be distributed equally among the senior managers provided that the milestone of invoicing twice the turnover compared to the same period last year was reached by 30 June of the same year.

Pursuant to these agreements, the remuneration accrued as of 31 December 2020 was the following:

(in euros)

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

During the 2020 and 2019 financial years the members of the Board of Directors, some of whom are also senior managers, received the following statutory and salary remuneration – including Board expenses and allowances, remuneration in kind and civil liability insurance premiums for managers and directors:

	Euros	
	2020	**2019**
Remuneration:		
Fixed – Senior management	840,000	720,000
Variable – Senior Management	225,000	87,306
Board and Audit and Remuneration Committee allowances	300,000	246,389
Other remuneration	63,026	30,659
Insurance premiums	14,476	1,764
Total remuneration	**1,442,502**	**1,086,118**

Neither have the members of the Board of Directors nor senior management been granted financial credits or benefitted from pension-related commitments by the Company. There are no agreements pursuant to which the members of the Board or senior management have the right to receive compensation due to severance from directorships.

b) Position of directors with respect to conflict of interest

In compliance with the duty of avoiding positions that could entail conflict with the interest with the Company, all members of the Board of Directors have fulfilled the obligations set forth in article 228 of the consolidated text of the Corporate Enterprises Act during the financial year. Furthermore, both the directors and persons related to the same have refrained from incurring in the cases of conflict of interest which may be authorised by the governing body provided for in article 229 of said Act (no instances have occurred during this financial year).

16. Balances and transactions with Group companies and other associated enterprises

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

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

Group Company (Article 42, Com. C)	**% holding**	**Address**	**Main activity**
FacePhi Biometría, S.A.	Parent Company	Alicante- Spain	Marketing of biometric facial recognition systems
FacePhi APAC, Ltd.	100%	Pangyo (South Korea)	Marketing of biometric facial recognition systems

(in euros)

Ecertic Digital Solutions, S.L.	100%	Madrid Spain	Software development and marketing
Group entity (decision unit)	**% of control**	**Address**	**Main activity**
CF Intercity SAD	100%	San Juan (Alicante)	Limited Sports Company

a) Financial investments in Group companies

A breakdown of the short and long-term financial investments made in Group companies is shown in note 8.

b) Balances and trade transactions with Group companies

On 01 December 2019 the Company and CF Intercity SAD entered into an advertising sponsorship contract for a duration of 3 seasons from 01 July 2019 to 30 June 2022 for the sum of 100,000 euros per season. As of 31 December 2020 the Company has recognised the sum of 100,000 euros for the first half year of the 2019-2020 sports season and the first half of the 2020/2021 season under the head of "Other operating expenses" in the Income Statement (50,000 at 31 December 2019 on account of the first half of the 2019-2020 season).

The Company also granted an advance payment of 100,000 euros (65,000 euros at 31 December 2019) against the same item at the close of the 2020 financial year.

Furthermore, as reported in note 4, the Group company Ecertic Digital Solutions, S.L., invoiced 220,000 euros and 155,000 euros for the sale of computer applications developed for the Group and use packages for said applications. As of 31 December 2020 there is fully depreciated property, plant and equipment for the sum of 278,537 euros (Note 9.3).

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

<u>Other information</u>

In view of the fact that the Company is holder of most of the assets of the entities that comprise the Group, the following table reports the mandatory information on the volume of the assets, equity and outcomes according to the latest unaudited financial information available:

Company name	***Total assets***		***Net equity***		***Outcome***	
	2020	***2019***	***2020***	***2019***	***2020***	***2018***
Group companies:						
FacePhi Biometria, S.A.	16,269,938	11,114,755	7,100,462	4,382,194	(1,682,335)	1,288,436
FacePhi APAC, Ltd	159,031	43,793	(207,178)	39,794	(149,810)	(37,349)
Ecertic Digital Solutions, S.L.	534,243	---	473,454	---	62,289	---
External companies.						
CF Intercity Sant Joan (30 June)	139,493	193,493	(662,370)	127,968	(775,963)	3,023
Aggregated totals	***17,102,705***	***11,352,041***	***6,704,368***	***4,549,956***	***(2,545,819)***	***1,254,110***

17. Environmental information

The Company does not hold significant assets in property, plant and equipment intended to minimise environmental impact and protect the environment, nor has it incurred in significant expenses during the year for the purpose of protecting and improving the environment.

(in euros)

To date there are no known contingencies related to protection and improvement of the environment or its potential impact on the outcomes and/or financial position of the Company.

The Company has not received subsidies of an environmental nature.

18. Provisions and contingencies

As of 31 December 2020 the Company has placed a performance bond of $ 10,000 in favour of a client. Said bond will expire on 24 February 2022. It has been pledged in a fixed-term deposit for the same amount (Note 9).

As of 31 December 2019 a surety for the sum of 16,326 euros was placed in favour of the Company by a member of the Board of Directors as a guarantee for repayment of a loan. Said loan was fully amortised during 2020.

19. Other information

a) Audit fees

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

	2020	*2019*
Audit services:		
• Audit of individual Annual Financial Statements (*)	21,500	19,500
• Audit of the Consolidated Annual Financial Statements (*)	6,000	---
Other services related to the audit:		
• Review of interim financial statements at 30.06.2020	10,500	9,500
Other accounting verification services	---	---
Total professional services	**38,000**	**29,000**

As of 31 December 2020 and 2019 no fees have been accrued by other companies of the Auren group as a result of tax advisory services, special reports, other verification services or other services.

b) Off-balance sheet agreements

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

20. Subsequent events

In accordance with the information provided in Note 11.1 in relation to the capital increase in progress, on 25 January 2021 the following resolutions were adopted by the Extraordinary General

Meeting held on that date: One: to delegate the power to issue convertible equity warrants (EW) in shares of the Company for a maximum conversion sum of 20,000,000 euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. The pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green.

Under the aforesaid delegation by the General Meeting, on 15 February 2021 the Board of Directors adopted a resolution to conduct a first issue of 48,076,923 equity warrants convertible to Company shares for a maximum of 2,500,000 euros (the (February 2021) Equity Warrants). The only recipient of the (February 2021) Equity Warrants was Nice & Green.

On 18 February 2021 Nice & Green notified the Company and exercised its right to convert 237,456 (February 2021) Equity Warrants for a conversion sum of 850,000 euros under the provisions of the investment agreement. After this partial conversion of the first tranche, Nice & Green still holds the option of requiring issuance of equity warrants to cover the remaining 1,650,000 euros of said first tranche. This option expires on 19 May 2021, the termination date of the right of exercise conversion of the Tranche One.

On 25 March 2021 a significant event was reported to BME Growth that certain members of the Board of Directors have lent 237,942 shares to Nice & Green in addition to those assigned under the previous investment agreement. Thus, a total of 176,666 shares were assigned by each of the three directors as provided for in the second Investment Agreement.

In addition to the events described above, the Directors consider that no other significant subsequent events have occurred that could affect the information contained in these Annual Financial Statements.

Alicante 31 March 2021

* * * * * *

MANAGEMENT REPORT

FacePhi is a global leader in facial recognition technology
The Spanish company FacePhi is a world leader in the application of biometric facial recognition technology with a major market share in the banking sector. It achieved a turnover of 7.2 million euros from the sale of licences in 2020 and its shares are currently traded under the dual listing system on the Euronext Growth market in Paris and on BME Growth in Spain at the same time.
FacePhi has successfully completed consolidation of its subsidiaries SelphID and inPhinite. InPhinite, launched in 2018-2019, develops a combination of biometric and other security systems that create a complete identity, authentication and digital integration solution that enables access to and verification and operation of various services and products in mobile and web applications. The incorporation of new technologies such as *digital onboarding* and *voice recognition* by means of alliances enhances the Company's product portfolio and provides the opportunity to increase the sales volume to established, new and potential customers. The Company currently markets five products:

- Selphi: Authentication using facial biometry
- Look&Phi: Authentication using periocular biometry
- SelphID: Digital onboarding and KYC (Know Your Customer)
- PhiVox: Authentication with voice biometry and call centre
- IdentiPhi: Selfie-matching vs photo on I.D.
- SignPhi: Authentication with written biometry
- 4Phingers: Authentication with fingerprint biometry

The Company has maintained its **FIDO UAF** certification with **SelPhi®**. **FIDO**, the most extensive ecosystem for standard-based interoperable authentication processes, certifies that FacePhi's technology has passed the FIDO UAF interoperability test. Improvement of the usability of the technology by dispensing with passwords (**PasswordleCAPIss Experience**) and employing a fast, easy-to-use process – transparent for the user – that requires only a single device (mobile or tablet) are among the advantages of this certification. Moreover, the FIDO UAF protocol ensures protection against phishing, man-in-the-middle and replay attacks.

FacePhi is a **global leader in facial recognition technology.** Our products are used by banks and other financial service companies worldwide. Implementation of our systems not only means that the bank saves money but the product also **attracts and retains new customers** while enhancing the **security of the transactions**.
This innovative technology **effortlessly enhances the user's experience** by simply using the camera on the mobile device to take a selfie, which means that the device becomes the identification and interaction channel with the bank's mobile application.
FacePhi's QA department conducts periodic internal audits of its products and services. Even so, the Company has commissioned several external audits and certification processes as a consequence of its constant improvement and technological enhancement processes.
External audits:

- In the context of the ISO 31000:2018 standard FacePhi, with the help of an external consultancy, submitted its risk management system to an exhaustive analysis the scope of which encompassed the development, maintenance, integration and support of its biometric technologies.
- In the context of the ISO 27001:2017 and ISO 27002:2017 information security management system (ISMS) standards and code of practices for information security controls, FacePhi implemented an Information Security Management System (ISMS) with the help of an external consultancy.
- In order to validate the metrics of FacePhi's facial recognition technologies in both in its identification (1:N) mode and in its verification (1:1) mode under the ISO/IEC 19795-1: 2006 and ISO/IEC 19795-5:2011 standards following the guidance stipulated by the National Institute of Standards and Technology (NIST) in its FRGC Experiment 1 and FRGC experiment 4 guidelines,

FacePhi has audited and validated its SDK performance metrics for these technologies through the services of Ackcent, the external cybersecurity auditor.

- To validate the performance of the liveness technology in accordance with the ISO/IEC 30107-3:2017 standard, FacePhi audited and validated the inviolability of its technology against presentation attacks with the aid of the external cybersecurity organization Ackcent.

FacePhi holds the following technical certifications:

- The ISO 27001:2017 standard for information security, the objectives of which are to safeguard the confidentiality, integrity and availability of classified information.
- FacePhi, as part of its strategy to enter new markets, is in the process of obtaining certification under the K-NBTC standard, available since October 2020, through the Korean national body KISA on both its modalities:
  - o Standard Conformance Test: Modelled architecture compliance certification according to ISO/IEC 19784-1:2018, ISO/IEC 24709-1:2017 and ISO/IEC 24709-2:2007 standards.
  - o Performance Test: Facial recognition technology performance metrics evaluation certification.
- The iBeta certification body granted certification of FacePhi's face recognition and liveness algorithms under the ISO 30107-3:2017 standard that stipulates the methodology for evaluating the strength of a biometric algorithm against presentation attacks (fraud attempts). It is the most prestigious biometrics certification at the international level.

Main risks and uncertainties facing the Company

The main risk factors do not differ significantly from those included in the Market Entry Information Document (Spanish acronym - DIIM) issued in June 2014 or from those included in the duly updated Reduced Extension Documents (DAR) dated March 2015 and February 2016. It should be taken into account that these risks are not the only ones that the Company may be required to face and that could have a material adverse effect on the price of FACEPHI BIOMETRIA, S.A. shares which in turn could lead to a partial or total loss of the investment made to date. The following are the most important risk factors, notwithstanding the fact that there may be other less important or even risks unknown at the time this management report was drawn up.

Risks linked to excessive exposure to technological innovation

The sector in which the Company operates is subject to intense research and technological innovation that entails constant updating of the product and, consequently, a high expiration or obsolescence rate of the range is able to place on the market at any one time. This innovation requires investment in personnel, material and marketing that the Company must be able to meet.

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

As technology is constantly growing and evolving, so the creation of strong new companies that provide products with a stronger competitive advantages or the emergence of other types of technology or biometrics that are more effective or achieve wider consumer acceptance can never be ruled out.

If this process takes place the market share that these new competitors acquire as they grow is subtracted from that of the existing companies of which the sector is composed. In that event the Company's production would decline, customers would be lost and the share price could fall dramatically. Despite this, the Company is committed to continuous research and development to improve and evolve its technology to meet market demands. This benefits said products and positions them with a competitive advantage over the start-ups that aspire to penetrate the market.

Registration protection of algorithms

It should be noted that mathematical algorithms cannot be patented and therefore the protection of the Spanish Patent and Trademark Office against competitors cannot be obtained. The authorship of algorithms is protected under Royal Legislative Decree 1/1996 of 12 April that adopts the consolidated text of the Intellectual Property Act.

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

Moreover, computer programs and algorithms – software, in short – are protected under the WTO TRIPS Agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights), the Berne

Convention for the Protection of Literary and Artistic Works and Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information.
The Company has identified its programs, algorithms and software as essential strategic business assets, and this is due to compliance with the conditions recognised internationally as key aspects of the protection of Trade Secrets.

Documentary protection

- By non-disclosure clauses that protect the information.
- They reinforce the classified nature of business information for the bound party
- They define the conditions applicable to the confidential information viz-á-viz the people who have access to the same.

Technical certifications

The Company is in the process of obtaining certification under the ISO 27001:2017 standard for information security, the objectives of which are to safeguard the confidentiality, integrity and availability of the classified information. Certification is scheduled for 2021. FacePhi, as part of its strategy to enter new markets, is in the process of obtaining certification under the K-NBTC standard, available since October 2020, through the Korean national body KISA in both its versions:

- Standard Conformance Test: Modelled architecture compliance certification according to ISO/IEC 19784-1:2018, ISO/IEC 24709-1:2017 and ISO/IEC 24709-2:2007 standards.
- Performance Test: Facial recognition technology performance metrics evaluation certification.

FacePhi's face recognition and liveness algorithms have been certified under the ISO 30107-3:2017 standard.

Intellectual Property Rights

FacePhi Biometría is the owner of the Selphi and FacePhi Beyond Biometrics trademarks. Said ownership grants protection of these trademarks in both the European Union (EUTM 015106354 and EUTM 015114853 respectively) and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126. FacePhi has also obtained European Union Trademark certificates with registration numbers MUE 017896710 LookΦ MUE 017948110 inPhinite; MUE 017948113 4Phingers; MUE 017948116 Phivox; MUE 017948119 SignPhi and EUTM 017948878 SelphID. Entry into force of Act 1/2019 of 20 February, the Trade Secrets Act, determines a scenario where legal certainty regarding knowledge considered to constitute Trade Secrets (algorithms, know-how, etc.) is greater than before and consequently provides stronger protection against potential breaches of Trade Secrets.
FacePhi's software programs (algorithms) constitute one of its most important business assets and for this reason the Company has devoted a significant effort to compliance with the international conditions that ensure protection of trade secrets.

Registered trademarks: The Company currently owns the property rights of the following registered trademarks that constitute assets:

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 Biometría is the owner of the registered trademarks and has obtained the following European Trademark certificates:

- MUE 017896710 LookΦ

- MUE 017948110 inPhinite;
- MUE 017948113 4Phingers;
- MUE 017948116 Phivox;
- MUE 017948119 SignPhi;
- MUE 017948878 SelphID.

Risks derived from loss of key personnel
Since FacePhi is a young company with strong links to its founders and directors, highlighting the risk derived from a potential resignation or dismissal of one or the other from the Company's management is inevitable. Although the aforesaid risk is not expected to materialise for voluntary reasons insofar as said directors are still the main shareholders, other causes that could entail loss of their services cannot be entirely excluded. Furthermore, the death or resignation of key personnel could negatively affect the Company's business, its results, prospects or financial, economic and equity situation.

Risks linked to the price of shares
Variation in the share price. Since it was first listed for trading, FacePhi's share price has been a highly volatile security due to its nature as a small-cap technology stock. With a market capitalisation of around 73 million euros at the end of 2020, at the date of issue of this report FacePhi's capitalisation is low even compared to the other companies listed on BME Growth and in view of its current size.

Social acceptance risk
Due to the fact that the technology sector is subject to constant changes, there could be a change in consumer preferences or market tendencies that could negatively affect the use of facial biometrics in favour of other biometrics or security systems.

Theft or hacking of essential information and technology code
There is always a risk of potential hacking attacks in spite of being equipped with secure internal protection. If essential information were leaked or internal data and the algorithms used in the Company's technology were disclosed there would be a risk that another company could plagiarize the source code and market the same as its own product.

Recurring revenues
The Company's revenue type is divided between the sale of licenses – which can be recurring or perpetual – and other related income such as support, maintenance, certification, consulting, updating or bespoke developments. Recurring license sales currently represent more than 50% of the Company's revenue. The future success of the Company depends on customers' renewal of recurring licenses, the sale of new licenses or products to existing customers or existing products to new customers, increase in the sale of recurring licenses or the development of new products.

Analysis of the variation, business outcomes and the Company's position
The Spanish company FacePhi is a world leader in the application of biometric facial recognition technology with a major market share in the banking sector. It achieved a turnover of 7198754 million euros from the sale of licences in 2019, 12% down on the 2019 figure, and its shares are currently traded under the dual listing system on the Euronext Growth market in Paris and on BME Growth in Spain at the same time.

EUROS	**2020 A**	**2019 A**	**2018 A**	**2017 A**
Net turnover	**€ 7,198,754.00**	**€ 8,194,946.30**	**€ 4,480,826.15**	**€ 2,700,669.00**
Absolute variation	– € 996,192.30	€ 3,714,120.15	€ 1,780,157.15	€ 692,950.00
Relative var. %	**-12%**	**83%**	**66%**	**35%**

Turnover has grown steadily although it dipped slightly in the 2020 financial year. Latin America continues to be the Company's main market.
Net turnover can also be analysed by *services* line as follows:

	%	
Line	**2020**	**2019**
Provision of services	100.00	100.00
	100.00	**100.00**

The Company generated significant pre-tax losses amounting to 1,829,549 euros during the 2020 financial year. These losses were mainly due to the financial risks deriving from the issue of our own equity instruments to address the company's financing needs and to the adverse financial outcome of variations in the exchange rates on the currency markets, especially the US dollar.

Moreover, the Company was not able to meet its expectations with respect to the turnover forecast in its 2020 business plan since all commercial activities have been affected and our customers' investment plans have been shelved as a consequence of the crisis derived from the COVID-19 pandemic.
EBITDA stood at 720,298 euros on 31 December 2020, 3,076,208.91 euros on the same date in 2019 and 1,279,804 in 2018. This fall of 2,355,910 euros (-77%) is due to several factors including a lower turnover and an increase in the workforce.

Euros	**2020**	**2019**	**2018**
EBITDA	**720.298,00 €**	**3.076.208,91 €**	**1.279.804,00 €**
Variación absoluta	-2.355.910,91 €	1.796.404,91 €	423.875,00 €
Variación relativa	-77%	140%	49,50%

As of 31 December 2020 the Company's net equity has been considerably strengthened by the impact of the capital increases and issuance of equity warrants Net equity was improved by the profits obtained in both the 2019 and 2018 financial years.

	2020	**2019**	**2018**
PATRIMONIO NETO	7.100.462,00 €	4.382.193,89 €	2.588.176,00 €
Variación absoluta	2.718.268,11 €	1.794.017,89 €	1.205.814,00 €
Variación relativa	62%	69%	87%

Net equity stands at 7,100,462 euros at the end of the 2020 financial year. In the 2019 financial year net equity rose considerably to reach 4,382,193.89 euros, up from 2,588,176 euros in 2018.
Total bank debt (short and long-term) as of 31 December 2020 amounts to 7,039,426 euros, which represents a year-on-year increase of 129% compared to the position at the end of 2019 due to the syndicated loan with three differentiated tranches.

Euros	**2020**	**2019**	**2018**
Debts with credit institutions	**€ 7,039,426.00**	**€ 3,071,011.25**	**€ 2,485,028.00**
Absolute variation	€ 3,968,414.75	€ 585,983.25	€ 934,320.00
Relative var. %	129%	24%	60%

NET bank debt (NFD) decreased by 80% as a consequence of the increase in the cash and cash equivalents.

Euros	2020	2019	2018
Debts with credit institutions	**€ 7,039,426.00**	**€ 3,071,011.25**	**€ 2,485,028.00**
Cash and short-term financial investment	€ 6,490,695.00	€ 386,681.70	€ 387,576.00
Net debt	**€ 548,731.00**	**€ 2,684,329.55**	**€ 2,097,452.00**
Absolute variation	– € 2,135,598.55	**€ 586,877.55**	**€ 754,081.00**
Relative var. %	-80%	28%	56%

The interest coverage ratio in 2020 is 5.58 times.

Ratio	2020	2019	2018	2017
Interest coverage (EBITDA/Financial expenses)	5.58	24.9	23.0	26.4

The net financial debt (NFD) / EBITDA ratio for 2020 is 0.76 times compared to 0.87 times in 2019.

Ratio	2020	2019	2018	2017
NFD / EBITDA	0.76	0.87	1.64	1.57

The Company's liquidity position is very healthy. At the end of the 2020 financial year the Company’s treasury stood at 5,977,318 euros, an optimal available cash level, up from 386,681.7 euros on the same date in 2019.

Euros	2020	2019	2018
Cash and cash equivalents	€ 5,977,318	€ 386,681.70	€ 387,576.00

Working capital

As at 31 December 2020 the Company has a positive working capital fund 7,994,527 euros compared to 2,541,439.42 euros on the same date in 2019.

EUROS	2020 A	2019 A	2018 A
Fondo de maniobra	7.994.527,00 €	2.541.439,42 €	3.721.757,00 €

The Company’s directors and main shareholders have shown their commitment to supporting it by carrying out a series of capital increases in recent years. The updated business plan has the solid support of the directors and main shareholders.

Regulatory compliance-related information

Pursuant to the Corporate Responsibility Policy of FacePhi Biometría S.A., the Governing Body is fully committed to excellence in service, creation of wealth, responsible management of the environment, concern for people, health and safety, social responsibility, personal integrity and transparency.

Supervision of the company's performance in this area ultimately rests with the Board of Directors as set forth in the recommendations of the Code of Ethics and the Board Regulations. The Board is responsible for approving FacePhi's Corporate Responsibility Policy and for reviewing the information on implementation and general monitoring of the same at least once a year.

The Board of Directors is also in charge of leading the effective integration of corporate responsibility into the company's overall strategy and in its day-to-day management in order to achieve a strong corporate responsibility culture. Implementation of the Criminal Risk Prevention Plan is the result of the Board of Directors' commitment to driving proper implementation and monitoring of the commitments assumed.

Information on compliance with criminal law: The FacePhi Criminal Risk Prevention Plan. The underlying aim of this *Compliance System* is to drive the implementation of a culture of compliance in the minds and actions of all FacePhi's employees. FacePhi's *Compliance System* is divided into three levels of action: Foresee, Detect and Respond.

R&D+i-related information

The research and development expenses capitalised at the end of the 2020 financial year are associated with the following projects and milestones:

- The Company continues to implement its investment policy and to improve its current facial biometrics applications. The capitalised expenses during the fiscal year ended 31 December 2020 and 2019 correspond to the following milestones:

	Euros
Description: Project 2020	**Amount**
Improvements to FACEPHI Software Development Kit (SDK)	930,592
Total	**930,592**

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

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

The developments capitalised as of 31 December 2020 and 2019 mainly consisted of security improvements against fraud, interactive guides for the user when recording and tools for integration of technology in multiplatform applications. After conducting tests and trials, the Company considers that the developments are operative and have been brought to a successful conclusion and will be placed on the market next year.

The Company's directors consider that the capitalised research and development expenses comply with all the conditions set forth in the applicable regulations to be recognised as assets.

Personnel-related information

FacePhi incorporates **corporate social responsibility** as a component of its identity as a company that devotes part of its time to activities aimed at making society a better place with the launch of its **social commitment plan**.

The following is the average number of employees throughout the financial year by category:

	2020	2019
Senior management	2	2
Scientific and intellectual and support technicians and professionals	44	15
Clerical workers	7	6
Sales force	4	3
Total average employees	57	26

These employees were distributed by gender as follows at year's end:

	2020			2019		
	Men	Women	Total	Men	Women	Total
Executive directors	2	---	2	2	-	2
Scientific and intellectual and support technicians and professionals	30	14	44	13	2	15
Clerical workers	2	5	7	1	5	6
Sales force	3	1	4	3	-	3
Total workforce at the end of the financial year	**37**	**20**	**57**	**19**	**7**	**26**

As of 31 December 2020 the Company employs 1 person with a disability equal to or greater than 33% (2 at 31 December 2019).

Environment-related information

The Company does not hold significant assets in property, plant and equipment intended to minimise environmental impact and protect the environment, nor has it incurred in significant expenses during the year for the purpose of protecting and improving the environment. Expenses derived from business actions aimed at protecting and improving the environment are accounted for as an expense for the year in which they are incurred. When said expenses involve additions to property, plant and equipment the purpose of which is to minimise our environmental impact and protect and improve the environment, they are recorded as an increase in fixed assets. To date there are no known contingencies related to protection and improvement of the environment or its potential impact on the outcomes and/or financial position of the Company. No subsidies of an environmental nature have been received.

Average payment period to suppliers and the measures to be applied in the next financial year to reduce it to the legal maximum stipulated the regulations to combat late payment.

In compliance with the provisions of the Resolution dated 29 January 2016 of the Spanish Accounting and Auditing Institute (ICAC), the following is the information on the average period of payment to suppliers in trade transactions:

Item	2020	2019
	Days	Days
Average period of payment to suppliers	21	105
Ratio of paid-up transactions	21	129
Ratio of operations pending payment	21	64
	Euros	
Total payments made	7,013,762	2,379,851
Total pending payments	767,583	1,398,641

The Company complies with the Resolution dated 29 January 2016 of the Accounting and Auditing Institute. As of 31 December 2020 the Company achieved an average payment period to trade suppliers of 21 days, down from 105 days in 2019. For these exclusive purposes, the Trade Creditors account encompasses the items of suppliers and sundry creditors for debts with suppliers of goods or services included within the scope of regulation of legal payment periods. The head of Net Purchases and Expenses for External Services encompasses the amounts accounted for as such in accordance with the Spanish General Accounting Plan (PGC).

Subsequent events

Except for the following milestones, there were no important events for the Company that occurred after the close of the financial year.

-**Important Investment Agreement**: On 25 January 2021 the Extraordinary General Meeting adopted a resolution to issue equity warrants (EW) convertible to shares of the Company for a maximum conversion sum of 20,000,000 euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. The pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green.

- FacePhi reaches trade agreements with Mibanco, ITSS, Inviu, Pinetree and DGB Daegu Bank

-FacePhi, National SME of the Year Award 2020 FacePhi won this prize awarded by Banco Santander and the Chamber of Commerce of Spain, one of the most prestigious in the business world and which recognises our work in the development of cutting-edge technology Made in Spain.

Predictable progress of the Company

The Company's forecast stresses consolidation in existing markets and expansion into the banking sector in new countries, continents (America and Asia) and customers (not only the banking sector). The business plan forecasts growth in turnover and wider profit margins in the coming months and years.

Treasury stock

The reasons for acquisition and disposal during the financial year

The total amount of treasury stock held at 31 December 2020 is 341,760 euros (240,354 euros at 31 December 2019) represented by 60,129 shares (125,998 shares at the end of the previous financial year), the equivalent of 0.42% of the Company's share capital (0.95% in 2019). This is below the maximum limit of 10% provided for in article 509 of the Corporate Enterprises Act.

					Euros
	2020	**2019**	**2018**	**2017**	**2016**
Acciones propias	341.769,00 €	240.354,00 €	150.723,00 €	134.672,00 €	123.933,00 €
	341.769,00 €	**240.354,00 €**	**150.723,00 €**	**134.672,00 €**	**123.933,00 €**

FACEPHI BIOMETRÍA, S.A. AND SUBSIDIARIES COMPANIES

Audit report,
Consolidated annual accounts
as of December 31, 2020
and Consolidated Management Report for year 2020

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 CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of FacePhi Biometría, S.A.

REPORT OF THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of FacePhi Biometría, S.A. (the Parent Company) and its subsidiaries (the Group), which comprise the balance sheet as of December 31, 2020, the profit and loss account, the statement of changes in equity, the statement of cash flows and the annual report, all of them consolidated, corresponding to the year ended on that date.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2020, as well as its financial performance and cash flows, all of them consolidated, for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2.a of the notes to the consolidated annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

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

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

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

Emphasis paragraph

We draw attention to the information indicated in note 2.f, related to the presentation bases of the attached consolidated annual accounts, in which it is reported that the 2020 financial year is the first in which the Parent Company prepares the consolidated annual accounts , which is why, according to commercial legislation, the comparative figures are not presented, with each of the items on the balance sheet, the profit and loss account, the statement of changes in equity, the statement of cash flows of cash and of the memory, all of them consolidated. Our opinion has not been modified by this question

Key Audit Matters

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

Impairment of non-current assets

Risk description

As of December 31, 2020, the Group has registered, under the heading of "intangible fixed assets", non-current assets amounting to 4.058 thousand euros. These assets correspond mainly to computer applications and development expenses, which, due to meeting the requirements established by applicable financial reporting framework, have been recorded and valued in the balance sheet at the cost of acquisition or production. The Parent Company's Board have evaluated the recoverable value of these assets by calculating their value in use. We have considered this area a key audit issue due to the relevance of the amounts affected and the complexity of the estimates and assumptions made by the Group's Directors in the impairment analysis process.

The information regarding the criteria applied by the Parent Company's Board, and the main assumptions used in determining the recoverable value of these assets, can be found in notes 3.5 and 4.f of the attached consolidated annual report.

Audit response

Our audit procedures have included, among others:

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

Revenue's recognition

Risk description

As indicated in notes 3.14 and 13 of the attached report, almost all the Group's turnover is derived from the sale of the rights to use (licensing, maintenance, and support) of the recognition technology software by facial biometrics. In accordance with the various modalities of licensing, temporary or perpetual, the accrual periods and therefore of recognition and imputation to the profit and loss account of the income, including those of support and

Member of Antea Alliance of independent firms maintenance, require estimation processes that, together with the contractual conditions have a significant impact on the amount and the moment in which the Group 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, 2020, 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, 2020, we have verified the accrual basis and imputation of income in the appropriate period.

Other information: Consolidated Director´s report

Other information comprises only the Consolidated Director´s report for the 2020 financial year, the formulation of which is the responsibility of the Parent Company´s directors and does not form an integral part of the consolidated annual accounts.

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

Based on the work performed, as described in the previous paragraph, the information contained in the Consolidated Director´s report is consistent with that contained in the consolidated annual accounts for the 2020 financial year, and its content and presentation are in accordance with the applicable regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on other legal and regulatory requirements

The opinion expressed in this report is consistent with that expressed in our additional report to the parent company's audit committee dated April 30, 2021.

Appointment period

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

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

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

Original signed in Spanish by
Rafael Nava Cano
Registered in ROAC under Nº 11494
April 30, 2021

FACEPHI BIOMETRÍA, S.A. AND SUBSIDIARIES

In compliance with the provisions of the Corporate Enterprises Act and the Spanish Commercial Code, on 31 March 2021 the Board of Directors of the trading company FacePhi Biometría, S.A. drew up the consolidated Annual Financial Statements for the year ended 31 December 2020 composed of the Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Changes in Net Equity, the Consolidated Cash-flow Statement and the Consolidated Report issued on 52 pages printed on both sides and numbered from 1 to 52, together with the consolidated Management Report for the same period drawn up on 10 pages numbered from 1 to 10.

The Board of Directors also empowered Juan Alfonso Ortiz Company, as its Secretary, to sign said documents on all their pages.

THE BOARD OF DIRECTORS

Salvador Martí Varó
Chairman-Managing Director

Javier Mira Miró
Vice-Chairman-Managing Director

Juan Alfonso Ortiz Company
Director-Secretary

Fernando Orteso de Travesedo
Independent Director

David J. Devesa Martínez
Director

FACEPHI BIOMETRÍA S.A. AND SUBSIDIARIES

Consolidated Annual Financial Statements and consolidated Report for the financial year ended 31 December 2020

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Consolidated Management Report

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Consolidated balance sheet
as at 31 December 2020

(In Euros)

ASSETS	NOTES TO THE REPORT	2020
A) NON-CURRENT ASSETS		**4,901,555**
I. Intangible fixed assets	**4**	**4,058,442**
5. Other intangible fixed assets		4,058,442
II. Tangible fixed assets	**5**	**189,325**
2. Technical facilities and other tang. fix. assets		189,325
IV. Long-term investments in group and associated companies	**8**	**50,617**
3. Other financial assets		50,617
V. Long-term financial investments.	**9.3**	**150,709**
VI. Deferred tax assets	**13.4**	**452,462**
B) CURRENT ASSETS		**11,067,195**
III. Trade debtors and other accounts receivable	**9.3**	**4,396,624**
1. Trade accounts, sales and provision of services		4,153,331
2. Other debtors		243,293
V. Short-term financial investments	**9.3**	**517,243**
VI. Short-term accruals		**173,623**
VII. Cash and cash equivalents	**10**	**5,979,705**
TOTAL ASSETS		**15,968,750**

NET EQUITY AND LIABILITIES	NOTES TO THE REPORT	2020
A) NET EQUITY		**7,017,023**
A-1) Capital and reserves	**11.1**	**6,811,903**
I. Capital		**577,141**
II. Issue premium		**7,222,153**
III. Reserves		**1,208,969**
3. Other reserves		1,208,969
IV. (Parent Company's shares and holdings)		**(341,760)**
VI. Outcome of the financial year attributable to the Parent Company		**(1,854,599)**
A-3 Grants, donations and bequests received	**11.2**	**205,120**
B) NON-CURRENT LIABILITIES		**6,149,344**
I. Long-term provisions		**26,494**
II. Long-term debts	**12.3**	**6,054,477**
2. Debts with credit institutions		6,054,477
IV. Deferred tax liabilities	**13.4**	**68,373**
C) CURRENT LIABILITIES		**2,802,383**
III. Short-term debts		**985,270**
2. Debts with credit institutions	**12.3**	983,672
4. Other financial liabilities		1,598
V. Trade creditors and other accounts payable	**12.3**	**1,058,154**
1. Suppliers		238,629
4. Other creditors		819,526
VI. Short-term accruals		**758,958**
TOTAL NET EQUITY AND LIABILITIES		**15,968,750**

Notes 1 to 20 set forth in the Report form an integral part of the consolidated Balance Sheet as of 31 December 2020

Consolidated Income Statement for the financial year ended on 31 December 2020

(In euros)

	NOTES TO THE REPORT	(Debit) Credit 2020
A) ONGOING OPERATIONS		
1. Net turnover		**7,266,240**
b) Provision of services	14.a	7,266,240
3. Work performed by the Group for its assets	14.c	**1,110,451**
4. Supplies	14.b	**(1,403,777)**
a) Consumables		(87,409)
c) Works performed by other companies		(1,316,367)
5. Other operating revenue		**10,004**
6. Personnel expenses	14.d	**(3,186,468)**
a) Wages, salaries and accessory exp.		(2,814,310)
b) Social Security		(372,158)
7. Other operating expenses		**(3,424,287)**
a) Losses, impairment and variation of provisions for trade transactions	9.3	(383,851)
b) Other current operating expenses	14.f	(3,040,436)
8. Amortisation of non-financial and other fixed assets	4 and 5	**(839,632)**
9. Allocation of subsidies for non-financial and other fixed assets	11.2	**103,520**
14. Other outcomes		**(793)**
A.1) OPERATING PROFIT (LOSS)		**(364,742)**
15. Financial revenue		**172,905**
b) From negotiable securities and other financial instruments		172,905
16. Financial expenses		**(129,225)**
17. Variation in the fair value of financial instruments		**(943,978)**
a) Trading portfolio	11.1a)1	(943,978)
18. Exchange differences		**(454,077)**
b) Other exchange differences	14.g	(454,077)
19. Impairment and outcome of disposal of financial instruments		**(282,697)**
a) Impairment and losses	8	(282,697)
A.2) FINANCIAL OUTCOME		**(1,637,072)**
A.3) PROFIT (LOSS) BEFORE TAXES		**(2,001,814)**
24. Corporation tax	13,3	**147,214**
A.4) PROFIT/LOSS FOR FIN. YR FROM ONGOING OPERATIONS		**(1,854,599)**
A.5) CONSOLIDATED PROFIT (LOSS) OF FIN. YR		**(1,854,599)**
Outcome attributable to the Parent Company		**(1,854,599)**
Outcome attributable to external partners		**0**

Notes 1 to 20 set forth in the Report form an integral part of the consolidated Income Statement as of 31 December 2020

Consolidated Statement of Changes in Net Equity
A) Consolidated statement of recognised income and expenditure for the financial year ended on 31 December 2020

(In Euros)

	Notes to the 2020	Report
A) CONSOLIDATED PROFIT (LOSS) OF FIN. YR		**(1,854,599)**
Income and expenditure charged directly to net equity		
III. Grants, donations and bequests received	11.2	52,890
VII. Tax effect	13.5	(13,223)
B) TOTAL CONSOLIDATED INCOME AND EXPENDITURE CHARGED DIRECTLY TO NET EQUITY		**39,668**
Transfer to the consolidated Income Statement		
X. Grants, donations and bequests received	11.2	(103,520)
XIII. Tax effect	13.5	25,880
C) TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT		**(77,640)**
TOTAL CONSOLIDATED INCOME AND EXPENDITURE RECOGNISED (A + B + C)		**(1,892,571)**
Total income and expenditure attributable to the Parent Company		**(1,892,571)**
Total income and expenditure attributable to external partners		

B) Statement of Changes in Net Equity for the financial year ended on 31 December 2020

(In Euros)

			Other Parent Company reserves				Reserves in consolidated companies			
	Capital	Issue premium	Statutory reserves	Other reserves	(Treasury stock)	Profit (loss) from previous years	By full consolidation	Outcome of the financial year attributable	Grants, donations and bequests	TOTAL
Initial balance as of 01.01.2020	542,766	2,812,602	108,553	501,641	-240,354	-798,042			243,092	3,170,258
I. Total consolidated recognised income and expenditure								-1,854,599	-37,972	-1,892,571
II. Transactions with partners or proprietors										
1. Capital increases	34,375	3,465,607		-126,682						
2. (-) Capital reductions										
3. Conversion of financial liabilities to net equity (derived from equity warrants Note 11.1)		943,944								943,944
4. (-) Allocation of dividends										
5. Net transactions with Parent Company's treasury stock				235,063	-101,405					133,657
-To reserves in consolidated companies										
IV. Other changes in Net Equity				490,394		798,042				1,288,436
Final balance as of 31.12.2020	577,140.78	7,222,153.09	108,553.11	1,100,415.45	-341,759.72			-1,854,599.37	205,120,15	7,017,023,47

Notes 1 to 20 set forth in the Report form an integral part of the consolidated Statement of Changes in Net Equity as of 31 December 2020

Consolidated Cash Flow Statement for the financial year ended on 31 December 2020

(In Euros)

	2020
A) Operating cash flow	
1. Profit (loss) for the financial year before tax	**(1,829,549)**
2. Restatements of outcome:	**2,439,821**
a) Amortisation of fixed assets (+)	839,632
b) Value restatements for impairment (+/-)	635,902
c) Variation in provisions (+/-)	20,819
d) recognition of subsidies	-103,520
g) Financial revenues (-)	-173,466
h) Financial expenses (+)	129,182
i) Exchange differences (+/-)	147,327
j) variation in the fair value of financial instruments (+/-)	943,944
3. Changes in working capital	**980,758**
b) Debtors and other accounts receivable (+/-)	3,163,853
c) Other current assets (+/-)	-101,887
d) creditors and other accounts payable (+/-)	-1,989,335
e) Other current liabilities (+/-)	-91,874
4. Other operating cash flows	**-157,877**
a) Interest paid (-)	-119,746
a) Interest collected (+)	167,027
d) Payment (collection) of corporation tax (+/-)	-205,158
5. Operating cash flow (+/-1 +/-2 +/-3 +/-4)	**1,433,153**
B) Investment cash flow	
6. Investment outlays (-)	**-2,664,636**
a) In group and associated companies	-157,560
b) Intangible fixed assets	-2,130,862
c) Tangible fixed assets	-163,283
e) Other financial assets	-206,431
g) Other assets	-6,500
7. Collection for divestment (+)	
8. Investment cash flow (7-6)	**-2,664,636**
B) Financing cash flow	
9. Collection and outlays for equity instruments	**2,677,619**
a) Issue of equity instruments	3,331,072
c) Acquisition of treasury stock	-1,757,521
d) Disposal of treasury stock	1,051,178
e) Grants, donations and bequests received	52,890
10. Collection and payments for financial liability instruments	**3,953,523**
a) Issue	
2. Debts with financial institutions (+)	7,045,534
b) Repayment and amortisation of	
2. debts with credit institutions(-)	-3,087,833
4. Others (-)	-4,178
11. Outlays for dividends and remuneration of other equity instruments	
12. Financing cash flows (+/-9+/-10-11)	**6,631,142**
D) Effect of exchange rate variations	**185,890**
E) Net increase/decrease in cash and cash equivalents (+/-A +/-B +/-C +/-D)	**5,585,549**
Cash and cash equivalents at start of the financial year	394,156
Cash and cash equivalents at end of the financial year	5,979,705

Notes 1 to 20 set forth in the Report form an integral part of the consolidated Cash Flow Statement as of 31 December 2020

(in euros)

1. Nature and main activities of the Group

a) Controlling interest

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

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

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

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

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

b) Subsidiary and associated enterprises

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

The following table shows details, including the main activity and the registered address, of the companies within Facephi Group's consolidation perimeter:

Group Company (Article 42, Com. C)	% holding	Address	Main Activity
FacePhi Biometría, S.A.	Contr. Interest	Alicante- Spain	Marketing of biometric facial recognition systems
FacePhi APAC, Ltd.	100%	Pangyo (South Korea)	Marketing of biometric facial recognition systems
Ecertic Digital Solutions, S.L.	100%	Madrid Spain	Software development and marketing

(in euros)

The following table shows the net equity and percentage holdings in the companies as of 31 December 2020. The equity position of these two companies was obtained from the unaudited accounting records as at 31 December 2020 and 2019:

	FacePhi APAC, Ltd.		Ecertic, S.L.	
	2020	**2019**	**2020**	**2019**
Called capital	81,264	81,264	8,867	5,236
Issue premium	---	---	703,365	492,359
Reserves	(126,007)	---	(389,892)	(248,787)
Profit (loss) for the financial year	(187,799)	(37,990)	111,003	(15,718)
Conversion differences	25,365	(4,120)	---	---
Grants and subsidies	---	---	79,051	76,500
Net equity	**(207,178)**	**39,154**	**512,393**	**309,591**
% holding	100%	100%	100%	---
Theoretical value of holding	**---**	**39,154**	**512,393**	**---**

c) Companies excluded from the Consolidation perimeter

In accordance with the regulations applicable to drafting of the Consolidated Annual Financial Statements, Facephi Apac's Korean subsidiary has been excluded from the consolidation perimeter in view of the insignificant size and volume of the commercial transactions in the Group's interest. However, all the losses made by said company in its first year of operation have been offset in the Consolidated Balance Sheet, consolidated Net Equity and in the consolidated profit (loss) by the impairment of 282,697 euros applied by the Directors to the financial assets and recognised under the head of "Impairment and outcome of disposal of financial instruments" in the attached Consolidated Income Statement (see Note 8).

d) Business combinations

Acquisition of Ecertic Digital Solutions, S.L.

On 20 April 2020 FacePhi Biometría, S.A. acquired 100% of the shares of the trading company Ecertic Digital Solutions, S.L. – until then a technology supplier – for the sum of 2 million euros. Management believes that this transaction achieves the strategic objective of fostering the "digital onboarding" service in its commercial portfolio and consolidating its leadership in the field of identification and authentication on both the domestic and international markets. The transaction was settled by a cash payment of 1,159,999 euros and assignment of 164,706 shares of the Company's treasury stock valued at 840,001 euros according to their recognised fair value (note 11.1.b).

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

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

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

2. Reporting criteria of the consolidated Annual Financial Statements

a) Regulatory framework for financial information applicable to the Parent Company

The consolidated Annual Financial Statements have been drawn up from the accounting records and individual Annual Financial Statements of the Parent Company and the consolidated companies. They include the restatements and reclassifications required for timing and valuation-related harmonisation with the Group’s established accounting criteria.

These consolidated Annual Financial Statements are reported in accordance with current commercial jurisprudence:

- the Commercial Code amended in accordance with Act 16/2007 of 04 July on the reform and adaptation of Spanish accounting-related commercial legislation for international harmonisation based on European Union regulations
- Royal Decree 1514/2007 of 16 November and its subsequent amendments that adopts the General Accounting Plan;
- Royal Decree 1159/2010 of 17 September that approves the rules for drafting consolidated Annual Financial Statements in all aspects that do not contradict other provisions of the financial information regulatory framework that may be applicable.

b) True and fair view

These Consolidated Annual Financial Statements have been obtained from the Company's accounting records and are reported in accordance with the regulatory framework for financial reporting set forth above and, in particular, with the accounting principles and standards contained therein in order to show a true image of the equity, financial position and the Group's consolidated results as at 31 December 2020. The consolidated Cash Flow Statement has been drawn up in order to accurately report on the origin and use of the Group's monetary assets in the form of cash and cash equivalents.

The consolidated Annual Financial Statements are reported in euros – the functional and reporting currency – rounded to the nearest unit.

There are no special reasons to suppose that the legal provisions in the accounting field have not been applied in order to show the true and fair view.

These consolidated Annual Financial Statements have been drawn up by the Company's Board of Directors and will be submitted for approval by the Ordinary General Meeting. The Directors believe that they will be approved without any modification.

c) Non-mandatory accounting principles

Non-mandatory accounting principles have not been applied and the Board of Directors of the Parent Company has taken all the mandatory accounting principles and standards that could have a significant effect on said financial statements into account. No mandatory accounting criterion has been ignored when drawing up these Annual Financial Statements.

d) Critical aspects of assessing and estimating uncertainty

The directors of the Parent Company are responsible for the information contained in these Annual Financial Statements.

The Company's directors and senior management were required to make certain estimates and assumptions to value some of the assets, liabilities, revenues, expenses and commitments contained in these Annual Financial Statements during drafting of the same. These estimates and assumptions are based on historical experiences and other factors that are considered reasonable under the current circumstances. The following are details of the aspects that have entailed a greater degree of judgement and complexity or those for which the hypothetical assumptions and estimates have been most significant during drafting of these financial statements:

- Provisions for impairment of investments in Group and associated enterprises. The accounting treatment of investment in Group and associated enterprises entails making estimates at the end of each financial year to determine whether the value of the investments has been impaired and whether it is appropriate to make a value restatement charged to the Income Statement for the period or, where appropriate, reverse a previously recognised provision. Determining the need to recognise a loss by impairment or, where appropriate, reversal of the same, involves making estimates that include, but are not limited to, analysis of the reasons for potential impairment (or recovery, as required), the value, the timing and the expected sum of the same.

  For financial investments in Group and associated enterprises the recoverable value is calculated in accordance with the provisions of note 3.4.

  The uncertainties inherent in the estimates required to determine the sum of the recoverable value and the assumptions regarding the future variation in the value of investments entail a significant degree of judgment due to the fact that the timing and nature of future business changes are difficult to foresee.

- Impairment of non-current assets, other than financial assets, requires making estimations to determine their recoverable value in order to assess potential impairment. To determine this recoverable value, directors of the Parent Company estimate the expected future cash flows from the assets in question or those of the profit centres of which they form part and use an appropriate discount rate to calculate the net present value of said cash flows. The cash flows depend on fulfilment of the projections included in the business plan for the next five years while the discount rates depend on the interest rate plus the risk premium (see note 3.3).

- Deferred tax assets are recognised for all deductible timing differences, negative tax bases pending compensation and deductions pending application for which it is probable that the Group will have future taxable profits that enable application of these assets. Significant estimates must be made to determine the amount of deferred tax assets that can be recognised taking the amounts and dates on which future taxable profits will be obtained and the reversal period of taxable Timing differences into account. As of 31 December 2020, the Group has recognised deferred tax assets for a total of 452,462 euros associated with timing differences, tax bases pending compensation and deductions pending application (see note 13).

These estimates are based on the best information available on the events under analysis on the reporting date of the Annual Financial Statements. Nevertheless, it is possible that future events may make it necessary to change them (upwards or downwards) in coming financial years. Said changes, if any, will always be made in a prospective manner in accordance with the provisions of Rule 22 of the Spanish General Accounting Plan, recognising the effects of the changed estimate in the associated Income Statement.

(in euros)

e) Going concern

The Group generated significant consolidated pre-tax losses amounting to 1,884,607 euros during the 2020 financial year. These losses were mainly due to the financial risks deriving from the issue of our own equity instruments to address the company's financing needs (see note 11.1) and to the adverse financial outcome of variations in the exchange rates on the currency markets, especially the US dollar, during the 2020 financial year (note 14).

Moreover, the Group was not able to meet its expectations with respect to the turnover forecast in its 2020 business plan since all commercial activities have been affected and our customers' investment plans have been shelved as a consequence of the crisis derived from the COVID-19 pandemic. It has not been necessary to take extraordinary workforce restructuring measures or to expand the currently available financing lines, and there are no risks for the 2021 financial year in this respect.

However, the group generated a consolidated EBITDA of 858,741 euros in 2020.

Consolidated net equity stood at 7,134,320 euros as at 31 December 2020, an increase mainly derived from the capital increase transactions conducted during the year (see note 11.1).

Under these circumstances, the Company's Board of Directors estimates that the cash flows generated by the business and the available financing lines will enable it to address its current liabilities and the Group's expansion plan. For these reasons, the Annual Financial Statements have been drawn up on the going concern principle.

f) Comparison of the information

This 2020 financial year is the first in which the Parent Company draws up the consolidated Annual Financial Statements. For this reason, in accordance with applicable legislation the comparative figures are not reported with each item on the consolidated Balance Sheet, the consolidated Income Statement, the consolidated Statement of Changes in Net Equity, the consolidated report or the consolidated Cash Flow Statement.

g) Changes in accounting criteria and correction of errors

In the 2020 financial year the Parent Company changed the criteria for classifying and reporting the intangible assets related to the computer applications and the improvements to the versions of the computer software that were included under the head of "Development" in Intangible Assets (Note 4), from the sale of which the company derives practically all its turnover. For this reason and for the purposes of compliance with comparability requirements, the Company has restated the accounting record of the production costs and accumulated amortisation of the aforesaid intangible asset items in the opening balances of the previous financial year ended on 31 December 2019 as set forth in the following table:

	Euros	
	Debit	**Credit**
Profit and Loss		
A) 1.1 Development		
- Cost		2,183,448
- Accumulated amortisation	1,395,243	
A) 1.5 Computer applications		
- Cost	2,183,448	
- Accumulated amortisation		1,395,243

3. Recognition and valuation rules

The following are the main recognition and valuation standards employed by the Company when drawing up these Annual Financial Statements:

3.1 Consolidation principles

The following are the main criteria used in consolidation of the Annual Financial Statements:

Assets, liabilities, income, expenditure, cash flows and other items in the Group's Annual Financial Statements are included in the Group's consolidated accounts using the full consolidation method. This method requires the following circumstances:

Temporary harmonisation

The consolidated Annual Financial Statements are drawn up on the same date and for the same period as the Group's consolidated Annual Financial Statements. The inclusion of companies with different financial year end dates is managed by drafting intermediate financial statements pegged to the same period with the same financial year end dates as the consolidated statements.

Value harmonisation

Assets and liabilities, income and expenditure and other items in Group companies' Annual Financial Statements have been valued on the basis of uniform methods. Asset or liability and income or expenditure items that have been valued on the basis of non-uniform criteria with respect to those applied within the consolidation perimeter have been valued again and the required restatements have been made for the sole purpose of the consolidation.

Aggregation

Items of the previously-harmonised individual Annual Financial Statements may be aggregated according to their nature.

Investment-equity elimination

The accounting values representing the equity instruments of the subsidiary directly or indirectly owned by the Parent Company are offset with the proportional part of the equity items of the aforesaid subsidiary attributable to these holdings. In general, this compensation will be made on the basis of the values resulting from applying the acquisition method as set forth above. In subsequent consolidations, investment-equity elimination will be capitalised under the same terms as those established for the acquisition date. The excess or shortfall of the equity generated by the subsidiary from the acquisition date will be reported in the consolidated Balance Sheet under the head of Reserves or Restatements due to Value Changes in accordance with their nature. The part of the excess or shortfall attributable to the external partners must be entered in the "External partners" account.

Holdings by external partners.

There are NO external partners as of 31 December 2020

Elimination of intragroup items

Credits and debts, income and expenditure and cash flows between Group companies are fully eliminated. Furthermore, all outcomes produced by internal transactions are eliminated and deferred until they are charged to third parties outside the Group.

3.2 Business combinations

Generally, business combinations refer to transactions in which one company gains control of one or more enterprises, understood as an integrated group of activities and assets that can be managed to provide higher yield, lower costs or other benefits to the owners.

Mergers, spin-offs and non-monetary contribution of a business between Group companies are recognised by valuing the equity components acquired at their book values in the consolidated Annual Financial Statements of the ultimate Spanish parent company on the date on which the transactions took place. If consolidated Annual Financial Statements are not drawn up they are valued at the amounts applicable before the transaction in the individual Annual Financial Statements of the contributor. Any differences that may be detected are recognised against reserves. The effective accounting date is the start date of the financial year in which the transaction is approved.

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

3.3 Intangible assets

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

Intangible fixed assets are assets with a defined useful life and therefore must be subject to systematic amortisation over the time during which it is reasonably expected that the economic benefits inherent to the asset will produce returns for the company.

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

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

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

- The existence of a specific, individualised project that makes it possible to reliably estimate the disbursement attributable to completion of the project.
- The allocation, attribution and timing of the costs of each project are clearly established.
- There are well-founded reasons for a technically successful conclusion to the project at all times both for cases in which the project is aimed at direct operation and for sale of the resulting product to a third party if there is a market for the same once the project is concluded.
- The financial-commercial profitability of the project is reasonably assured.
- Financing to ensure completion of the projects is reasonably assured in addition to the availability of sufficient and suitable technical or other resources to finish the project and to use or sell the resulting intangible asset.
- The company intends to conclude development of the intangible asset in question and then to use or sell it.

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

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

Own personnel expenses and costs of services acquired from third parties that took part in development of the applications and computer software are included as an added expense of the same and are entered under the head of "Work performed by the company for its fixed assets" in the Income Statement.

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

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

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

As of 31 December 2020 the Parent Company estimates that there is no indication of impairment of intangible assets since the directors confidently expect the business plan to be fulfilled. This is evidence that, based on their forecasts, the total intangible assets and the tax credits will be fully recovered in coming years.

b) <u>Computer applications</u>

Computer program licenses acquired from third parties are capitalised on the basis of the costs incurred for acquisition of the programs and for preparing them for use in specific applications. These costs are amortised over estimated useful lives of the assets on a straight-line basis over a period of 6 years.

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

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

c) <u>Intellectual property</u>

Intellectual property will be valued at the costs incurred for acquisition of the same or the right to use or to assign the use of the various versions of the program provided that, due to the economic conditions derived from the contract, said assets must be posted to the inventory of the acquiring company. Intellectual property includes, but is not limited to: patents for inventions, utility model protection certificates, industrial design and patents of importation.

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

(in euros)

3.4 Property, plant and equipment

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

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

Major repair costs are capitalised and amortised over their estimated useful life. Recurring maintenance expenses are charged to the Income Statement for the year in which they are incurred.

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

The following are the estimated useful lives:

Item	Annual percentage	Years of useful life	Method
Other facilities	10%	10	Straight-line
Furnishings	5%-10%	10-20	Straight-line
Computer hardware	25%	4	Straight-line
Other tangible fixed assets	10%-20%	5-10	Straight-line

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

Whenever the book value of an asset is superior to its recoverable value, the former is immediately reduced to the latter (Note 3.3).

Gains and losses from the sale of property, plant and equipment are recognised in the Income Statement. The amounts are calculated by comparing the income obtained from the sale with the book value.

3.5 Impairment of non-financial assets

At least at the close of each financial year, the directors assess whether there are indications of impairment of non-current assets. If so, their recoverable values are estimated.

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

Valuation restatements for impairment and reversal of the same are recognised in the Income Statement. Except for those associated with goodwill, valuation restatements for impairment are reversed when the circumstances that gave rise to them cease to exist. Reversal of impairment is limited to the book value of the asset that would be applicable if the associated impairment had not been previously recognised.

The directors of the Parent Company have updated the five-year business plan taken as the basis for conducting new impairment tests on non-financial assets.

3.6 Financial assets

Classification and Valuation

Loans and receivables:

Loans and receivables are comprised of financial assets originating in the sale of goods or provision of services for the company's trade transactions or those which, while not being of a commercial nature, are not equity instruments or derivatives and the revenues from which are of a fixed or knowable amount and are not traded on an active market, as is the case with sureties or fixed-term bank deposits.

These financial assets are initially recognised at fair value including any directly attributable transaction costs and subsequently at amortised cost, recognising accrued interest based on their effective interest rate (understood as the discount rate that equals the book value of the instrument with all its estimated cash flows until maturity). Notwithstanding the above, credits for commercial transactions with a maturity of no more than one year are valued – both at the time of initial recognition and subsequently – at their nominal value provided that the effect of not updating the cash flows is not significant.

Deposits and bonds are recognised for the amount disbursed to meet the contractual commitments linked to the same.

Impairment of financial assets

a) Debt instruments:

Objective evidence of impairment to debt instruments – understood as accounts receivable, credits and debt securities – is understood to have occurred when an event occurs after their initial recognition that has a negative impact on their estimated future cash flows.

The Company considers that debt instruments for which there is objective evidence of impairment constitute impaired assets (doubtful assets), basically due to the existence of defaults, failures, refinancing and of data that proves that their projected future cash flows will be less than previously estimated or collection of which may be delayed.

In the case of financial assets valued at amortised cost, the value of the impairment losses is equal to the difference between their book value and the net present value of their estimated future cash flows, discounted at the effective interest rate at the time of initial recognition of the asset. The effective interest rate on the closing date of the Annual Financial Statements is used for financial assets with variable interest rates. With respect to trade debtors and other accounts receivable, the Company considers that accounts with overdue items for which collection is doubtful and balances with companies that have incurred in insolvency proceedings to constitute doubtful debts. Provided it is sufficiently reliable, the Company considers the market value of instruments traded on an open market as an acceptable substitute for calculation of the present value of future cash flows.

Impairment reversal is recognised as income in the Income Statement and is limited to the book value of the financial asset that would be posted on the reversal date if the impairment had not been recognised.

b) Equity instruments

The Company considers that there is objective evidence that equity instruments have been impaired when, following initial recognition, an event or a combination of events occurs that entails impairment to the instruments to the extent that their book value will probably not be recoverable due to a prolonged or pronounced reduction of their fair value.

In the case of equity instruments valued at cost such as investments in the equity of Group companies that are not included in the consolidated Annual Financial Statements, impairment loss is calculated as the difference between their book value and the recoverable amount. The latter is considered to be the fair value minus cost of sale or the present value of future cash flows derived from the investment, whichever is higher. Unless there is better evidence, the impairment estimate takes into consideration the equity of the investee corrected for the unrealised capital gains existing at the valuation date. For investments in equity group, multi-group and associate companies, reversal of valuation restatements due to impairment is recognised in the Income Statement and is limited to the book value of the investment on the reversal date as if the impairment had not been recognised. However, it is not possible to reverse valuation restatements recognised in previous financial years.

Cancellation of financial assets

Financial assets are written off the Balance Sheet when the contractual rights to the cash flows of the financial asset have expired or when the risks and benefits inherent in their ownership have been substantially transferred.

Interest and dividends received from financial assets

Interest and dividends from financial assets accrued after the time of acquisition are recognised as income in the Income Statement. Interest is recognised using the effective interest rate method and dividends when the right to receive them is declared.

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

3.7 Financial liabilities

Classification and Valuation

Debits and payables

This category includes debits for both trade and non-trade transactions. This external financing is classified as a current liability unless the Group has an unconditional right to defer its settlement for at least 12 months after the Balance Sheet date.

These debts are initially recognised at their fair value plus any directly attributable transaction costs and are subsequently entered at their amortised cost on the basis of the effective interest rate method. Said effective interest is the discount rate that matches the book value of the instrument with the expected flow of future payments foreseen until the maturity of the liability.

Notwithstanding the above, debits for trade transactions with maturity at no more than one year that do not have a contractual interest rate are valued, both initially and subsequently, at their nominal value when the effect of not updating the cash flows is not significant.

In the event that existing debts are renegotiated, the company considers that there are no substantial modifications of the financial liability when the lender of the new loan is the same as the lender of the initial loan and the present value of the cash flows, including net commissions., does not differ by more than 10% from the present value of the cash flows pending payment of the original liability calculated by applying the same method.

Cancellation

The Group writes off a financial liability when the associated obligation has been extinguished.

Provided that they have substantially different conditions, the original financial liability is written off and the new financial liability is recognised in its place when an exchange of debt instruments occurs. A substantial amendment of the current conditions of a financial liability is recognised in the same way.

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

When there is an exchange of debt instruments that do not have substantially different conditions, the original financial liability is not written off from the Balance Sheet and the amount of the commissions paid is posted as an adjustment to its book value. The new amortised cost of the financial liability is determined by applying the effective interest rate (that which matches the book value of the financial liability on the adjustment date with the cash flows payable under the new conditions).

3.8 Net equity

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

a) Own equity instruments held by the Parent Company (treasury shares)

Acquisition of equity instruments by the Parent Company is recognised separately at the acquisition cost as a reduction of the equity on the Balance Sheet. No result is recognised in the Income Statement for transactions capitalised with own equity instruments.

Once any tax effect has been taken into consideration, transaction costs related to own equity instruments are recognised as a reduction in reserves.

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

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

Since the financial derivative created is not considered to constitute a hedging instrument, it is recognised at its fair value in the Income Statement at its valuation time at each accounting closure date.

The fair value of the derivative is determined using option pricing models that take volatility, the price of the underlying asset, the strike price of the option, the time until expiration of the option, and the risk-free interest rate into account.

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

At the end of the year ended 31 December 2020 there were no options issues pending maturity and therefore there is no derivative recognised on the Balance Sheet on said date.

3.9 Cash and cash equivalents

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

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

3.8 Classification of assets and liabilities as current or non-current

Assets and liabilities reported on the Balance Sheet are classified into current or non-current. For these purposes, current assets or liabilities are those that meet the following criteria:

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

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

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

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

3.10 Grants, donations and bequests

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

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

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

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

3.11 Corporation tax

In view of the fact that the companies included within the consolidation perimeter are taxed individually for Corporate Tax, the consolidated tax expense is obtained by adding the expenses that the consolidated companies have estimated for said item, corrected by the consolidation restatements. Said expenses are calculated on the companies' individual economic results corrected by tax criteria and taking any applicable bonuses and deductions into account.

Therefore, the corporation tax expense (income) for the financial year is calculated by adding the current tax – calculated by applying the tax rate to the taxable base for the financial year minus any rebates and deductions – and the variations produced in the deferred tax assets and liabilities recognised during the financial year in question.

Corporation tax is recognised in the consolidated Income Statement except when it refers to transactions recognised directly in equity (in which case the associated tax is also recognised in equity) and in business combinations (in which case it is recognised in the same accounts the other assets of the acquired enterprise).

Deferred taxes are recognised for timing differences between the fiscal base of the assets and liabilities and their book values existing on the date of the consolidated Balance Sheet. The fiscal base of an asset is considered to be the amount attributed to it for tax purposes.

The fiscal effect of timing differences between the fiscal base and the book value of an asset or liability is included under head of "deferred tax assets" or "deferred tax liabilities" (as appropriate) on the Balance Sheet.

Deferred tax liabilities are recognised for all taxable timing differences except those derived from initial recognition of goodwill or other assets and liabilities in a transaction that does not affect fiscal or accounting outcomes and is not a business combination.

Deferred tax assets, on the other hand, are only recognised to the extent that it is considered probable that each individual company will have future taxable profits against which the deferred asset can be used.

The company assesses the recognised deferred tax assets and any that have not been previously recognised on the closing date of each financial year. On the basis of this assessment the company will then write off a previously-recognised asset if its recovery is no longer probable, or enter any previously unrecognised deferred tax asset provided that it is probable that the company will have future taxable earnings against which it can be applied.

Deferred tax assets and liabilities are valued at the expected tax rates at the time of their reversal in accordance with the currently applicable regulations and with the manner in which the deferred tax asset or liability is rationally expected to be recovered or paid.

Deferred tax assets and liabilities originating in transactions with direct charges or credits in equity accounts are also accounted for with a balancing entry in consolidated net equity.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities regardless of their expected capitalisation or settlement date.

3.12 Employee benefits

a) Severance payments

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

b) Payments based on equity instruments

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

As of 31 December 2020 there are no incentive plans or compensation policies for employees and/or managers the payment and settlement of which is made using own equity instruments.

3.13 Provisions and contingencies

Provisions for responsibilities, restructuring costs and litigation are recognised when they arise from a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions for restructuring include penalties for cancellation of leases and severance payments to employees. Provisions for future operating losses are not recognised.

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

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

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

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

Said contingent liabilities are not subject to accounting records and their details are reported in the Management Report.

3.14 Recognition of revenue from the provision of services

Revenue from the provision of services is recognised at the fair value of the consideration to be received and represents the amounts to be received for services provided in the ordinary course of business minus returns, rebates, discounts and value-added tax.

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

The Group recognises income derived from the sale of the right to use software (licensing) for biometric facial recognition technology once all the risks and benefits of the product have been transferred to the purchaser and the conditions set forth in the above paragraph have been met. It is then charged to the Income Statement on the basis of the licensing term (which may be in perpetuity or for periods defined in the contract). Income from services not yet provided is represented in the Balance Sheet as short-term accruals.

(in euros)

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

3.15 Leases

<u>When the Group is the lessee - Operating leases</u>

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

3.16 Foreign currency transactions

Transactions in foreign currency are converted into the functional currency using the exchange rates prevailing on the date of the transactions. Gains and losses in foreign currency resulting from settlement of these transactions and from conversion of the monetary assets and liabilities denominated in foreign currency at the spot rates at the close of the fiscal year are recognised in the Income Statement.

3.17 Equity items of an environmental nature

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

The directors consider that as of 31 December 2020 there are no contingencies of an environmental nature that could significantly affect the Group's equity, financial position or the consolidated results, and therefore there are no provisions or contingencies recognised under this head.

4 Intangible assets

The following are the details and movement of the items included under the head of "Intangible assets”:

					Euros
	Balance at 01.01.20	**Addition for bus. combs**	**Additions**	**Transfers**	**Balance at 31.12.20**
Cost:					
Research	56,958		---	---	56,958
Development	594,556		930,592	(594,556)	930,592
Intellectual property	11,378		43,070	---	54,447
Computer applications	2,425,098	2,054,150	314,779	594,556	5,388,582
Total Cost	**3087989**	**2,054,150**	**1288441**	**---**	**6430580**
Accumulated amortisation:					
Research	(56,958)		---	---	(56,958)
Development	---		---	---	---
Intellectual property	(1,245)		(2,888)	---	(4,133)
Computer applications	(1,419,222)	(78,061)	(813,764)	---	(2,311,047)
Total Accumulated Amort.	**(1,477,425)**	**(78,061)**	**(816,652)**	**---**	**(2,372,138)**
Net Book Value	**1,610,565**				**4,058,442**

(in euros)

a) Development

The Group continues to implement its investment policy and to improve its current biometric facial recognition applications. The capitalised expenses during the financial year ended 31 December 2020 correspond to the following event:

	Euros
Description: Project 2020	**Amount**
Improvements to FACEPHI Software Development Kit	930,592
Total	**930,592**

Said expenses are recognised under the head of Development since there are good reasons to foresee commercial success on completion. They are entered under the head of Intangible assets in accordance with their nature on said date. If there is good reason to consider that it will not come to a successful conclusion, the expenses would be written off and posted as losses to Intangible fixed assets. Almost all the activity involved in development of new applications or improvements to current ones has been performed internally and recognised by capitalisation of production costs under the head of "Works performed by the company for its own assets" in the Income Statement.

The developments capitalised as of 31 December 2020 mainly consisted of security improvements against fraud, interactive guides for the user when recording and tools for integration of technology in multiplatform applications. After conducting tests and trials the Group considers that the developments are operative, have been brought to a successful conclusion and will be placed on the market in 2021.

b) Intellectual property

The Group is the proprietor of the Selphi and FacePhi Beyond Biometrics trademarks. Said ownership grants protection of these trademarks in both the European Union (EUTM 015106354 and EUTM 015114853 respectively) and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126.
European Union Trademark certificates with registration numbers MUE 017896710 LookΦ MUE 017948110 inPhinite; MUE 017948113 4Phingers; MUE 017948116 Phivox; MUE 017948119 SignPhi and EUTM 017948878 SelphID have also been granted. Entry into force of Act 1/2019 of 20 February, the Trade Secrets Act, determines a scenario where legal certainty regarding knowledge considered to constitute trade secrets (algorithms, know-how, etc.) is greater than before and consequently provides stronger protection against potential breaches of trade secrets. The Company currently owns the property rights of the following registered trademarks that constitute assets:

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

c) Computer applications

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

Moreover, the additions for business combinations for the 2020 financial year include the sum of 1,677,661 euros for the difference between the book value of the assets assumed (293,666 euros) and the fair value attributed to the technology acquired by the Parent Company by means of the business combination reported in Note 1.c.

(in euros)

As of 31 December 2020 there are fully amortised intangible fixed assets in accordance with the following breakdown.

	Euros
	2020
Research	56,958
Computer applications	1,045,088
Total cost	**1,102,047**

d) Other information

The Group has not recognised subsidies in relation to intangible assets in the financial year ended 31 December 2020. However, in previous years the Group companies recognised subsidies for capitalised R&D expenses for a gross sum of 180,390 euros (see note 11.2).

As of 31 December 2020 the Group has no firm investment commitments to third parties nor plans to sell intangible assets.

No financial expenses have been capitalised and there are no intangible assets in foreign countries. All intangible assets are subject to operations and there are no restrictions or sureties on them. Neither has the Company made or reversed value restatements for impairment of any item of its intangible fixed assets.

e) Non-current asset impairment test

The recoverable value of non-financial assets has been assessed as a single cash-generating unit by estimating their value in use using cash flow projections based on estimates made by management for the next 5 years. The discount rate applied to the cash flow projections was 7.5% and the cash flows after the five-year period are extrapolated using a growth rate of 2%. No impairment has been detected in the value of the assets.

Key assumptions for calculating value in use

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

- Growth: the Group takes a sets a prudent course based on information from the biometrics sector to maintain a growth rate of 15% for the financial projection period (2021-2025) and of 2% per annum as of 2026. The Company continues to invest in sales and marketing facilities in both the countries where it already operates and by opening new offices and continues to develop sales channels that will enable it to increase its turnover.
- EBITDA: the Group estimates that its EBITDA will undergo a progressive increase obtaining new contracts and optimising its human resource structure.
- Discount rate: a WACC in accordance with that calculated by analysts who follow the Parent Company has been used.
- CAPEX: the Group estimates that its investments in intangible assets, mainly for development of and improvements to its technology, will continue to grow in line with the growth in turnover and the human resource structure.

Sensitivity to changes in hypotheses

In view of the differences between the book value of the Group's net assets under analysis and their value in use, management considers it highly unlikely that any reasonable or possible change in any of the indicated hypotheses (e.g. a 1% increase in the WACC and/or decrease in the growth rate by 1%) would entail a rise in the book value to the extent that it exceeds the recoverable value.

(in euros)

5. Tangible fixed assets

The following is the breakdown and movement of the items that comprise Property, plant and equipment:

	Balance at 01/01/2020	Addition for bus. combs	Additions	Dereg.	Balance at 31.12.20
Cost:					
Technical facilities	**---**	---	1,347	---	1,347
Other facilities	**3,366**	---	28,801	---	32,167
Furnishings	**37,898**	---	37,088	---	74,986
Information processing equipment	**37,690**	10,040	91,332	---	139,062
Other tangible fixed assets	**4,498**	---	4,715	---	9,213
Total cost	**83,451**	**10,040**	**163,283**	**---**	**256,773**
Accumulated amortisation:					
Other facilities	(1,831)		(1,797)		(3,628)
Furnishings	(17,184)		(4,896)		(22,079)
Information processing equipment	(23,023)		(15,280)		(38,303)
Other tangible fixed assets	(2,430)		(1,008)		(3,438)
Total accumulated amortisation	**(44,468)**		**(22,980)**		**(67,448)**
Net Book Value	**38,983**				**179,285**

The main additions in 2020 correspond to furniture and other facilities including computer equipment associated with expansion of the offices (note 6).

a) Fully amortised assets

As of 31 December 2020 there is fully depreciated property, plant and equipment for the sum of 12,387 euros.

b) Insurance

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

c) Other information

No financial expenses have been capitalised, there are no tangible fixed assets in other countries and there are no restrictions and sureties on the same. Neither has the Company made or reversed value restatements for impairment of any item of its intangible fixed assets.

As of 31 December 2020 there are no firm purchase or for property, plant and equipment sale commitments.

6. Leases and other transactions of a similar nature

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

(in euros)

Minimum future payments	2020
Up to one year	117,886
Between one and five years	101,447
More than five years	---
Total	**219,334**

The sum of the lease payments recognised as an expense for the year as the most significant characteristics of the lease contracts are as follows:

Description of the lease	Expense 2020 Fin. yr.	Due date	Renewal	Price update criteria
Offices, garages and storage	61,740	06/06/2025	N/A	YES (CPI)
Computer hardware	763	21/05/2024	N/A	NO
Computer hardware	3,416	18/06/2021	N/A	NO
Computer hardware	720	18/06/2024	N/A	NO
Transport vehicles	17,948	03/01/2022	N/A	NO
Transport vehicles	63,026	08/01/2023	N/A	NO
Total	**147,614**			

In 2017 the Parent Company entered into two operating leasing contracts for vehicles initially intended for use by members of the Board of Directors. The monthly fee amounts to 1,256 euros per vehicle and the expiration date is set for 03 January 2022. Both contracts were classified as operating leases due to the fact that exercising the purchase option at maturity was not considered at the time of initial recognition. On 18 March 2020 one of the contracts was cancelled early by subrogation by a third party. Moreover, on 08 January 2020 the Company entered into two operating rental contracts for vehicles intended for the use of members of the Board of Directors. The monthly fee amounts to 2,223 euros per vehicle and the contract expires in 3 years.

Since 01 October 2017 the Company has maintained an operating lease contract for the offices in which the Parent Company has been conducting its activity. This contract has a term of 5 years and the rent is 2,800 euros per month. Two months' prior notice and compensation of three month's rent payment are required for early cancellation. The Company has placed a rental bond of 5,400 euros.

In order to extend its registered headquarters and corporate offices, in the first half of 2020 the Company entered into a new lease contract with a term of 5 years and monthly rent of 2,493 euros. This contract may be cancelled with three months' prior notice and compensation of three month's rent payment after the first three years. The Company has placed a rental bond of 4,986 euros.

7. Information on the nature and level of risk of financial instruments

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

Credit risk

(in euros)

Credit risk arises from potential losses caused by infringement of contractual obligations by the Group's counterparties, i.e., by failure to collect financial assets in compliance with the established amounts and timeframes. To minimise this risk, the Group only works with credit institutions of recognised solvency and reputation.

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

	2020
Not due	4,132,690
Due but not doubtful	20,641
Doubtful	1,102,302
	5,255,632
Impairment corrections (note 9.3)	(1,102,302)
Total	4,153,331

Liquidity risk

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

Market-related financial risks

a. Interest rate risk

The interest rate risk arises from long-term borrowings. Borrowing resources issued at variable rates exposes the Group to the cash flow interest rate risk. Non-fixed interest resources expose the Company to interest rate risks on fair value.

b. Exchange rate risk

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

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

c. Interest rate risk on cash flows

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

There are no significant interest rate risks in the cash flows.

d. Price risks

There are no significant price risks.

Fair value estimate

(in euros)

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

8. Financial investments in Group companies

The following are the movements recognised under the head of "Long and short-term investments in Group and associated enterprises" that are not part of the consolidation perimeter as reported in Note 1 at the close of 2020:

	Balance as of 01.01.2020	Additions	Dereg.	Transfers	Balance as at 31.12.20
Equity instruments in multi-group and associated enterprises	81,264		---	---	81,264
Financial credits to group and associated enterprises	88,051	157,560	---	6,439	252,051
Interest on l/t credits to group and associated enterprises	---	6,439	---	(6,439)	---
Impairment of group holdings	---	(81,264)	---	---	(81,264)
Group co. credit impairment:	---	(201,434)	---	---	(201,434)
Total l/t investment in Group and associated comps	**169,315**	**(118,119)**	**---**	---	**50,617**

8.1 Equity instruments in Group companies

The following is the information with respect to unconsolidated Group companies as of 31 December 2020:

FacePhi APAC, Ltd.

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

In accordance with the criteria set forth in note 3.4, investments in equity instruments of Group companies are valued at the initial consideration at the exchange rate on the subscription or purchase date. The unaudited value of net equity on said date amounted to minus 207,178 euros, which is why the full value of the holding in said company and the long-term financial credit have been written down by 81,264 euros and 201,434 euros respectively. This company does not have a business plan or financial projections that enable application of a discounted cash flow valuation method.

	FacePhi APAC Ltd.	
	2020	**2019**
Called capital	81,264	81,264
Reserves	(126,007)	---
Profit (loss) for the financial year	(187,799)	(37,990)
Conversion differences	25,365	(4,120)
Net equity	**(207,178)**	**39,154**
% holding	100%	100%
Theoretical value of holding	**---**	**39,154**

(in euros)

8.2 Financial credits

At the end of the previous financial year the Parent Company entered into a loan agreement with Facephi APC Ltd for the sum of 88,051 euros, with maturity of up to three years and interest equivalent to the legal interest on the money markets. However, in order to finance the operating losses generated by the subsidiary, the Company has entered into a new credit agreement with a limit of 500,000 euros that cancels the previous agreement and expires on 31 December 2025. This new credit line accrues interest at the equivalent rate to the legal interest on the money markets and as of 31 December 2020 the sum of 252,051 euros had been drawn down. Interest accrued and capitalised on the principal of the loan amounts to 6,439 euros at said date.

In view of the losses made during incorporation and start-up of the new subsidiary and which have reduced its net worth to a negative amount, at the drafting date of these Annual Financial Statements the Group's directors are assessing the option of assigning the financial loan to the subsidiary's equity in order to write off the losses accumulated to date. However, the financial loan has been impaired as of 31 December 2020 by the sum of 201,434 euros charged under the head of "Impairment and outcome of disposal of financial instruments" in the attached Income Statement.

In view of the write-down of the financial assets held with the subsidiary and given the low volume of transactions capitalised in 2020, consolidation of this component would not have had any effect on the Group's equity.

9. Financial assets

9.1 Analysis by category

The following is the book value of each category of financial asset instrument provided for in the standard for recognition and valuation of "Financial Instruments" except for balances with Government Offices (Note 13):

	Euros	
	Credits, derivatives and others	
	short term	long-term
<u>Assets at historical cost</u>		
Equity instruments (Note 9.3)	---	125,063
<u>Assets at amortised cost</u>		
Trade debtors and other accounts receivable (Note 9.3) (*)	4,253,331	---
Sundry debtors- Credits to personnel	400	4,100
Other financial assets (Note 9.3)	513,377	21,547
TOTAL	**4,767,108**	**150,709**

(*) Does not include balances with government agencies.

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

9.2 Analysis by maturity

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity <u>as of 31 December 2020</u>:

(in euros)

	Financial assets					
	2021	**2022**	**2023**	**2024**	**Subsequent years**	**Total**
Financial asset						
Equity instruments	---	---	---	---	125,063	125,063
Trade debtors and accounts receivable	4,253,731	---	---	---	---	4,253,431
Other financial assets (*)	513,377	18,960	1,700	---	4,986	539,023
	4,767,108	**18,960**	**1,700**	**---**	**130,049**	**4917517**

(*) Does not include balances with government agencies (note 13).

(9.3) Loans and receivables

	Euros
	2020
Long-term loans and receivables:	
Equity instruments	125,063
Credits to personnel	4,100
Other financial assets	21,547
	150,709
Short-term loans and receivables:	
Other financial assets	513,377
	513,377
Trade debtors and other short-term accounts receivable:	
Trade for provision of services	5,255,632
Impairment of credit for trade transactions	(1,102,302)
Group company debtors (note 16)	100,000
Sundry debtors	300
Personal Advances	100
Other credits with Government Offices (note 13.1)	142,893
	4396624

The Group maintains collection conditions with its customers for up to one year and therefore, as of 31 December 2020, a significant percentage of the balance is for trade credits originating in the previous year.

Impairment of trade credits

The following are the movements of provisions for impairment:

(in euros)

	Euros
	2020
Initial balance	**749,097**
Provision for impairment of accounts receivable	353,205
Reversal of unused amounts	---
Final balance	**1,102,302**

During the 2020 financial year the Parent Company cancelled clients due to final bankruptcies for the sum of 30,646 euros.

The Group's Management considers that the credit risk is sufficiently guaranteed in view of the solvency of the debtors with whom it works (mainly financial entities). Nevertheless, in January of financial 2020 the Company filed a lawsuit to recover a credit with a domestic client for the sum of 750,200 euros (including VAT). This is the main component of the bad debts amounting to 687,652 euros in previous financial years.

Along the same lines, the Company requested the Tax Agency to refund the sum of 130,200 euros corresponding to VAT paid in January 2020. On 24 April 2020 the Tax Agency notified the Company that an inspection would be conducted to verify the request for refund of the Value Added Tax for the 01/2020 period. After conducting the inspection, the Tax Agency considers that the Company does not meet the requirements of art. 80 of the Value Added Tax Act (LIVA) to amend the tax base and therefore proceeds to reduce it by 130,200 euros. As a result, the Parties signed a notice of disagreement on 12 June 2020.

Despite the fact that Group management and its legal counsel consider that while the Tax Agency does not currently admit amendment of the tax base, they do meet other requirements for its reduction. Therefore, the Company is drawing up the respective appeals and claims against the ruling of the Tax Inspectorate and will file them in the competent Administrative Litigation court. However, for reasons of prudence management has decided to reclassify the credit on the debtor's account and subsequently allocate the associated provision for impairment.

Investment in long-term equity instruments

On 21 December 2020 the Group acquired 125,000 shares with a par value of one euro (€ 1.00) representing 21.04% of the share capital of Ama Movie, A.I.E. (the group). This entity was incorporated for an indefinite period on 15 March 2018. It is domiciled in Madrid and its tax I.D number is V-88067806. Its corporate purpose is the production, edition, distribution and marketing of theatrical, cinematographic and audio-visual productions.

Due to the fact that the control and significant influence requirements applicable to associated and multi-group companies are not met by said investment despite holding more than 20% of the voting rights, in view of the impossibility of intervening in the group's financial and operating policy decisions the Company’s governing body has classified it as a financial instrument held for sale.

Other short and long-term financial assets

As of 31 December 2020 the "Other long-term financial assets" account includes the rental bonds for the offices for the sum of 13,386 euros and 8,161 euros for a fixed-term deposit of $US 10,000 with maturity on 14 February 2022 as a performance bond placed with a customer for provision of licensing, support and consulting services. As a result of valuation of the investment at the exchange rate applicable at year's end a loss of 1,001 euros was recognised for exchange rate differences.

(in euros)

On 11 November 2020 the Company granted a loan of 6,500 euros with maturity at a maximum of 33 months and return by monthly instalments of 200 euros to an employee. Consequently, the sums of 2,400 and 4,100 euros have been posted as short and long-term credits to employees respectively.

Moreover, at the end of the previous financial year the sum of 489,585 euros was recognised for a fixed-term deposit (F.T.D.) of 550 thousand US dollars constituted on 01 March 2018 and which is pledged as collateral for a loan at a variable interest rate under the agreement with the European Investment Fund with a limit of 1,000,000 euros (see note 12.3.a). The term to maturity of this F.T.D. is 3 years at an interest rate of 0.05%, for which reason it has been reclassified on the closure date – 31 December 2020 – under the head of "Other s/t financial assets" with an equivalent value of 448,195 euros at the end of the financial year. As a result of the valuation of the investment at the exchange rate in force at the end of the year, a loss due to negative exchange differences of 46,394 euros was posted.

Finally, 62,782 euros for undue charges by the financial institution related to restructuring of the financial debt capitalised during the year was recognised under the head of items pending application in the short term (Note 12.a).

10. Cash and cash equivalents

The following is a breakdown of the cash and cash equivalents item as of 31 December 2020:

	Euros
	2020
Cash, euros	101
Cash, foreign currency	2,076
Banks and credit inst. demand c/c, euros	3,356,581
Banks and credit inst. demand f.c. c/c (note 14.f)	2,620,556
Total	**5,979,705**

The treasury account under Banks and Financial Institutions includes an entry of 412,346 euros for financial deposits in the trading and settlement entities of Euronext and MAB securities respectively, the funds of which are not freely available to the Group, unless the liquidity provider estimates that the cash or shares at its disposal are excessive.

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

Previously, as a result of the financial restructuring agreement entered into on 14 December 2020, the Parent Company had established a pledge right over the current accounts and other available liquid assets for the sum of 2,244,829 euros (see Note 12.3.a).

11. Net equity

The attached Statement of Changes in Net Equity shows the breakdown and movement of the various accounts under the head of consolidated net equity during the year ended on 31 December 2020.

(in euros)

11.1 Capital and reserves

a) Share capital and share premium

The following is the composition of the Parent Company's share capital and share premium as of 31 December 2020 and 2019:

	2020		2019	
	Capital	Issue premium	Capital	Issue premium
Authorised	577,141	7,222,153	542,766	2,812,602
	577,141	**7,222,153**	**542,766**	**2,812,602**

The following is a breakdown of the movements of capital stock and share premium formalised as at 31 December 2020 and 2019:

	Number of shares	Par value	Share capital	Issue premium
Opening balance as of 01 January 2020	**13,569,139**	**0.04**	**542,768**	**2,812,602**
Capital increase 01.04.2020	252,780	0.04	10,111	952,979
Capital increase 30.04.2020	106,886	0.04	4,275	555,810
Capital increase 27.07.2020	231,393	0.04	9,256	1,292,334
Capital increase 07.10.2020	170,182	0.04	6,807	986,222
Capital increase 15.10.2020	98,139	0.04	3,926	622,206
Balance at 31 December 2020	**14,428,519**	**0.04**	**577,141**	**7,222,153**

	Number of shares	Par value	Share capital	Issue premium
Opening balance as of 01 January 2019	**13277083**	**0.04**	**531,084**	**2323993**
Capital increase 20.12.2019	292,056	0.04	11,682	488,609
Balance at 31 December 2019	**13,569,139**	**0.04**	**542,766**	**2,812,602**

Pursuant to the framework financing agreement signed on 16 September 2019 with Nice & Green and in accordance with article 297.1.b) of the Corporate Enterprises Act (LSC), the Extraordinary General Meeting held on 20 December 2019 agreed to delegate the power to issue convertible equity warrants (EW) in shares of the Parent Company for a maximum conversion sum of 3,500,000 euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. In accordance with art 417 of the LSC, the pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green. Said delegated power was limited by the condition that the total amount of the increases in share capital agreed on one or more occasions may not exceed the equivalent of half of the share capital at the time, i.e. 265,541.66 euros under any circumstances.

The price of conversion into shares considered in the financing agreement may not be lower than 130% of the nominal value of the Parent Company's shares, i.e., at a lower price per equity warrant than 0.052 euros, or higher than the conversion price resulting from 92% of the lowest weighted average price during the six trading days prior to the date on which the conversion right is exercised. The investment commitment ended on 31 December 2020.

a.1) Share capital and share premium issued during 2020

The Board of Directors, in exercise of the power set forth above, issued the following capital increase transactions 2020 during financial year and converted the E.W. into shares:

Issuance of equity warrants in March 2020

On 06 March 2020 the Board agreed to issue a first batch of warrants convertible into shares for the sum of 1,050,000 euros. Said agreement provides for a capital increase with the option of incomplete subscription once the investor confirms exercise of the right to convert the EWs into shares in the Parent Company within the option period of 64 days.

On 20 March 2020 Nice & Green requested conversion of 252,780 EWs. Therefore the financier secured the right to subscribe 252,780 new shares with a par value of 0.04 euros each. The conversion price was 2.7692 euros, the equivalent of 92% of the lowest VWAP of the last six trading days, which in turn represents an effective total capital increase of 699,998 euros. Consequently, the new shares had an issue premium of 2.7292 euros and a par value of 0.04 euros per share, which means that the issue premium and nominal value contributed capital increases of 689,887 euros and 10,111 euros respectively.

The conversion to shares with the consequent increase in the Company's share capital was formally executed on 01 April 2020 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 316 of his journal record.

On 07 April 2020 Nice & Green requested conversion of 106,886 EWs. Therefore the financier secured the right to subscribe the same number of new shares with a par value of 0.04 euros each. The conversion price was 3.2745 euros which represents an effective total capital increase of 349,998 euros. Consequently, the new shares had an issue premium of 3.2345 euros per share and a par value of 0.04 euros, which means that the issue premium and nominal value contributed capital increases of 345,723 euros and 4,275 euros respectively.

The conversion to shares with the consequent increase in the Company's share capital was formally executed on 30 April 2020 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 336 of his journal record.

Issuance of equity warrants of June 2020

On 29 May 2020 the Board of Directors of the Parent Company agreed to issue a second batch of warrants convertible into shares for the sum of 1,050,000 euros, subject to the same conditions as the first issue in March of the same year. Said agreement, which was formally executed on 12 June 2020, provides for a capital increase with the option of incomplete subscription once the investor confirms exercise of the right to convert the EWs into shares in the Parent Company.

Nice & Green formally communicated their intention to exercise of the right of conversion to shares and on the same date paid the sum of 350,000 euros for conversion of 78,649 EW into the same number of new shares with a par value of 0.04 euros each. The Company's capital was increased by 3,146 euros to address the conversion. The conversion price was 4.4501 euros due to the fact that the issue and exercise of the conversion right occurred simultaneously.

On 15 and 16 July Nice & Green notified their intention to exercise the right to convert 152,744 EW into new shares with a par value of 0.04 euros for a total price of 700,000 euros. The conversion price was 4.5828 euros, which represents an effective total capital increase of 699,995 euros. Consequently, the new shares had an issue premium of 4.5428 euros per share and a par value of 0.04 euros, which means that the issue premium and nominal value contributed capital increases of 693,885 euros and 6,110 euros respectively.

Finally, the conversion to shares with the consequent increase in the Company's share capital by issuance of 231,393 new shares with a par value of 0.04 euros each was formally executed on 27 July 2020 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 601 of his journal record. The conversion price of the first 78,649 EW was 4.4501 euros and 4.5828 for the remaining 152,744, which represents an effective total capital increase of 1,049,991 euros of which the share premium contributed 1,040,735 euros and share capital 9,256 euros.

Issuance of equity warrants in September 2020

At its meeting on 08 September 2020 the Board of Directors of the Parent Company resolved to conduct a third and final convertible warrant issue for the sum of 1,400,000 euros under the same terms and conditions as previous issues. Said agreement, which was formally executed on 14 September 2020, provides for a capital increase with the option of incomplete subscription once the investor confirms exercise of the right to convert the EWs into shares in the Parent Company.

Nice & Green formally communicated their intention to exercise of the right of conversion to shares on 18 September 2020 and paid the sum of 400,000 euros for conversion of 75,329 EW into the same number of new shares with a par value of 0.04 euros each. The EW conversion price was 5.31 euros which represents an effective capital increase of 399,997 euros. Consequently, the new shares had an issue premium of 5.27 euros per share and a par value of 0.04 euros, which means that the issue premium and nominal value contributed capital increases of 396,983.83 euros and 3013.16 euros respectively.

On 02 October 2020 Nice & Green communicated their intention to exercise the right to convert the EW to shares and paid a 500,000 euros in cash for conversion of 94,853 EW into the same number of new shares with a par value of 0.04 euros each. The EW conversion price was 5.2713 euros which represents an effective total capital increase of 499,999 euros. Consequently, the new shares had an issue premium of 5.2313 euros per share and a par value of 0.04 euros, which means that the issue premium and nominal value contributed capital increases of 496,204.50 euros and 3794.12 euros respectively.

Finally, the conversion to shares with the consequent increase in the Company's share capital by issue of 170,182 new shares with a par value of 0.04 euro per share was formally executed on 07 October 2020 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 1,083 of his journal record. The conversion price of the first 75,329 EW was 5.31 euros and 5.2713 for the remaining 94,853, which represents an effective total capital increase of 899,995.61 euros, of which the share premium contributed 893,188.33 euros and the share price 6,807.28 euros.

In relation to this latest EW issue, on 15 October 2020 Nice & Green announced their intention to exercise the right to convert 98,139 EW into the same number of new shares with a par value of 0.04 euros per share and consequently paid the sum of 500,000 euros in cash. The EW conversion price was 5.0948 euros, which represents an effective capital increase of 499,999 euros. Consequently, the new shares had an issue premium of 5.0548 euros per share and a par value of 0.04 euros, which means that the issue premium and nominal value contributed capital increases of 496,073.02 euros and 3,925.56 euros respectively.

Finally, the conversion to shares with the consequent increase in the Company's share capital by issue of 98,139 new shares with a par value of 0.04 euro per share was formally executed on 15 October 2020 in an instrument executed before the notary public of Castilla-La Mancha

(in euros)

Ignacio Javier Torres López under number 1,153 of his journal record. The conversion price of the 98,139 EW was 5.0948 euros, which represents an effective total capital increase of 499,998.58 euros, of which the share premium contributed 496,073.02 euros and the share price 3,925.56 euros.

The effect of the aforesaid issues of convertible EW and their conversion into own equity instruments on the Income Statement and Net Equity as of 31 December 2020

Since the fixed-for-fixed swap rule was not met in accordance with the valuation criteria and standards set forth in note 3.6.b, according to the EW issuance conditions a financial derivative is created during the life of the warrant issue and until the moment of conversion into shares.

The following breakdown shows that the variations in the fair value of the derivative during its life (i.e. from the date of issue to exercise of the conversion option) have been recognised for a total of 943,944 euros under the head of "16. Variation in the fair value of financial instruments" in the Income Statement as of 31 December 2020 as a financial cost and reflected in a balancing entry in Equity as an increase in the share premium equivalent to the cash amount received for the conversion, minus the accumulated fair value of the derivative until said moment:

	Number of shares	**Conversion price**	**Fair value**	**Share premium/cost**
Capital increase 01.04.2020	252,780	2.7692	3.81	263,092
Capital increase 30.04.2020	106,886	3.2745	5.24	210,087
Capital increase 27.07.2020	231,393	4.5377	5.6250	251,599
Capital increase 07.10.2020	170,182	5.2884	5.8351	93,034
Capital increase 15.10.2020	98,139	5.0948	6.3800	126,133
				943,944

a.2) Share capital and share premium formalised during 2019

On 20 December 2019 the General Meeting agreed to increase the share capital of the Parent Company by offsetting the principal and interest of the loan granted by Nice & Green in accordance with the loan agreement entered into by and between the Parties on 16 September 2019. At the time of the agreement the Company's share capital amounted to 500,292 euros. The issue rate (par value plus issue premium) of the new shares was 1.713 euros per share. Par value accounted for 0.04 euros and the issue premium 1.673 euros. It was therefore agreed to increase the share capital of the Parent Company by the net amount of 11,682 euros by means of issuance of 292,056 new shares and an issue premium of 488,609 euros.

The capital increase was formally executed on 31 January 2020 pursuant to an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 77 of his journal record and finally registered in the Companies Registry of Alicante on 24 February 2020.

a.3) Issues of convertible warrants and capital increases in progress

On 14 December 2020 the Parent Company entered into a new financing agreement with similar conditions and features as the previous one with Nice & Green, for which reason the Extraordinary General Meeting held on 25 January 2021 agreed, in compliance with article 297.1.b of the Corporate Enterprises Act (LSC) to delegate the power to issue convertible equity warrants (EW) in shares of the Parent Company for a maximum conversion sum of 20 million euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. In accordance with art 417 of the LSC, the pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was

Nice & Green. Said delegated power was limited by the condition that the total amount of the increases in share capital agreed on one or more occasions may not exceed the equivalent of half of the share capital at the time, i.e. 288,570.38 euros under any circumstances.

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

As a complement to the agreement, the Parent Company directors Salvador Martí Varó, Javier Mira Miró and Juan Alfonso Ortiz Company have each agreed to lend Nice & Green 176,666 shares of which they are the proprietors.

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

Issuance of equity warrants in February 2021

On 15 February 2020 the Board of Directors of the Parent Company resolved, pursuant to the powers conferred by the General Meeting held on 25 January 2021, to issue an initial batch of warrants convertible to shares for the sum of 2,500,000 euros, subject to the same conditions as previous issues of the same kind. Said agreement, which was formally executed on 16 February 2021, provides for a capital increase with the option of incomplete subscription once the investor confirms exercise of the right to convert the EWs into shares in the Parent Company.

On 18 February 2021 Nice & Green communicated their intention to exercise the right to convert the EW to shares and paid a 850,000 euros in cash for conversion of 237,456 EW into the same number of new shares with a par value of 0.04 euros each. The EW conversion price was 3.5796 euros, which represents an effective capital increase of 849,997.50 euros. Consequently, the new shares had an issue premium of 3.5396 euros per share and a par value of 0.04 euros, which means that the issue premium and nominal value contributed capital increases of 840,449.26 euros and 9,498.24 euros respectively.

The capital increase was formally executed on 25 March 2021 pursuant to an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 215 of his journal record and on the date of these Consolidated Annual Financial Statements is pending registration in the Companies Registry of Alicante.

Therefore, on the drafting date of these Annual Financial Statements the share capital stands at € 586,639, all fully called and paid up, divided into 14,665,975 shares numbered from 1 to 14,665,975 represented by book entries with a par value of four cents of a euro (€ 0.04) each and all of the same class, identical, cumulable and indivisible.

a.4) Significant holdings

As of 31 December 2020 the following shareholders, who are also members of the Board of Directors, held significant direct or indirect holdings in the Parent Company:

(in euros)

	% 2020
Salvador Martí Varó	9.13
Javier Mira Miró (*)	7.82
Juan Alfonso Ortiz Company (**)	8.50

(*) There are 141,470 shares lent to Nice & Green as collateral according to a relevant fact published on 18 September 2019.

(**) There are 150,586 shares loaned as collateral to Nice & Green according to a relevant fact published on September 18, 2019.

All shares issued are fully paid up. There are no restrictions on free transfer of the shares except for those lent to Nice & Green as a surety.

b) Treasury stock

The total amount of treasury stock held at 31 December 2020 is 341,760 euros represented by 60,129 shares, the equivalent of 0.42% of the share capital. This is below the maximum limit of 10% provided for in article 509 of the Corporate Enterprises Act.

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

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

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

The following are the share movements during the 2020 financial year:

	2019	Acquisitions	Disposals	Disposals for Business Combinations	2020
Cost of treasury shares	240,354	1,757,521	(556,294)	(1,099,822)	341,760

The sum of 1,099,822 euros recognised as disposal of treasury stock corresponds to transfer of the packet of shares required for payment of the debt of 840,001 euros, derived from sale of the shares in Ecertic Digital Solutions, S.L. (see note 8).

The treasury stock was sold during financial 2020 for a net outcome of 235,063 euros that has been recognised as a credit to Voluntary Reserves.

c) Parent Company's reserves

The following is a breakdown of reserves at the end of the year:

(in euros)

	Euros	
	2020	2019
Legal reserve	108,553	-
Voluntary Reserve	1,100,415	610,194
Losses from previous financial years	---	(798,042)
	1,208,968	**(187,848)**

Legal reserve

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

Voluntary reserves

As of 31 December 2020 and 2019 the voluntary reserves include profits from previous years that were not allocated to shareholders or assigned to legal reserves.

These reserves are freely available.

As set forth in the attached Consolidated Statement of Changes in Net Equity, during financial 2020 the sum of 126,682 euros (126,416 euros in previous years) net of tax effect was charged against these reserves for the cost of issuance and expenses incurred as a result of the capital increases conducted during the year and 235,063 euros (145,219 euros in 2019) for the results obtained from the sale and purchase of treasury stock (see Note 11.1.b).

d) Reserves in consolidated companies

In accordance with the criteria laid down in Note 4.a, this Capital and Reserves section on the Consolidated Balance Sheet is the result of undistributed profit generated by the subsidiaries from the time they were acquired by the Group. In view of the fact that these are the first consolidated financial statements to be drawn up and that incorporation of the subsidiaries into the Group took place during 2020 – the financial year under examination – as at 31 December 2020 there are no reserves of this nature within the consolidation perimeter.

e) Contribution to consolidated results

The following table shows the contribution of each company in the consolidation perimeter to the consolidated:

Subsidiary	Profit/(Loss)
	2020
Facephi – Parent Company	(1,682,335)
Ecertic – Subsidiary	62,289
Consolidation adjustments	(234,554)
Total Consolidated Outcome (Profit)	**(1,854,600)**

11.2. Subsidies

The following table shows the amount and nature of the subsidies on the Balance Sheet as of 31 December 2020 under the head of "Subsidies, donations and bequests" and their variations during this and the previous financial years:

(in euros)

As of 31 December 2020

Awarding body	Year awarded	Amount awarded	Rest pend. amort. at 01.01.20	Additions for bus comb.	Additions for year	Trans. to 2020 profit (loss)	Tax effect	Rest pend amort. 31.12.20
Europe (H2020)	2016	1,692,600	166,592	---	---	(67,063)	16,766	116,294
CDTI	2018	180,390	---	75,501	39,667	(36,456)	9,114	88,826
		1,872,990	**166,592**	**75,501**	**39,667**	**(103,519)**	**25,880**	**205,120**

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

The Parent Company signed an agreement with the European Commission in 2016 to obtain aid to finance investment in development in the execution of the project known as "Facial Recognition in Banking Security (FACCES)" over a period of 2 years.

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

On the one hand, the costs incurred associated with the eligible project were for R&D personnel costs that were capitalised in Intangible Assets and, on the other hand, for operating costs, and therefore the subsidy has an equity-related component and a working capital component which, in accordance with the costs incurred by the Parent Company in previous years, was allocated in the proportions of 19.81% and 80.19%, respectively.

Furthermore, in financial 2020 the Parent Company recognised subsidies for a net amount of 116,168 euros to support acquisition of the subsidiary Ecertic Digital Solutions, S.L.U. These funds originated in a grant for a gross amount of 180,390 euros awarded in 2018 to finance the project to develop a platform for accreditation of digital identity using biometric technology (Note 4.d).

12. Financial liabilities

12.1 Analysis by category

The following table shows the book value of each category of financial instrument laid down in the standard for recording and valuation of "Financial Instruments", except for balances with Government Offices (Note 13):

	Euros	
	Long-term financial liabilities	
At amortised cost:	Debts with credit inst.	Derivatives Others
	2020	2020
Debits and items payable (Note 12.3)	6,054,477	---
TOTAL	**6,054,477**	**---**

Euros

(in euros)

At amortised cost:	Short-term financial liabilities	
	Debts with credit inst.	Derivatives Others
	2020	2020
Debits and items payable (Note 12.3)	984,949	1,171,923
TOTAL	**984,949**	**1,171,923**

12.2 Analysis by maturity

The following are the amounts of financial liability instruments with a specific or determinable maturity period classified by year of maturity as of 31 December 2020:

	Financial liabilities					
	2021	2022	2023	2024	Subsequent years	Total
Debts with credit institutions	984,949	1,325,319	1,479,507	1,632,204	1,617,447	7,039,426
Other financial liabilities (*)	893,385	---	---	---	---	893,385
	1,878,334	**1,325,319**	**1,479,507**	**1,632,204**	**1,617,447**	**7,932,811**

(*) Does not include balances with Government Offices.

12.3. Debits and payables

	Euros
Long term debts:	**6,054,477**
Debts with credit institutions	6,054,477
Short term debts:	**985,270**
Debts with credit institutions	983,672
Other financial liabilities	1,598
Trade creditors and other accounts payable:	**1,058,154**
Suppliers	238,629
Sundry creditors	601,609
Personnel (salaries pending payment)	53,712
Other debts with Government Offices (Note 13.1)	164,204
Debits and payables	**8,343,982**

(in euros)

The following is a breakdown of the debts with credit institutions as of 31 December 2020:

	Euros	
	2020	
	Short-term	Long-term
Bank loans	928,702	6,054,477
Debts for drawn credit (debtor)	(1,277)	---
Credit cards	35,631	---
Uncollected accrued interest	20,616	---
Total	**983,672**	**6,054,477**

a) Loans with credit institutions

The following is a breakdown of the most important conditions of the financial loans in effect as of 31 December 2020:

Type of transaction	Maturity	Limit	31.12.20 Short-term	31.12.20 Long-term
Loan (1) (*)	06.03.21	1,000,000	---	---
Loan	31.07.21	200,000	39,850	---
Loan (1)	20.11.22	200,000	66,667	66,667
Loan	21.03.22	500,000	169,145	45,384
Loan	03.04.25	1,000,000	162,531	837,469
Syndicated loan	30.06.25	6,000,000	490,510	5,104,956
		Total	**928,702**	**6,054,477**

(1) Loan executed under agreement with the European Investment Fund. Pledged with a F.T.D. of $ 500,000 (see note 7).

(2) Investment loan, the purpose of which is to set up the sales structure in the South Korean subsidiary, financing of personnel expenses, rentals and advertising.

The interest rate for debts with credit institutions is the Euribor plus a margin considered to be consistent with market costs. As of 31 December 2020 the Group has recognised the sum of 20,616 euros as accrued interest pending settlement.

The average interest rate on long-term debts with credit institutions as of 31 December 2020 is 4.93% (2.55% in the previous year).

Syndicated financial restructuring agreement

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

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

(in euros)

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

Notwithstanding the unlimited personal liability of the Parent Company acquired under the aforesaid contracts, the subsidiary Ecertic Digital Solutions, S.L. constitutes, on the same date, a joint and several surety executable on first request over all the obligations arising from said contracts. Furthermore, pledge rights in rem are constituted on the credit rights of the Operating Current Accounts and the Transitory Amortisation Account associated with the loan. The Parent Company has enacted a movable property mortgage on the trademarks owned by the Group that are valued at 2,244,829 euros as collateral for the aforesaid obligations.

Based on the estimates of cash flows set forth in its business plan, Management considers that the Group will be able to comply punctually with all the contractual obligations derived from the loans and financial credits to which it is subject at year's end.

b) Credit accounts and discount lines

The Group has contracted liquidity in a policy to finance working capital for the following amounts:

	Euros		
	Drawn	**Limit**	**Available**
	31.12.20	**31.12.20**	**31.12.20**
Credit policies	---	450,000	450,000
Syndicated Loans (B + C)	---	7,000,000	7,000,000
Advances on invoices	---	250,000	250,000
Credit cards	35,631	119,895	84,264
	35,631	**7,819,895**	**7,784,264**

c) Information on the average period of payment to suppliers. Information on the average period of payment to suppliers. Additional Provision Three. "Duty of information" of Act 15/2010 of 5 July.

The following is the information as of 31 December 2020 required for the purposes of article 6 of the Resolution issued by the Accounting and Auditing Institute on 29 January 2017 on the information to be included in the Report in relation to deferral of payments to suppliers in trade transactions and regulated by Additional Provision Three, *Duty of Information*, in Act 15/2010 of 5 July that amends Act 3 /2004 of 29 December that establishes measures to combat default and late payment in trade transactions:

Item	**2020**
	Days
Average period of payment to suppliers	21
Ratio of paid transactions	21
Ratio of transactions pending payment	21
	Euros
Total payments made	7,013,762
Total pending payments	767,583

For these exclusive purposes, the head of Trade Creditors encompasses the items of suppliers and various creditors for debts with suppliers of goods or services included within the scope of regulation of legal payment periods. The head of Net Purchases and Expenses for External Services encompasses the amounts accounted for as such in accordance with the Spanish General Accounting Plan (PGC).

(in euros)

13. Government agencies and tax position

13.1 Current balances with Government agencies

The following is the composition of the credit balances maintained with the Government Agencies at year's end 2020:

	Euros	
	2020	
	Assets	Liabilities
Deferred tax assets (note 13.4)	**452,462**	
Deferred tax asset for:		
• VAT	142,893	
Other credits with Government Agencies	**142,893**	
Deferred tax liabilities (note 13.4)		**68,373**
Debts with the Social Security		49,798
Deferred tax liability for:		
• VAT		27,412
• Personal income tax withholdings		86,994
Other debts with Government Agencies		**164,204**

The VAT debit balance at the end of the year refers to amounts to be compensated or returned in the settlements for Q4 2020.

13.2 Financial years pending verification and inspection

In compliance with the currently applicable legislation, taxes are not considered finally settled until the returns have been inspected by the tax agency within the four-year limitation period. As of 31 December 2020 the Group companies have all the returns of the main taxes to which they are subject since 31 December 2016 pending inspection.

Management considers that the Group has settled all the applicable taxes properly. However, in the event of an inspection, discrepancies could arise between Group management and the tax inspectorate on the interpretation of the regulations with respect to the fiscal treatment of certain transactions that could entail additional tax-related liabilities. However, Management does not expect such liabilities, even if they do arise, to significantly affect the Group's consolidated Annual Financial Statements.

13.3 Reconciliation of the accounting outcome and current expense for corporation tax

Corporation tax is calculated on the basis of the economic or accounting result obtained by applying generally accepted accounting principles and does not necessarily coincide with the fiscal outcome understood as the taxable base in each case.

The following is the reconciliation of the accounting outcome with the corporate tax base for the Group companies:

(in euros)

	Facephi	Ethertic	Consolidated
Consolidated profit (loss) before tax	**-**	**---**	**(2,001,814)**
Consolidated eliminations and adjustments			
• Amortisation of the fair value of intangibles (I.T. Apps) attributed in the business combination (Note 1.c)			234,554
Individual pre-tax outcome for the financial year (losses)	**(1,829,549)**	**62,289**	**(1,767,260)**
Permanent differences:			
• Other non-deductible expenses	14,051	---	14,051
• Changes in the fair value of financial instruments	943,944	---	943,944
• Impairment of holdings and loans to Gr. comp.	282,697	---	282,697
Revenue/(Expenses) allocated to Equity			
• Capital increase expenses	(168,910)	---	(168,910)
Preliminary tax base	**(757,767)**	**62,289**	**695,478**
Compensation for negative tax base	---	(62,289)	(62,289)
Payable tax base	**---**	**---**	**---**
Tax rate on the tax base (25%)	(189,442)	---	(189,442)
Tax payable/(refund)	**---**	**---**	**---**

At year's end 2020 the permanent differences are due to non-deductible expenses for penalties and non-deductible tax surcharges and for variations in the fair value of financial instruments (derivatives) related to the various capital increases in accordance with the information provided in Note 11.1.

The accounting expense/(income) for Corporation Tax is calculated as follows:

	Euros	
	Facephi	Ecertic
Recognition of deductions for withholdings at source	(205,158)	---
Application of deductions for the current year	205,158	---
Rate on tax base - current expenditure/(income)	(189,442)	---
Expense/(Revenue) for current tax	**(189,442)**	**---**
Deductible timing diff. Capital increase expenses	42,227	---
Expense/(Revenue) for deferred tax	**42,227**	**---**
Total Expense/(Revenue) for Corporation Tax	**(147,214)**	**---**

13.4 Deferred tax assets and liabilities

(in euros)

Deferred tax assets

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

The following is a breakdown of the Parent Company's deductions pending application according to the corporate tax returns and the tax forecast for the current year as of 31 December 2020 and 2019:

Year of origin	2019	Generated	Applied	2020
2018	57,862	---	---	57,862
2020(*)	---	205,158	---	205,158
Total	**57,862**	**205,158**	**---**	**263,020**

(*) 2020 corporate tax estimate

According to the 2020 financial forecast, the Parent Company has the following negative tax base items to offset with future tax rebates according:

	Euros				
Year of origin	**Bases pending 2019**	**Generated in 2020**	**2020 compensation**	**Bases pending 2020**	**Tax credit**
2020 financial year	---	757,767	---	757,767	189,442
Total	**---**	**757,767**	**---**	**757,767**	**189,442**

Ecertic Digital Solutions has the following deductions pending application and the following negative tax bases to offset with future tax benefits. These deferred tax assets are not recognised on the consolidated Balance Sheet:

- Ecertic's rebates pending application:

Year of origin	01.01.21	Generated	Applied	2020
2018	97,364	---	---	97,364
Total	**97,363**	**---**	**---**	**97,363**

- Negative tax bases to offset with future tax credits:

	Euros				
Year of origin	**Bases pending 01.01.20**	**Generated in 2020**	**2020 compensation**	**Bases pending 2020**	**Tax credit**
2018 financial year	30,596	---	(30,596)	---	---
2019 Fiscal year	272,047	---	(31,693)	240,354	60,088
Total	**302,642**	**---**	**(62,289)**	**240,354**	**60,088**

(in euros)

The following is a breakdown of deferred taxes:

	Euros	
	Facephi	Ecertic
Deferred tax assets:		
- Credits for N.T.B. to offset	189,442	---
- Credits for deductions	263,020	---
Deferred tax liabilities:		
- Subsidies	(38,765)	(29,609)
Net balance due to deferred taxes	**413,697**	**(29,609)**

The following was the gross movement in deferred taxes:

	2020	
	Active deferred tax	Deferred tax liability
As of 01 January 2020	**57,862**	**(55,531)**
Additions due to business combination	---	(25,500)
Charges/(credits) to equity	42,227	12,657
Charges/(credits) in the Income Statement	352,372	---
As of 31 December 2020	**452,462**	**(68,374)**

14. Income and expenditure

a) Net turnover

The following is the geographic spread of the consolidated net turnover for the ordinary activities of the Group:

	%
Market	**2020**
Spain	11.27
Rest of the European Union	0.93
Rest of the countries	87.80
	100

The net turnover can also be analysed per business line as follows:

	%
Line	**2020**
Provision of services	100
	100

As of 31 December 2020 the sum of 758,958 euros has been recognised under the head of “short-term accruals” in Current Liabilities on the attached Balance Sheet. This item accounts for the estimate of turnover from support and maintenance services for the following financial year.

(in euros)

b) Supplies

Costs amounting to 1,316,367 euros accrued for licensed use of certain computer software required for development of products that the Group will subsequently place on the market under license are recognised as of 31 December 2020 under the head of Supplies on the Income Statement.

c) Work performed by the Group for its assets

	2020
Work performed by the company for its asset	
Facephi	930,592
Ecertic	179,859
	1,110,451

The amounts set forth in the above table have arisen from the improvements and new versions of its computer applications that the Group has continued to make, and are capitalised in Intangible Assets (see note 4).

d) Operating subsidies posted to outcome for the financial year

In accordance with the criteria set forth in note 3.8, as of 31 December 2020 Group management has allocated the sum of 103,520 euros to the Income Statement.

e) Personnel expenses

	FACEPHI	ECERTIC
Wages, salaries and similar	2,690,588	123,723
Company Social Sec. contribution	343,932	28,225
Other personnel benefits	---	---
	3,034,520	**151,948**

The following is the average number of employees throughout the financial year by category:

	FACEPHI	ECERTIC
Senior management	2	
Scientific and intellectual support technicians and professional staff	44	3
Clerical workers	7	
Sales force	4	
Total average employees	**57**	**3**

These employees were distributed by gender as follows:

	2020		
	Men	Women	Total
Executive directors	2	---	2
Scientific and intellectual support technicians and professional staff	33	14	47
Clerical workers	2	5	7
Sales force	3	1	4

(in euros)			
Total staff at the end of the financial year	**40**	**20**	**60**

As of 31 December 2020 the Group employs 1 employee with a disability equal to or greater than 33%.

An average of two employees with a disability equal to or greater than 33% were employed during the 2020 financial year.

f) Other operating expenses

The following is a breakdown of the Group's Other Operating Expenses by year:

	Euros
	2020
External services:	
Leases and royalties	147,614
Repairs and upkeep	7,362
Freelance professional services	1,985,951
Insurance premiums	38,258
Banking and similar services	101,024
Advertising, promotion and public relations	216,481
Supplies	40,170
Other services	498,135
Taxes	5,441
Losses, impairment and variation of provisions for uncollectible trade transactions (Note 9)	383,851
Other operating expenses	**3,040,436**

g) Foreign currency: Exchange differences

The overall value of assets denominated in foreign currency (f.c.) amounts to 6,129,958 euros. The following are the most significant items:

		Euros
Item	**Currency**	**2020**
Trade (foreign currency)	USD	3,064,135
Treasury (c/c in f.c.)	USD	2,620,556
Treasury (f.c. cash)	USD	2,076
Fixed-term tax (f.c.)	USD	443,191
	Total	**6129958**

The following liabilities denominated in foreign currency amount to 437,964 euros:

		Euros
Item	**Currency**	**2020**
Creditors (f.c.)	USD	437,964
Credit advances (f.c.)	USD	---
	Total	**437,964**

(in euros)

The following are main transactions made in currencies other than the euro:

Transaction (Expenditure)/Income	Currency	Euros 2020
Disposals	USD	6,320,187
Services received	USD	(1,462,367)

The following total exchange differences were recognised in outcome for the financial year. Exchange differences arising from transactions that were settled during the period under analysis and those arising from transactions pending settlement as of 31 December 2020 are reported separately.

Financial instrument	Currency	Exchange differences 2020
Positive cash differences	USD	201,996
Negative cash differences	USD	(16,106)
Negative differences from trade collections	USD	25,517
Positive differences from trade collections	USD	(66,761)
Negative differences for payments to suppliers	USD	421
Positive differences for payments to suppliers	USD	(24,208)
Total for transactions settled in the financial year		**120,859**

Financial instrument	Currency	Exchange differences 2020
Negative differences due to trade balances	USD	278,112
Positive differences due to trade balances	USD	---
Negative differences due to financial investment balances.	USD	47,968
Negative differences due to credit advance balances	USD	---
Positive differences due to credit balances	USD	---
Negative differences due to credit balances	USD	7,137
Total for transactions pending maturity		**333,217**
Total exchange differences allocated for the year		**454,077**

15. Remuneration of members of the Board of Directors and senior management of the Parent Company

(in euros)

In accordance with the proposal of the Appointments and Remuneration Committee on 18 December 2019 subsequently ratified by the General Meeting held on 24 July 2020, the Board of Directors received the following remuneration for the 2020 financial year:

- The joint sum of 840,000 euros plus an additional amount equal to 5% of gross profit in excess of one million euros.
- In view of the seasonality in the Company's turnover, an additional bonus of 125,000 euros to be shared equally between the two executives was approved and shall be paid provided that turnover increases by 50% by 30 June 2020 or more compared to the same period of the previous year.
- In addition, the allocation for the Board committees was divided into 250,000 euros as per diem allowances and 50,000 euros for remuneration of members of the Audit Committee and the Remuneration Committee.

Furthermore, in view of the uncertainty caused by the Covid-19 pandemic, on 27 March 2020 the Appointments and Remuneration Committee resolved to complement the incentives agreed on 18 December 2019 by allocating an extraordinary bonus of 100,000 euros to be distributed equally among the senior managers provided that the milestone of invoicing twice the turnover compared to the same period last year was reached by 30 June of the same year.

Pursuant to these agreements, the remuneration accrued as of 31 December 2020 was the following:

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

During the 2020 financial year the members of the Board of Directors, some of whom are also senior managers, received the following statutory and wage remuneration – including Board expenses and allowances, remuneration in kind and civil liability insurance premiums for managers and directors:

	Euros
	2020
Remuneration:	
Senior management	840,000
Variable remuneration-Senior Management	225,000
Board and Audit and Remun. Committee Allowances	300,000
Other remuneration	63,026
Insurance premiums	14,476
Total remuneration	**1,442,502**

Neither the members of the Board of Directors nor senior management have been granted financial credits and have not benefitted from pension-related commitments by the Group. There are no agreements pursuant to which the members of the Board or senior management have the right to receive compensation due to severance from directorships.

b) Position of directors with respect to interest position

In compliance with the duty of avoiding positions that could entail conflict with the interest with the Company, all members of the Board of Directors have fulfilled the obligations set forth in article 228 of the consolidated text of the Corporate Enterprises Act during the financial year. Furthermore, both the directors and persons related to the same have refrained from incurring in the cases of conflict of interest provided for in article 229 of said Act which may be authorised by the governing body (no instances have occurred during this financial year).

(in euros)

16. Balances and transactions with Group companies and other associated enterprises

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

In this sense, and as reported in Note 1, the following is the list of Group and associated companies not included in the consolidation perimeter of these Annual Financial Statements:

Commercial group company (Article 42, Com. Code)	**% holding**	**Address**	**Main Activity**
FacePhi APAC, Ltd.	100%	Pangyo (South Korea)	Marketing of biometric facial recognition systems
Group entity (decision unit)	**% of control**	**Address**	**Main Activity**
CF Intercity S.A.D.	100%	San Juan (Alicante)	Limited Sports Company

a) Financial investments in Group companies

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

b) Balances and commercial transactions with Group companies

On 01 December 2019 the Company and CF Intercity SAD entered into an advertising sponsorship contract for a duration of 3 seasons from 01 July 2019 to 30 June 2022 for the sum of 100,000 euros per season. As of 31 December 2020 the Company has recognised the sum of 100,000 euros for the first half year of the 2019-2020 sports season and the first half of the 2020/2021 season under the head of "Other operating expenses" in the Income Statement.

The Company also granted an advance payment of 100,000 euros against the same item at the close of the 2020 financial year.

All commercial transactions performed with associated enterprises are negotiated on the basis of market prices.

17. Environmental information

The Company does not hold significant assets in property, plant and equipment intended to minimise environmental impact and protect the environment, nor has it incurred in significant expenses during the year for the purpose of protecting and improving the environment.

To date there are no known contingencies related to protection and improvement of the environment or its potential impact on the outcomes and/or financial position of the Company.

(in euros)

The Company has not received subsidies of an environmental nature.

18. Provisions and contingencies

As of 31 December 2020 the Parent Company has placed a performance bond of $ 10,000 in favour of a client. Said bond will expire on 24 February 2022. It has been pledged in a fixed-term deposit for the same amount (Note 9).

19. Other information

a) Audit fees

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

	2020
Audit services:	
• Audit of individual Annual Financial Statements (*)	21,500
• Audit of the Consolidated Annual Financial Statements (*)	6,000
Other services related to the audit:	
• Review of interim financial statements as of 30.06.2020	10,500
Other accounting verification services	---
Total professional services	**38,000**

As of 31 December 2020 no fees have been accrued by other companies of the Auren group as a result of tax advisory services, special reports, other verification services or other services.

b) Off-balance sheet agreements

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

20. Subsequent events

In accordance with the information provided in Note 11.1 in relation to the capital increase in progress, on 25 January 2021 the following resolutions were adopted by the Extraordinary General Meeting held on that date: One: to delegate the power to issue convertible equity warrants (EW) in shares of the Parent Company for a maximum conversion sum of 20,000,000 euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. The pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green.

Under the aforesaid delegation by the General Meeting, on 15 February 2021 the Board of Directors adopted a resolution to conduct a first issue of 48,076,923 equity warrants convertible to Company shares for a maximum sum of 2,500,000 euros (the (February 2021) Equity Warrants). The only recipient of the (February 2021) Equity Warrants was Nice & Green.

On 18 February 2021 Nice & Green notified the Company and exercised its right to convert 237,456 (February 2021) Equity Warrants for a conversion sum of 850,000 euros under the provisions of the investment agreement. After this partial conversion of the first tranche, Nice & Green still holds the option of requiring issuance of equity warrants to cover the remaining 1,650,000 euros of said first tranche. This option expires on 19 May 2021, the termination date of the right of exercise conversion of the Tranche One.

On 25 March 2021 a significant event was reported to BME Growth that certain members of the Board of Directors have lent 237,942 shares to Nice & Green in addition to those assigned under the previous investment agreement. Thus, a total of 176,666 shares were assigned by each of the three directors as provided for in the second investment agreement.

In addition to the events described above, the Directors consider that no other significant subsequent events have occurred that could affect the information contained in these Annual Financial Statements.

Alicante 31 March 2021

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CONSOLIDATED MANAGEMENT REPORT

The FacePhi Group is a global leader in facial recognition technology
The Spanish Group FacePhi is a world leader in the application of biometric facial recognition technology with a major market share in the banking sector. It achieved a turnover of 7.3 million euros from the sale of licences in 2020 and its shares are currently traded under the dual listing system on the Euronext Growth market in Paris and on BME Growth in Spain at the same time.
Grupo FacePhi has successfully completed consolidation of its subsidiaries SelphID and inPhinite. InPhinite, launched in 2018-2019, develops a combination of biometric and other security systems that create a complete identity, authentication and digital integration solution that enables access to and verification and operation of various services and products in mobile and web applications. The incorporation of new technologies such as *Digital onboarding* and *voice recognition* by means of alliances enhances the Group's product portfolio and provides the opportunity to increase the sales volume to established, new and potential customers. The Group currently markets five products:

- Selphi: Authentication using facial biometry
- Look&Phi: Authentication using periocular biometry
- SelphID: Digital onboarding and KYC (Know Your Customer)
- PhiVox: Authentication with voice biometry and call centre
- IdentiPhi: Selfie-matching vs photo on I.D.
- SignPhi: Authentication with written biometry
- 4Phingers: Authentication with fingerprint biometry

The Group has maintained its **FIDO UAF** certification with **SelPhi®**. **FIDO**, the most extensive ecosystem for standard-based interoperable authentication processes, certifies that FacePhi's technology has passed the FIDO UAF interoperability test. Improvement of the usability of the technology by dispensing with passwords (**Passwordless Experience**) and employing a fast, easy-to-use process – transparent for the user – that requires only a single device (mobile or tablet) are among the advantages of this certification. Moreover, the **FIDO UAF** protocol ensures protection against phishing, man-in-the-middle and replay attacks.

Grupo FacePhi is a **global leader in facial recognition technology**. Our products are used by banks and other financial service companies worldwide. Implementation of our systems not only means that the bank saves money but the product also **attracts and retains new customers** while enhancing the **security of the transactions**.
This innovative technology **effortlessly enhances the user's experience**, by simply using camera on the mobile device to take a selfie, which means that the device becomes the identification and interaction channel with the bank's mobile application.
FacePhi's QA department conducts periodic internal audits of its products and services. Even so, the Group has commissioned several external audits and certification processes as a consequence of its constant improvement and technological enhancement processes.
External audits:

- In the context of the ISO 31000:2018 standard FacePhi, with the help of an external consultancy, submitted its risk management system to an exhaustive analysis the scope of which encompassed the development, maintenance, integration and support of its biometric technologies.
- In the context of the ISO 27001:2017 and ISO 27002:2017 information security management system (ISMS) standards and code of practices for information security controls, FacePhi implemented an Information Security Management System (ISMS) with the help of an external consultancy.
- In order to validate the metrics of FacePhi's facial recognition technologies in both in its identification (1:N) mode and in its verification (1:1) mode under the ISO/IEC 19795-1: 2006 and ISO/IEC 19795-5:2011 standards following the guidance stipulated by the National Institute of Standards and Technology (NIST) in its FRGC Experiment 1 and FRGC experiment 4 guidelines,

FacePhi has audited and validated its SDK performance metrics for these technologies through the services of Ackcent, the external cybersecurity auditor.

• To validate the performance of the liveness technology in accordance with the ISO/IEC 30107-3:2017 standard, FacePhi audited and validated the inviolability of its technology against presentation attacks with the aid of the external cybersecurity organization Ackcent.

FacePhi holds the following technical certifications:

• The ISO 27001:2017 standard for information security, the objectives of which are to safeguard the confidentiality, integrity and availability of classified information.

• FacePhi, as part of its strategy to enter new markets, is in the process of obtaining certification under the K-NBTC standard, available since October 2020, through the Korean national body KISA on both its modalities:

o Standard Conformance Test: Modelled architecture compliance certification according to ISO/IEC 19784-1:2018, ISO/IEC 24709-1:2017 and ISO/IEC 24709-2:2007 standards.

o Performance Test: Facial recognition technology performance metrics evaluation certification.

• FacePhi's face recognition and proof-of-life algorithms have been certified by ISO 30107-3:2017 that stipulates the methodology for evaluating the strength of a biometric algorithm against presentation attacks (fraud attempts). It is the most prestigious biometrics certification at the international level. The entity that has certified FacePhi is iBeta.

Main risks and uncertainties facing the Group

The main risk factors do not differ significantly from those included in the Market Entry Information Document (Spanish acronym - DIIM) issued in June 2014 or from those included in the duly updated Reduced Extension Documents (DAR) dated March 2015 and February 2016. It should be taken into account that these risks are not the only ones that the Group may be required to face and that could have a material adverse effect on the price of FACEPHI BIOMETRIA, S.A. shares which in turn could lead to a partial or total loss of the investment made to date. The following are the most important risk factors, notwithstanding the fact that there may be other less important or even risks unknown at the time this management report was drawn up.

Risks linked to excessive exposure to technological innovation

The sector in which the Group operates is subject to intense research and technological innovation that entails constant updating of the product and, consequently, a high expiration or obsolescence rate of the range is able to place on the market at any one time. This innovation requires investment in personnel, material and marketing that the Group must be able to meet.

Emergence of new companies or creation of new technologies that directly affect the Group

As technology is constantly growing and evolving, so the creation of strong new companies that provide products with a stronger competitive advantages or the emergence of other types of technology or biometrics that are more effective or achieve wider consumer acceptance can never be ruled out.

If this process takes place the market share that these new competitors acquire as they grow is subtracted from that of the existing companies of which the sector is composed. In that event the Group's production would decline, customers would be lost and the share price could fall dramatically. Despite this, the Group is committed to continuous research and development to improve and evolve its technology to meet market demands. This benefits said products and positions them with a competitive advantage over the start-ups that aspire to penetrate the market.

Registration protection of algorithms

It should be noted that mathematical algorithms cannot be patented and therefore the protection of the Spanish Patent and Trademark Office against competitors cannot be obtained. The authorship of algorithms is protected under Royal Legislative Decree 1/1996 of 12 April that adopts the consolidated text of the Intellectual Property Act.

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

Moreover, computer programs and algorithms – software, in short – are protected under the WTO TRIPS Agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights), the Berne Convention for the Protection of Literary and Artistic Works and Directive (EU) 2016/943 of the

European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information.

The Group has identified its programs, algorithms and software as essential strategic business assets, and this is due to compliance with the conditions recognised internationally as key aspects of the protection of Trade Secrets.

Documentary protection

- By non-disclosure clauses that protect the information.
- They reinforce the classified nature of business information for the bound party
- They define the conditions applicable to the confidential information viz-á-viz the people who have access to the same.

Technical certifications

The Group is in the process of obtaining certification under the ISO 27001:2017 standard for information security, the objectives of which are to safeguard the confidentiality, integrity and availability of the classified information. Certification is scheduled for 2021. FacePhi, as part of its strategy to enter new markets, is in the process of obtaining certification under the K-NBTC standard, available since October 2020, through the Korean national body KISA in both its versions:

- Standard Conformance Test: Modelled architecture compliance certification according to ISO/IEC 19784-1:2018, ISO/IEC 24709-1:2017 and ISO/IEC 24709-2:2007 standards.
- Performance Test: Facial recognition technology performance metrics evaluation certification.

FacePhi's face recognition and liveness algorithms have been certified under the ISO 30107-3:2017 standard.

Intellectual Property Rights

FacePhi Biometría is the owner of the Selphi and FacePhi Beyond Biometrics trademarks. Said ownership grants protection of these trademarks in both the European Union (EUTM 015106354 and EUTM 015114853 respectively) and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126. European Union Trademark certificates with registration numbers MUE 017896710 LookΦ MUE 017948110 inPhinite; MUE 017948113 4Phingers; MUE 017948116 Phivox; MUE 017948119 SignPhi and EUTM 017948878 SelphID have also been obtained. Entry into force of Act 1/2019 of 20 February, the Trade Secrets Act, determines a scenario where legal certainty regarding knowledge considered to constitute Trade Secrets (algorithms, know-how, etc.) is greater than before and consequently provides stronger protection against potential breaches of Trade Secrets.

FacePhi's software programs (algorithms) constitute one of its most important business assets and for this reason the Group has devoted a significant effort to compliance with the international conditions that ensure protection of trade secrets.

Registered trademarks: The Group currently owns the property rights of the following registered trademarks that constitute assets:

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 Biometría is the owner of the registered trademarks and has obtained the following European Trademark certificates:

- MUE 017896710 LookΦ
- MUE 017948110 inPhinite;

- MUE 017948113 4Phingers;
- MUE 017948116 Phivox;
- MUE 017948119 SignPhi;
- MUE 017948878 SelphID.

Risks derived from loss of key personnel
Since FacePhi is a young company with strong links to its founders and directors, highlighting the risk derived from a potential resignation or dismissal of one or the other from the Group's management is inevitable. Although the aforesaid risk is not expected to materialise for voluntary reasons insofar as said directors are still the main shareholders, other causes that could entail loss of their services cannot be entirely excluded. Furthermore, the death or resignation of key personnel could negatively affect the Group's business, its results, prospects or financial, economic and equity situation.

Risks linked to the price of shares
Variation in the share price. Since it was first listed for trading, FacePhi's share price has been a highly volatile security due to the nature of the Group. FacePhi is a very small cap company. With a market capitalisation of around 73 million euros at the end of 2020, at the date of issue of this report FacePhi's capitalisation is low even compared to the other companies listed on BME Growth and in view of its current size.

Social acceptance risk
Due to the fact that the technology sector is subject to constant changes, there could be a change in consumer preferences or market tendencies that could negatively affect the use of facial biometrics in favour of other biometrics or security systems.

Theft or hacking of essential information and technology code
There is always a risk of potential hacking attacks in spite of being equipped with secure internal protection. If essential information were leaked or internal data and the algorithms used in the Group's technology were disclosed there would be a risk that another company could plagiarize the source code and market the same as its own product.

Recurring revenues
The Group's revenue type is divided between the sale of licenses – which can be recurring or perpetual – and other related income such as support, maintenance, certification, consulting, updating or bespoke developments. Recurring license sales currently represent more than 50% of the Group's revenue. The future success of the Group depends on customers' renewal of recurring licenses, the sale of new licenses or products to existing customers or existing products to new customers, increase in the sale of recurring licenses or the development of new products.

Analysis of the variation, business outcomes and the Group's position
Grupo FacePhi is a world leader in the application of biometric facial recognition technology with a major market share in the banking sector. It achieved a turnover of 7,266,240 euros from the sale of licences in 2020 and its shares are currently traded under the dual listing system on the Euronext Growth market in Paris and on BME Growth in Spain at the same time.
Turnover has grown steadily although it dipped slightly in the 2020 financial year. Latin America continues to be the Group's main market.
Net turnover can also be analysed by *services* line as follows:

Line	**2020**
Provision of services	100.00
	100.00

The Group generated significant pre-tax losses amounting to 1,884,607 euros during the 2020 financial year. These losses were mainly due to the financial risks deriving from the issue of our own equity instruments to address the company's financing needs and to the adverse financial outcome of variations in the exchange rates on the currency markets, especially the US dollar.

Moreover, the Group was not able to meet its expectations with respect to the turnover forecast in its 2020 business plan since all commercial activities have been affected and our customers' investment plans have been shelved as a consequence of the crisis derived from the COVID-19 pandemic.
As of 31 December 2020, consolidated EBITDA stood at 858,741 euros and net equity rose to 7,017,023 euros, having been considerably strengthened by the impact of the capital increases and issuance of equity warrants.

Total bank debt (short and long-term) as of 31 December 2020 amounts to 7,038,149 euros, which represents a year-on-year increase of 129% compared to the position at the end of 2019 due to the syndicated loan with three differentiated tranches.
NET bank debt (NFD) decreased by 80% as a consequence of the increase in the cash and cash equivalents.

Euros	**2020**
Debts with credit institutions	**7,038,149 €**
Cash and short-term financial investment	€6,496,948€
Net debt	**€ 541,201**

The interest coverage ratio in 2020 is 5.58 times.

Ratio	**2020**
Interest coverage (EBITDA/Financial expenses)	6.64

The net financial debt (NFD) / EBITDA ratio for 2020 is 0.63 times

Ratio	**2020**
NFD / EBITDA	0.63

The Group's liquidity position is very healthy. At the end of the 2020 financial year the Group's treasury stood at 5,977,318 euros, an optimal available cash level, up from 386,681.7 euros on the same date in 2019.

Euros	**2020**
Cash and cash equivalents	€5,979,705

Working capital
As at 31 December 2020 the Group has a positive working capital fund 8,264,813 euros.

EUROS	2020
Working Capital	8,264,813€

The Group's directors and main shareholders have shown their commitment to supporting it by carrying out a series of capital increases in recent years. The updated business plan has the solid support of the directors and main shareholders.

Regulatory compliance-related information
Pursuant to the Corporate Responsibility Policy of FacePhi Biometría S.A., the Governing Body is fully committed to excellence in service, creation of wealth, responsible management of the environment, concern for people, health and safety, social responsibility, personal integrity and transparency.

Supervision of the company's performance in this area ultimately rests with the Board of Directors as set forth in the recommendations of the Code of Ethics and the Board Regulations. The Board is responsible for approving FacePhi's Corporate Responsibility Policy and for reviewing the information on implementation and general monitoring of the same at least once a year.

The Board of Directors is also in charge of leading the effective integration of corporate responsibility into the company's overall strategy and in its day-to-day management in order to achieve a strong corporate responsibility culture. Implementation of the Criminal Risk Prevention Plan is the result of the Board of Directors' commitment to driving proper implementation and monitoring of the commitments assumed.

Information on compliance with criminal law: The FacePhi Criminal Risk Prevention Plan. The underlying aim of this *Compliance System* is to drive the implementation of a culture of compliance in the minds and actions of all FacePhi's employees. FacePhi's *Compliance System* is divided into three levels of action: Foresee, Detect and Respond.

R&D+i-related information
The research and development expenses capitalised at the end of the 2020 financial year are associated with the following projects and milestones:

- The Group continues with its investment policy and improvement in its current facial biometric applications. The capitalised expenses during the fiscal year ended 31 December 2020 and 2019 correspond to the following milestones:

	Euros
Description: Project 2020	**Amount**
Improvements Software Development Kit (SDK) FACEPHI	1,110,451
Total	**1,110,451**

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

The developments capitalised as of 31 December 2020 and 2019 mainly consisted of security improvements against fraud, interactive guides for the user when recording and tools for integration of technology in multiplatform applications. After conducting tests and trials the Group considers that the developments are operative and have been brought to a successful conclusion and will be placed on the market in 2021.

The Group's directors consider that the capitalised research and development expenses comply with all the conditions set forth in the applicable regulations to be recognised as assets.

Personnel-related information
FacePhi incorporates **Corporate social responsibility** as a component of its identity as a group that devotes part of its time to activities aimed at making society a better place with the launch of its **social commitment plan**.

The average number of employees in the course of the year distributed by categories is as follows:

	2020
Senior management	2
Scientific and intellectual and support technicians and professionals	44
Clerical workers	7
Sales force	4
Total average employment	57

These employees were distributed by gender as follows at year's end:

	2020		
	Mer	Women	Total
Executive directors	2	---	2
Scientific and intellectual and support technicians and professionals	30	14	44
Clerical workers	2	5	7
Sales force	3	1	4
Total staff at the end of the year	**37**	**20**	**57**

As of 31 December 2020 the Group employs 1 person with a disability equal to or greater than 33% (an average of 2 throughout the year).

Environment-related information

The Group does not hold significant assets in property, plant and equipment intended to minimise environmental impact and protect the environment, nor has it incurred in significant expenses during the year for the purpose of protecting and improving the environment. Expenses derived from business actions aimed at protecting and improving the environment are accounted for as an expense for the year in which they are incurred. When said expenses involve additions to property, plant and equipment the purpose of which is to minimise our environmental impact and protect and improve the environment, they are recorded as an increase in fixed assets. To date there are no known contingencies related to protection and improvement of the environment or its potential impact on the outcomes and/or financial position of the Group. No subsidies of an environmental nature have been received.

Average payment period to suppliers and the measures to be applied in the next financial year to reduce it to the legal maximum stipulated the regulations to combat late payment.

In compliance with the provisions of the Resolution dated 29 January 2016 of the Spanish Accounting and Auditing Institute (ICAC), the following is the information on the average period of payment to suppliers in trade transactions:

Item	2020	2019
	Days	Days
Average period of payment to suppliers	21	105
Ratio of paid-up transactions	21	129
Ratio of operations pending payment	21	64
	Euros	
Total payments made	7,013,762	2,379,851
Total pending payments	767,583	1,398,641

The Group complies with the Resolution dated 29 January 2016 of the Accounting and Auditing Institute. As of 31 December 2020 the Group achieved an average payment period to trade suppliers of 21 days, down from 105 days in 2019. For these exclusive purposes, the Trade Creditors account encompasses the items of suppliers and sundry creditors for debts with suppliers of goods or services included within the scope of regulation of legal payment periods. The head of Net Purchases and Expenses for External Services encompasses the amounts accounted for as such in accordance with the Spanish General Accounting Plan (PGC).

Subsequent events

Except for the following milestones, there were no important events for the Group that occurred after the close of the financial year.

-**Important Investment Agreement**: On 25 January 2021 the Extraordinary General Meeting adopted a resolution to issue equity warrants (EW) convertible to shares of the Group for a maximum conversion sum of 20,000,000 euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. The pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green.

- FacePhi reaches trade agreements with Mibanco, ITSS, Inviu, Pinetree and DGB Daegu Bank

-FacePhi, National SME of the Year Award 2020 FacePhi won this prize awarded by Banco Santander and the Chamber of Commerce of Spain, one of the most prestigious in the business world and which recognises our work in the development of cutting-edge technology Made in Spain.

Predictable progress of the Group

The Group's forecast stresses consolidation in existing markets and expansion into the banking sector in new countries, continents (America and Asia) and customers (not only the banking sector). The business plan forecasts growth in turnover and wider profit margins in the coming months and years.

Parent Company's treasury stock: The reasons for acquisition and disposal during the financial year

The total amount of treasury stock held at 31 December 2020 is 341,760 euros (240,354 euros at 31 December 2019) represented by 60,129 shares (125,998 shares at the end of the previous financial year), the equivalent of 0.42% of the Group's share capital (0.95% in 2019). This is below the maximum limit of 10% provided for in article 509 of the Corporate Enterprises Act.

I, Juan Alfonso Ortiz Company, acting as secretary of the Board of Directors hereby certify that this present document is a true translation of the original document issued in Spanish.

FacePhi
Beyond Biometrics
FACEPHI BIOMETRIA S.A.
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FacePhi

Beyond Biometrics

Annual Report 2020

A Year of Change

FacePhi
Beyond Biometrics

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FacePhi
Beyond Biometrics

01

Management Report

FacePhi
Beyond Biometrics

CEO's Note

Javier Mira

2020 has been a challenge for all of us. Despite this, FacePhi has not really stopped working to keep growing, betting on innovative technology like ours and brining it to any company that seeks digitization.

During the past year, we managed to increase the number of clients by almost 70% compared to 2019, and this was thanks to our great adaptability, always striving to gain the client's trust even without being able to reach them in person due to to the pandemic.

It has also been a year in which we have been able to consolidate our headquarters in South Korea, where we have been present since 2019. Thanks to our exclusive team in this region, we have been able to sign new contracts and enter the health sector with Kangbuk Samsung Hospital.

On the other hand, I would like to highlight the new investment agreement that we have signed with Nice & Green, which will provide us with the necessary liquidity to continue growing and become a large company. The great increase in the number of clients and the projection we have for the next few years has led us to double our workforce, obtaining the necessary talent to support us in this great growth.

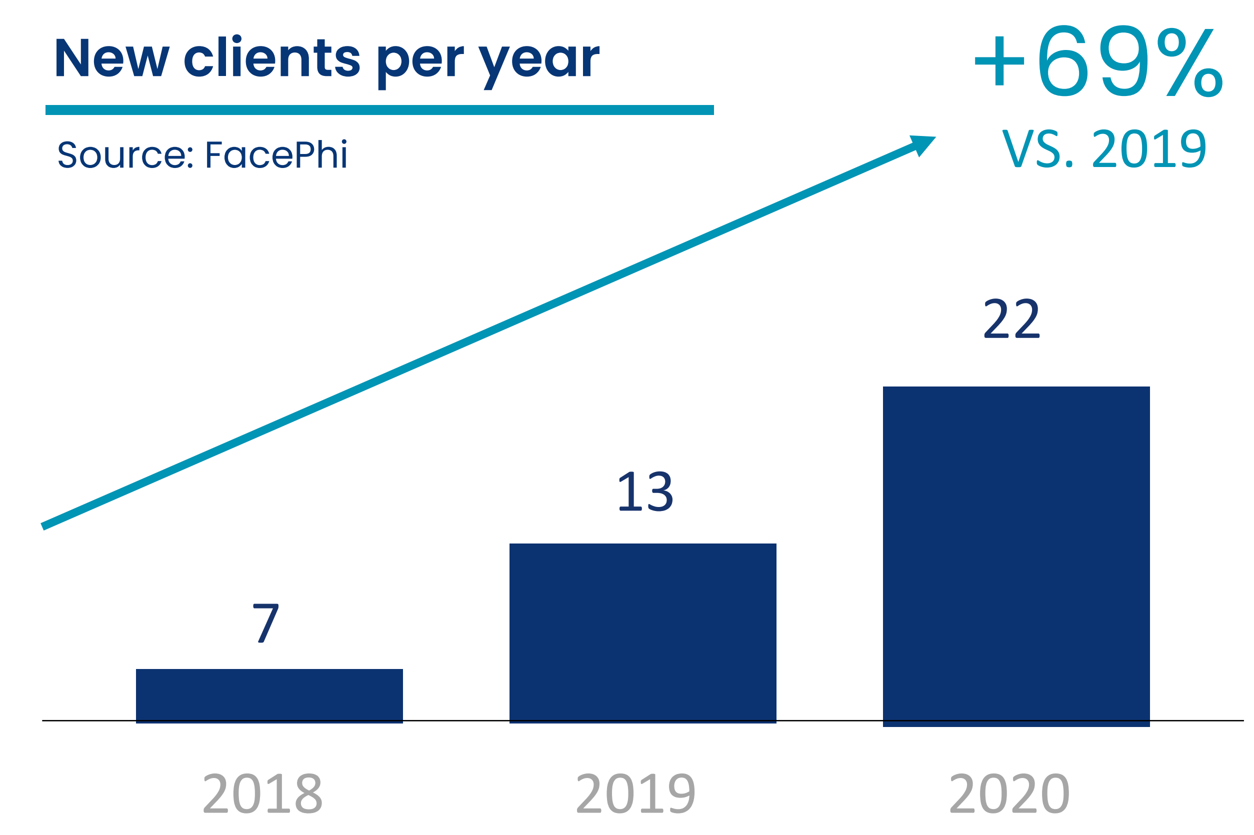
To keep growing, in 2020 we have initiated a change in our marketing model, through which we seek to strengthen our network of partners that, together with direct sales through our sales team, will lead us to cover new regions and sectors of a much faster way. An example of this is the alliance we signed with everis, with which we hope to strengthen our position in Latin America and Europe.

After closing a year in which we have been awarded as National SME of the Year, we are convinced that our solid business plan will lead us to continue achieving our objectives, making our technology present in more and more companies from different sectors and regions.

Business Milestones

Highlights 2020

2020 has been a period of evolution and progress as a company on FacePhi. Despite not being able to carry out the development of business opportunities in person, as usual, we have increased the number of contracts by 69%.



2020

- JAN: Ecertic acquisition
- FEB: IPO at Euronext Growth in Paris
- MAR: Asian market initiation
- MAR: Health sector initiation
- SEP: Introduction of the first 100% digital onboarding in Korea
- SEP: Great alliances with partners
- DEC: 20M€ Nice&Green Investment

The company has grown inorganically with the acquisition of Ecertic, has consolidated the Korean market from the new subsidiary with the signing of several contracts and has initiated the new health sector.

In addition, there has been a substantial change in the structure of the company and it has made progress at product and marketing model level.

Business Milestones

Highlights 2020

JAN

ecertic

ECERTIC ACQUISITION

The acquisition of the company Ecertic by FacePhi has been a significant **improvement** of our **digital onboarding** technology.

FEB

EURONEXT GROWTH

IPO AT EURONEXT GROWTH IN PARIS

The IPO to the French Euronext is carried out to **increase visibility** in the European market, attract new institutional investors and gain transparency.

MAR

ASIAN MARKET INITIATION

The opening of the new subsidiary in South Korea in 2019 marked the beginning of the expansion in the Asian market.
Having a **team exclusively dedicated** to this region has led to the **signing** of different **contracts** during 2020.

MAR

HEALTH SECTOR INITIATION

As a result of the health crisis produced by Covid-19, the health sector has gained greater relevance than ever. As proof of the **great adaptability** of FacePhi solutions, the entry into the health sector has been possible.

Business Milestones

Highlights 2020

SEP

INTRODUCTION OF THE FIRST 100% DIGITAL ONBOARDING IN KOREA

The FacePhi entry in the banking sector Korea was an **unprecedented progress**, by participating in its **regulatory sandbox** and changing the country's regulation, which until now required that the opening of new accounts be done in person or by videoconference.

DEC

20M€ NICE&GREEN INVESTMENT

This injection of liquidity allows FacePhi to continue with its ambitious **business plan**, based on geographic and sector expansion, since it allows to continue investing in both **product development** and at the **structural level**.

DEC

MAJOR ALLIANCES LIAISON

Within our change of model in marketing sales to partners, one of the most relevant contracts that we have signed, and that allows us to broaden to new sectors and geographies, is the contract with everis, with whom we have signed agreements for Latam and USA.

Business Milestones

Social Impact of the Technology

In these times that present a great challenge for society, more than ever we believe in the positive impact that the FacePhi technology has in different areas.

Active participation in the digitization of contactless customer identification processes has been achieved, making them much more efficient and convenient and safe, both for the end user and for entities which we work with.

Supervielle

We support society to protect the health and well-being of the most vulnerable people.

Thanks to FacePhi and its digital onboarding technology, retired Supervielle clients who previously had to go to the branch to give "proof of life" and obtain their pension, can now collect it from the comfort and safety of their homes.

Kangbuk Samsung Hospital

We support the health sector when it needs it most by adapting solutions to their needs.

- We eliminate the need of the use of a health card.
- We eliminate the need of entering registration numbers in the terminals.

Thanks to facial recognition we reduce the risk of contagion in this South Korean hospital.

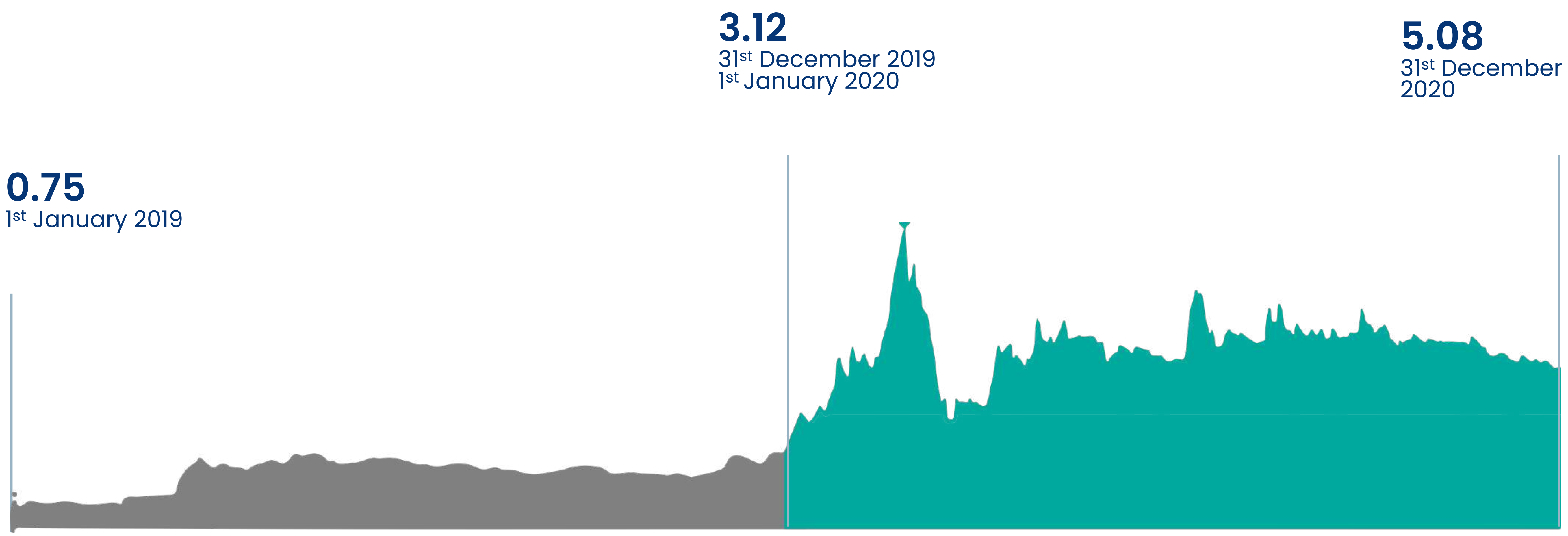
Tu Sueldo Ya!

We help Peruvian workers who want to request an advance on their payroll.

Thanks to the FacePhi digital onboarding technology, it is possible to request it through their mobile device in a safe, easy and fast way.

Share performance

Share Performance



2019 (1 Jan- 31 Dec)

Source: BME Growth

2020 (1 Jan - 31 Dec)

Number of shares: 13,277,083*
* Until December 2019

Number of shares: 14,428,519*
* Until December 2020

Dual listing

Share Revaluation 2020

2020
FACEPHI
62.82%

VS.

2020
BME GROWTH*
39.65%

*BME Index Growth All Shares

Increase in capitalization

77%
FACEPHI
VS
49% BME GROWTH*

*BME Index Growth All Shares

02

Business Evolution

FacePhi
Beyond Biometrics

Business Evolution

Technology Application Sectors

Current sectors

BANKING SECTOR
Mobile and online banking, ATMs, pension collection ...

HEALTH SECTOR
Appointments Management, medical tests requests.

INSURANCE SECTOR
Contracting services.

Sectors in development

PUBLIC ADMINISTRATION SECTOR

GAMBLING SECTOR

TELECOMMUNICATIONS SECTOR

TRAVEL AND TRANSPORTATION SECTOR

AERONAUTICAL SECTOR

FacePhi
Beyond Biometrics

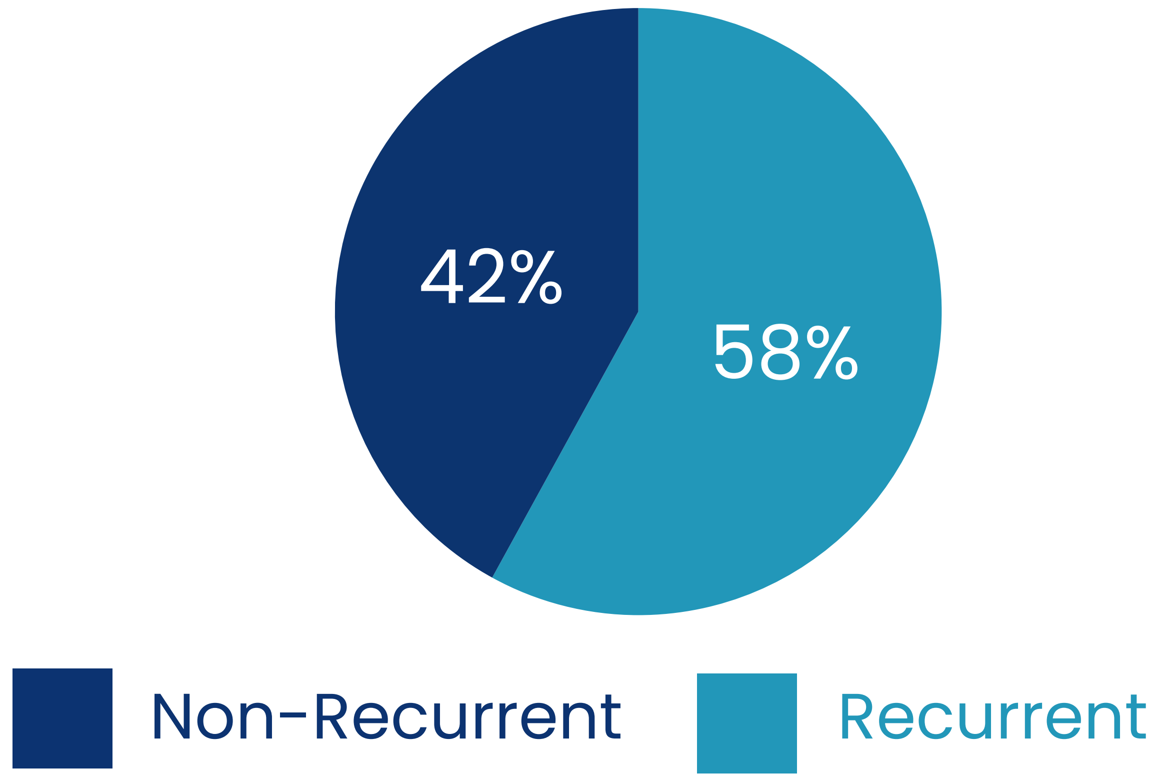
Business Evolution

Business Model

The company's business model is based on obtaining income through three pillars: **technology licensing**, **support and maintenance** thereof and other additional services, such as consulting.

LICENSING

Technology licensing can be by **users** (digital onboarding) or by **uses** (authentication), depending on the acquired product. The FacePhi client generally buys a **prepaid package of licenses** and, after using them, (s)he purchases a new package. Depending on the preferences and needs of the client, (s)he can purchase a large package of licenses to use them over a longer period of time or a smaller package, which will mean that in the short term (s)he will have to reacquire new licenses. There are perpetual licenses, where the client buys a package of uses or users that can be used in perpetuity or unlimited licenses in uses or users, this type involving of higher cost than the usual purchase of annual packages.



Occasional licenses
Perpetual licenses
Certifications
Consulting

Annual licenses
Monthly licenses
Cloud
Support

SUPPORT AND MAINTENANCE

Support and maintenance assures us that all our clients receive it 24 hours a day, 7 days a week, with exclusively dedicated staff covering all regions.

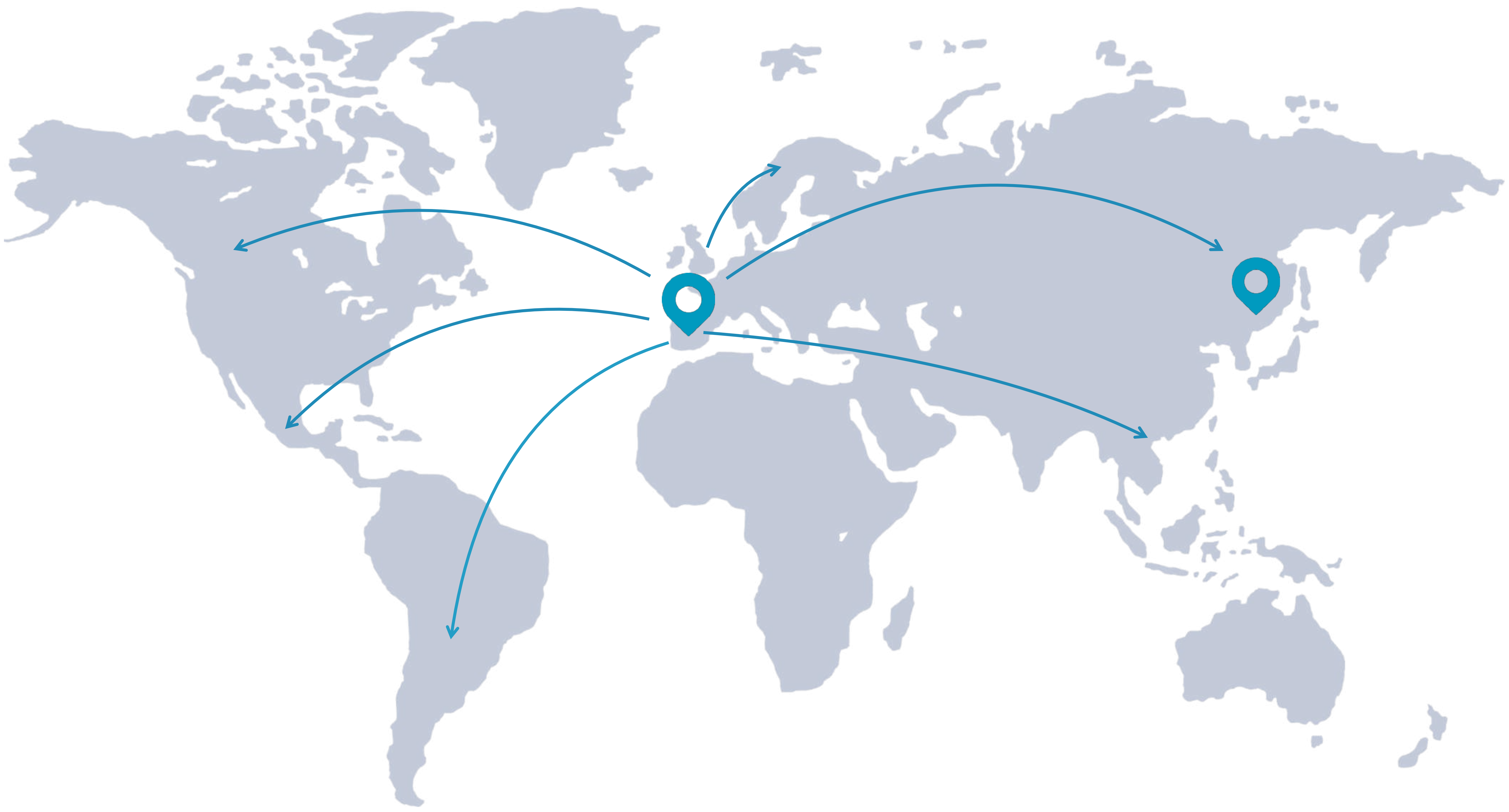
OTHER SERVICES

In addition to licensing and technology support and maintenance, FacePhi can also earn income from **consulting** with clients. In this sense, the company accompanies the client from beginning to end in the implementation.

Business Evolution

New Commercialization Model: Partners

IT Solutions Services
HANCOM
HANCOM WITH
NEORIS
everis
an NTT DATA Company
ENTRUST
UNISYS
Bantotal
ecix GROUP



Due to the evolution of the company, a **change** has been made in the **commercialization model**, looking for the sale through partners to gain more relevance. The company's objective is to find qualified partners who carry out commercial actions and also help us in the integration and start-up of projects.

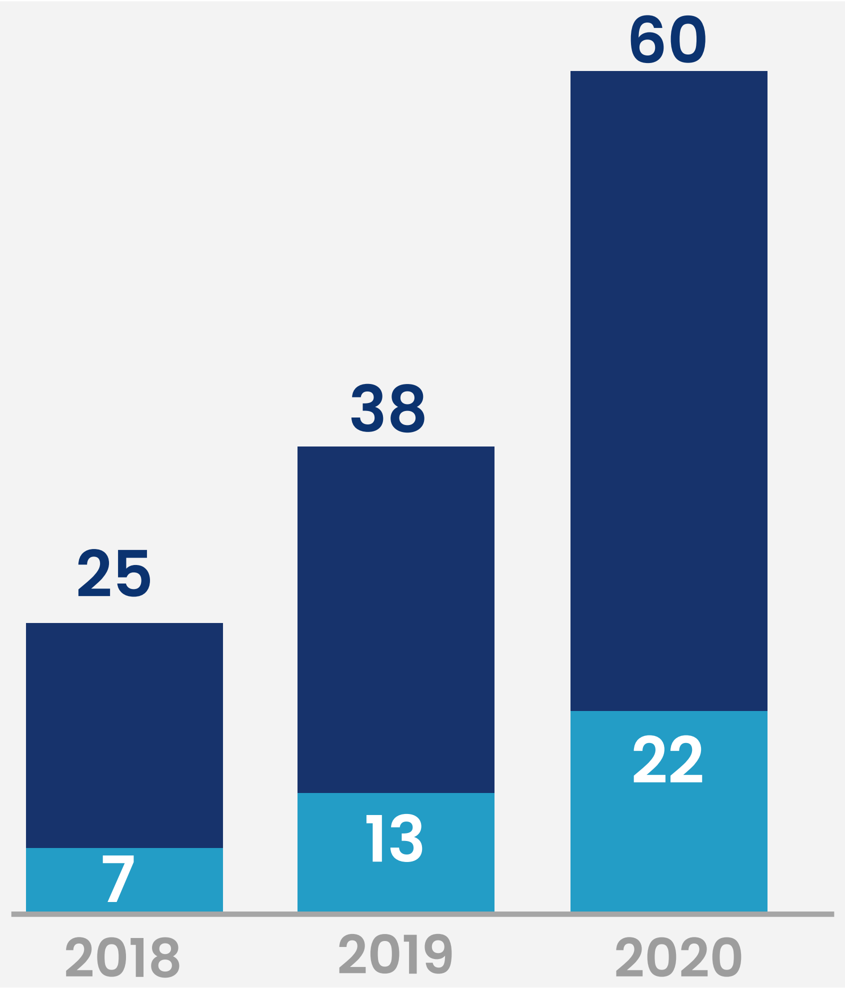
The new marketing model will allow the company to expand its ability to reach the market and **enter new sectors and regions easier and faster.**

In this sense, FacePhi has signed alliances with everis, reinforcing our presence in the Argentina, Brazil, Colombia, Chile, Mexico and Peru markets, and facilitating the entry to the US market, thanks to the 10,000 professionals from **everis**. In turn, the company has also signed an agreement with **ITSS**, a Swiss firm specialized in the integration of banking software, which will facilitate the expansion of biometric solutions and digital onboarding systems throughout the world thanks to its network of more than 220 banks.

Business Evolution

Business Metrics

+39M
of users

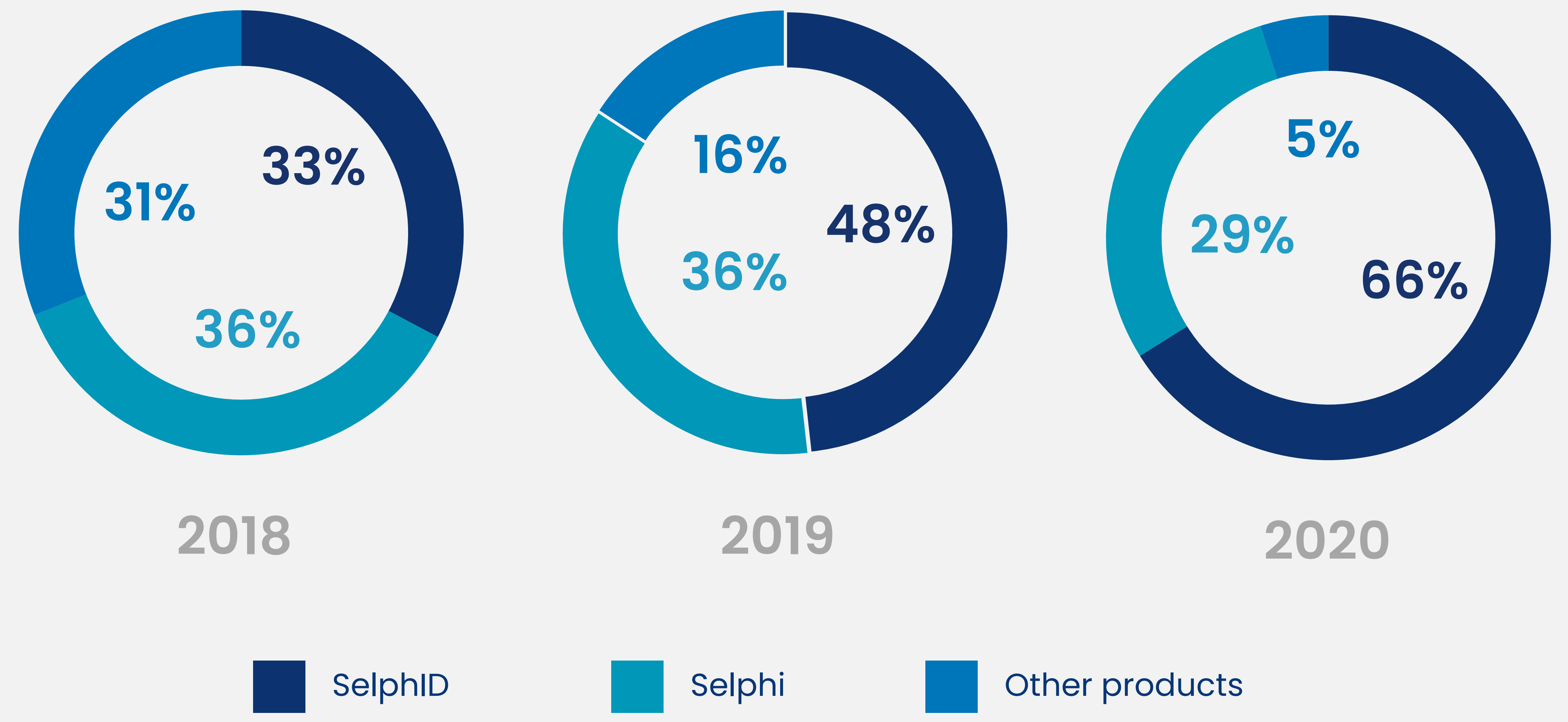


Number of Clients Evolution

The graph represents the number of clients since 2018. During 2020, the company has managed to close 22 clients, which has led us to gather 60.

New Clients
Cumulative clients

Source: FacePhi



Source: FacePhi

Turnover Record as per Products

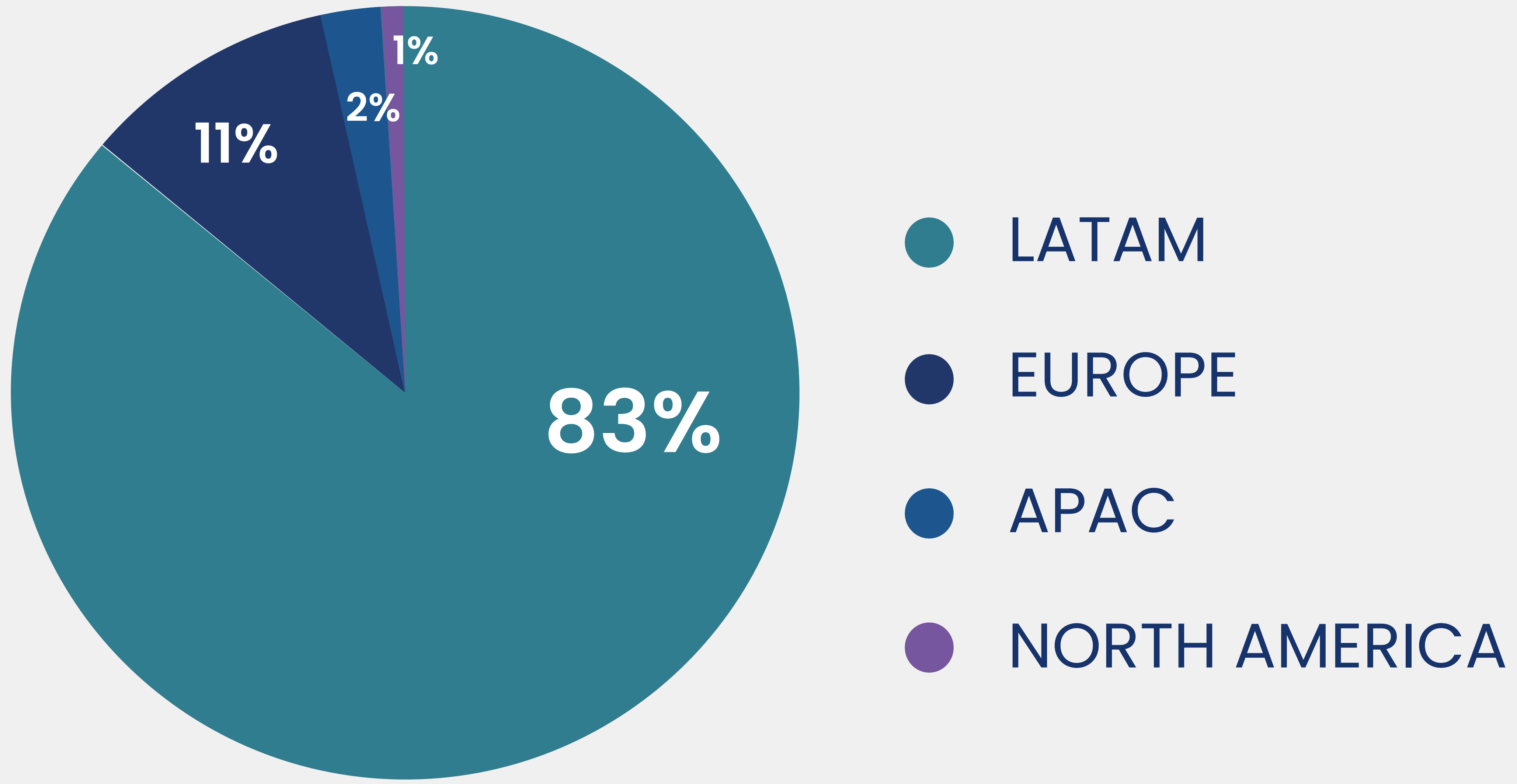
The growing popularity of digital onboarding is reflected in the increase in demand for SelphID, which has followed a growing trend in recent years, reaching up to 66% of the total invoiced in 2020.

FacePhi
Beyond Biometrics

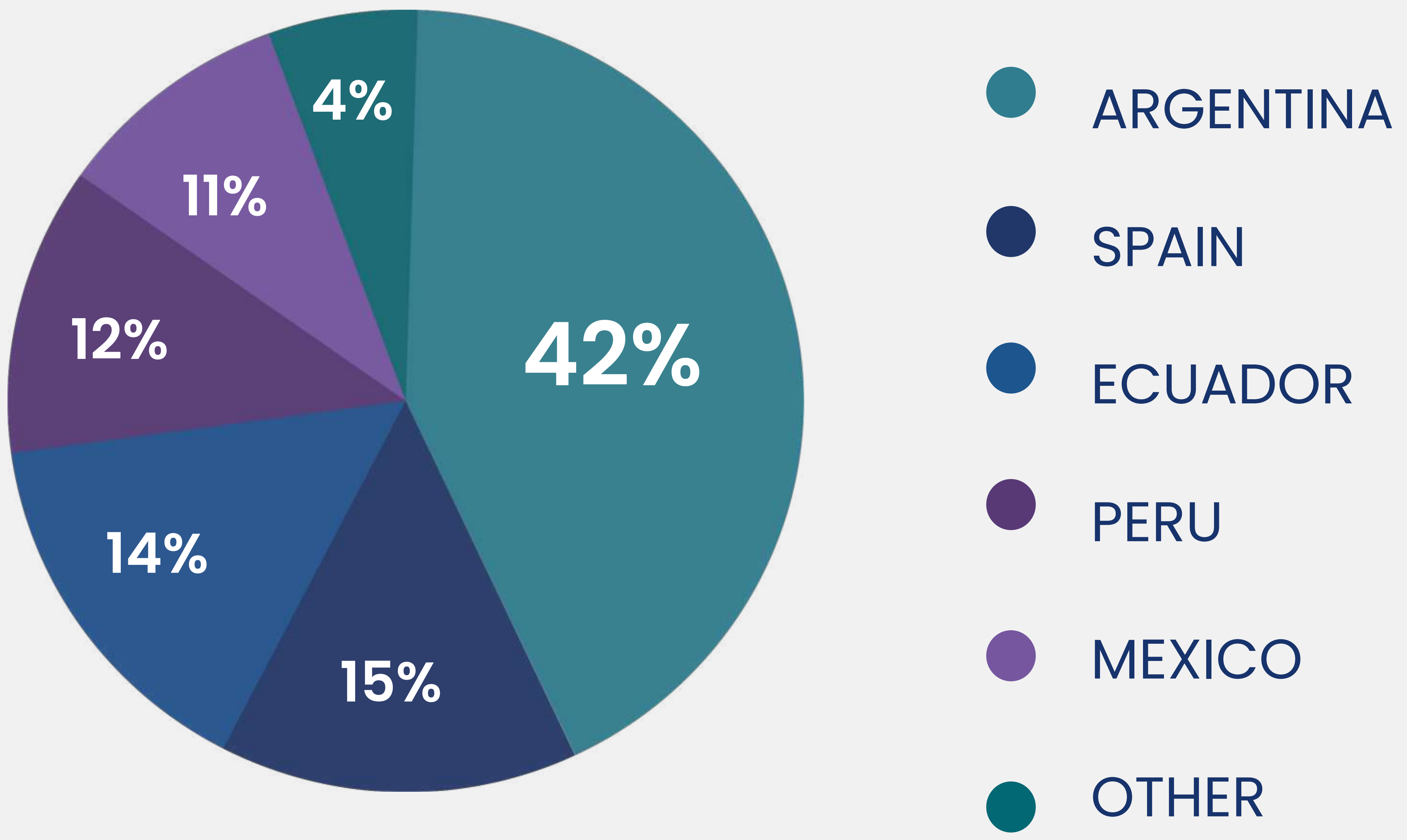
Business Evolution

Clients by Geographic Area

Revenue by Geographic Area



5 Top Countries by revenue



Business Evolution

International Standards

Our goal is to offer our clients the **maximum security guarantees**, guaranteeing the confidentiality, integrity and availability of information assets while minimizing information security risks.

To do this, one of the main steps is to obtain certifications in international standards, thus being at the forefront of the sector and becoming one of our differential points.

BUSINESS

ISO 27001
Information security

ISO 31000
Risk management *(compliant)*

FacePhi is registered in the Spanish Catalog of Business Solutions and Cybersecurity Solutions of INCIBE.

TECHNIQUES

ISO 30107
Presentation Attack Detection

This certification ensures compliance with the FIDO standards and improves security and process privacy authentication.

Business Evolution

Corporate Culture

Senior Management has adopted a set of procedures and **good practices** to identify and classify operational and legal risks (Corporate Compliance).

Likewise, we have formalized our adherence to the Global Compact or **the United Nations Global Compact** (UN Global Compact) with the aim of transforming the global market, promoting a sustainable and responsible private sector based on 10 principles in areas related to human rights, work, the environment and corruption.

03

Financial Information

FacePhi
Beyond Biometrics

Financial Information

Key Data

Net Income

€7,266,240

EBITDA Margin

11.82%

EBITDA

€858,741

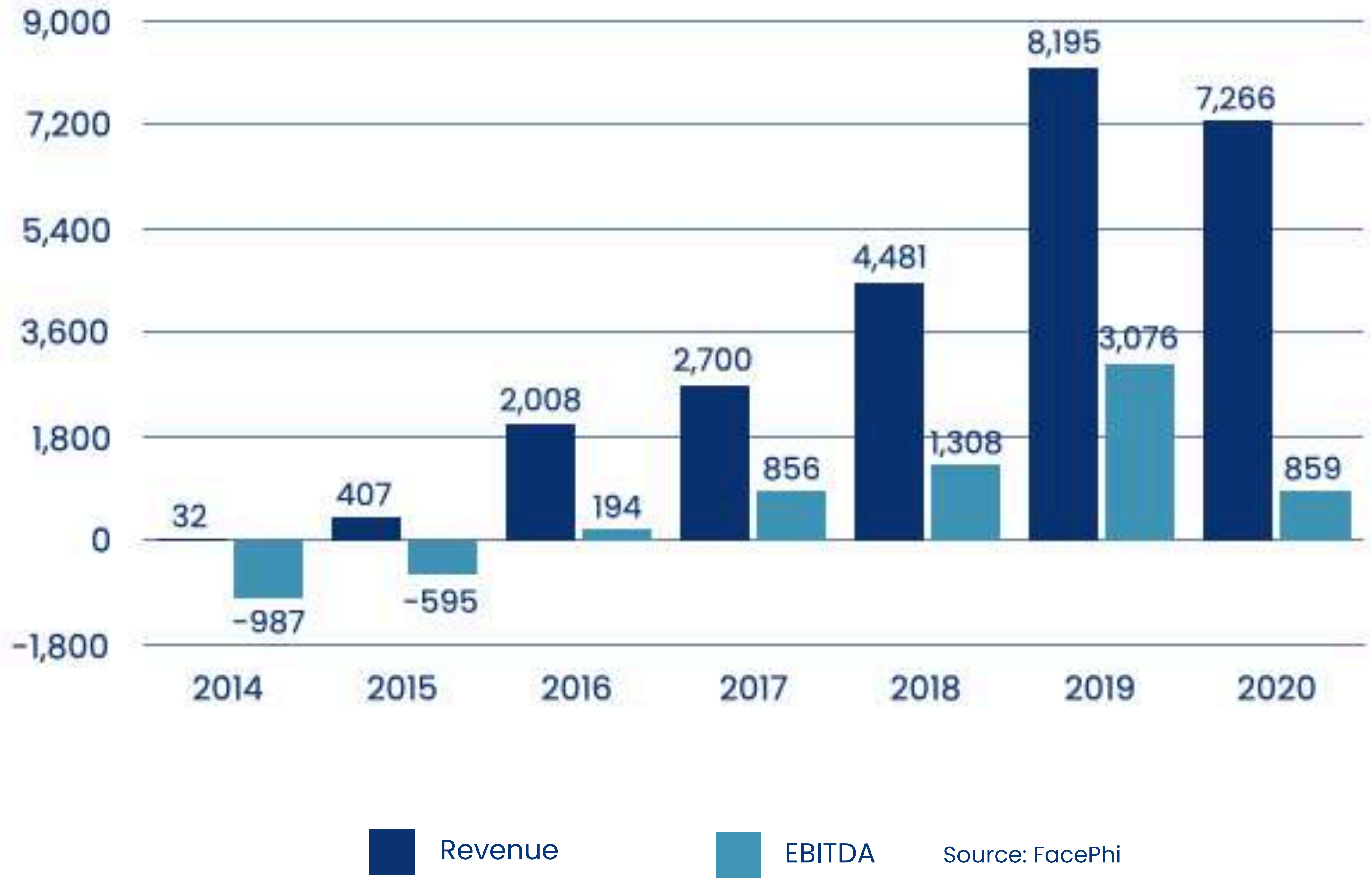
Source: FacePhi – Audited Consolidated Annual Accounts

Financial Information

Revenue & EBITDA (000)

The pandemic has pushed many companies to accelerate their digitization process at a time when the contactless trend to reduce physical interaction is increasing. This increase in demand has been reflected in the increase in new customers who acquired our technology, which grew by 69% during 2020.

Despite this growth in the number of contracts, our revenue has been reduced compared to the previous year, due to the fact that the companies have seen their budgetary items reduced. In general, they acquired license packages in a more conservative way, and as they use up the licenses purchased, they will need new packages, so purchases of uses are expected to grow in the coming years.



Source: FacePhi

Financial Information

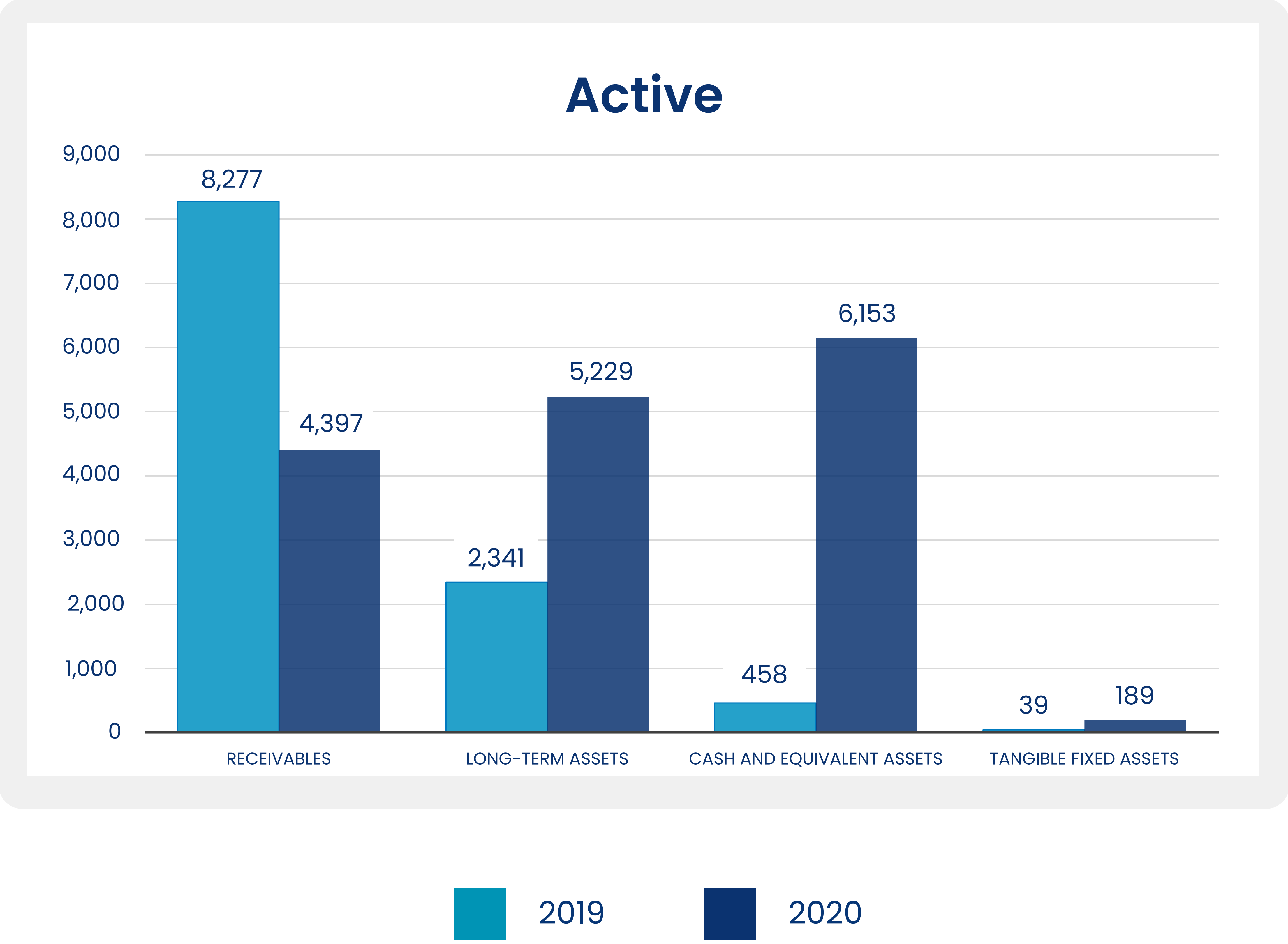
Audited Balance Sheet (000)

	2020 CONSOLIDATED	2019 INDIVIDUAL	VAR. %
NON-CURRENT ASSETS	€ 4,901	€ 2,375	106%
NON-CURRENT ASSETS/TOTAL ASSETS	31%	21%	44%
CURRENT ASSETS	€ 11,067	€ 8,740	27%
CURRENT ASSETS/TOTAL ASSETS	69%	79%	-12%
TOTAL ASSETS	**€ 15,969**	**€ 11,115**	**44%**
NET EQUITY	€ 7,017	€ 4,382	60%
NET EQUITY/TOTAL LIABILITIES + NET EQUITY	44%	39%	10%
NON-CURRENT LIABILITIES	€ 6,149	€ 534	1,052%
NON-CURRENT LIABILITIES/TOTAL LIABILITIES + NET EQUITY	38%	5%	702%
CURRENT LIABILITIES	€ 2,802	€ 6,199	-55%
CURRENT LIABILITIES/TOTAL LIABILITIES + NET EQUITY	18%	56%	-69%
TOTAL NET EQUITY + LIABILITIES	**€ 15,969**	**€ 11,115**	**44%**

FacePhi
Beyond Biometrics

Financial Information

Balance Sheet (000)

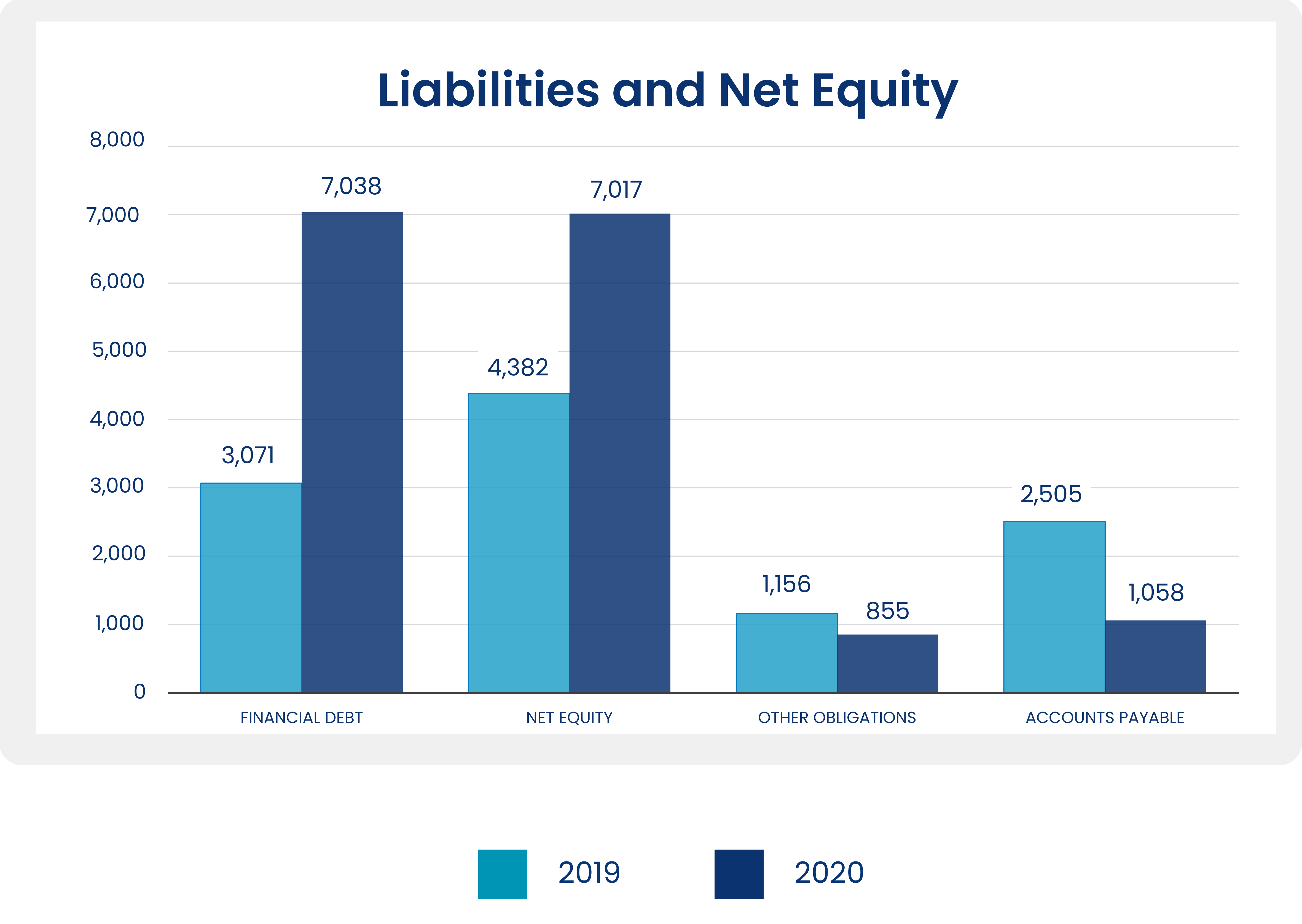


Assets increased due to:

- The **improvement in the average customer collection period**, reducing trade receivables by almost 50%.
- The **increase in tangible fixed assets** due to the acquisition of equipment and infrastructure to accommodate the incorporation of new staff.
- **Investment in R&D** to improve and develop our products and software applications.
- The acquisition of Ecertic, which has allowed us to enrich our technology (intangible fixed assets).
- The **increase in cash and cash equivalents**, which has been reinforced by the €3.5M investment of Nice & Green, improving the financial health of the company and contributing to cash reaching €5.9M and working capital €8.26m.

Financial Information

Balance Sheet (000)



On the **liabilities** side:

Non-current, i.e. long-term debt, has increased due to the granting of a syndicated loan with which the company's **debt has been restructured**. Thanks to this and to the payment to suppliers, current liabilities have been reduced, thus shifting a large part of them from short to long term.

Net Worth increases by 60% mainly as a result of the **Nice & Green investment**, thus improving the company's debt ratio.

Financial Information

Profit and Loss (000)

PROFIT AND LOSS (000)	2020 CONSOLIDATED	2019 INDIVIDUAL	Var. %
Total REVENUE	**8,377 €**	**8,790 €**	**-4.7%**
Net Revenue	7,266 €	8,195 €	-11.3%
Tasks performed by the company for assets	1,110 €	595 €	86.6%
Total EXPENSES	**-7,518 €**	**-5,714 €**	**31.6%**
Procurements	-1,404 €	-1,096 €	28.1%
Personnel expenses	-3.186 €	-1,945 €	63.8%
Other operating expenses	-3.040 €	-2,757 €	10.3%
Other results	113 €	84 €	34.2%
EBITDA	**859 €**	**3,076 €**	**-72.1%**
Depreciation of Fixed Assets	-840 €	-458 €	83.3%
Losses, impairment and variation in provisions	-384 €	-688 €	-44.2%
EBIT	**-365 €**	**1,930 €**	**-118.9%**
Financial income	173 €	0.4 €	43150%
Financial expenses	-129 €	-124 €	4.0%
Variation in fair value of financial instruments	-944 €	0 €	-
Exchange rate differences	-454 €	-88 €	415.9%
Impairment losses and income from disposal of financial instruments	-283 €	0 €	-
FINANCIAL RESULT	**-1,637 €**	**-212 €**	**673.6%**
Profit before tax	-2,002 €	1,718 €	-216.5%
Income tax	147 €	-430 €	134.2%
CONSOLIDATED INCOME FOR THE PERIOD	**-1,855 €**	**1,288 €**	**-244.0%**

Source: FacePhi

The net revenue has been reduced by 11.33%. This is due to the fact that, in general, customers purchased licence packages more conservatively during 2020. As they use the licenses purchased, they will need new packages, so consumption is expected to increase in the coming periods.

FacePhi's activities have increased by almost 90% for the continuous improvement of its solutions and the development of new technologies.

In terms of expenses, these have grown due to the increase in personnel, which has doubled in the last year to support the organic growth of the company. There has been an increase in the acquisition of technology from strategic suppliers as a result of the alliances entered into. Also included are the costs related to the IPO on Euronext Growth in Paris, the capital increases carried out, the Smart fund study and opening fee and the extension and refurbishment of the current office.

Lastly, amortisations increased largely due to intangible assets such as software, which grew 152%, spurred by the acquisition of Ecertic.

FacePhi
Beyond Biometrics

Financial Information

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Source: FacePhi

The audited accounts for the financial year 2020 contain two necessary accounting entries that represent a decrease of €1.4m in the financial result for the year and **do not involve cash outflows**. These are:

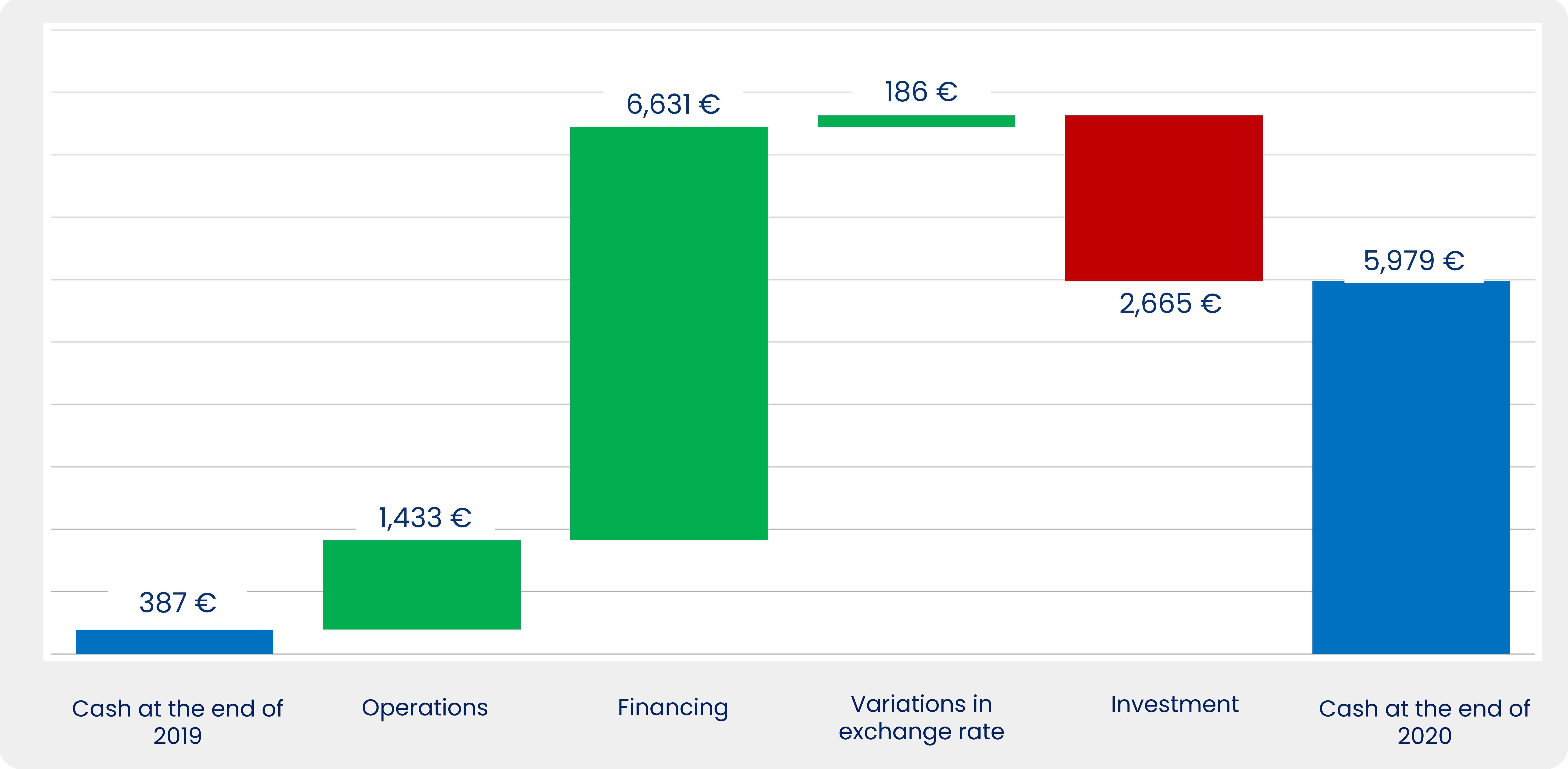
- **Related to the issue of Equity Warrants:** it is necessary to consider the impact on equity of issuing shares at an 8% discount to the share price. 943,978 is the difference between the exercise price of the conversion of the Equity Warrants and the share price at market price at the date of conversion. Due to the aforementioned accounting entry, this difference has an impact on the financial result for the year.
- **Depreciation related to the euro-dollar exchange rate**: due to the fact that the dollar is the currency in which FacePhi mainly invoices, the difference of € 454,077 due to exchange rate variations must be included.

FacePhi Beyond Biometrics

Financial Information

Cash Flow

During the 2020 financial year, FacePhi has been able to generate a cash flow of €5.6m, which means that it has **increased the company's liquidity** by 1,446%.



Financial Information

Financial Debt (000)

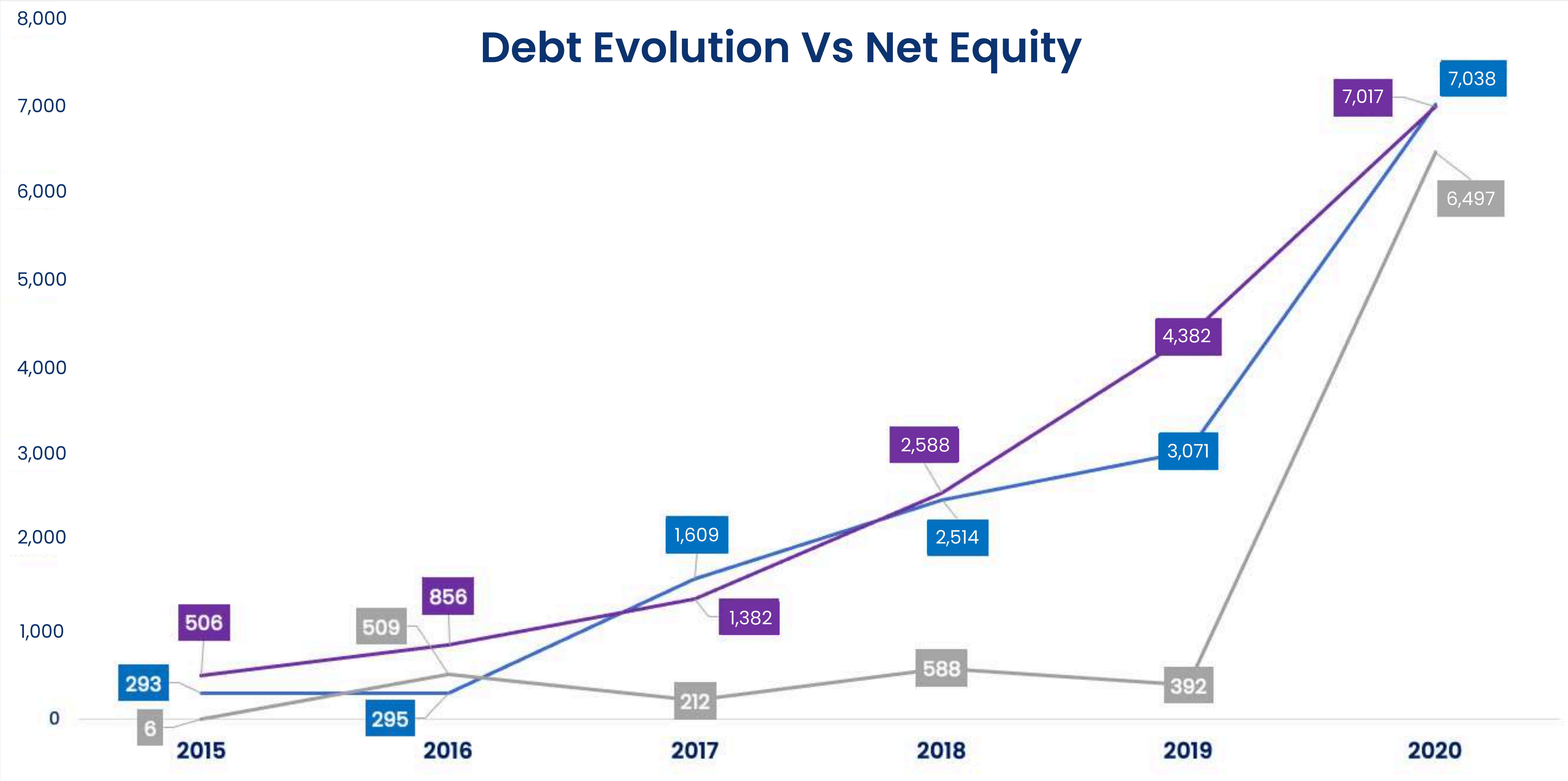
The Net Financial Debt relative to the EBITDA went down from 0.87 to 0.63, due to an **increase in cash** with respect to debt.

NET FINANCIAL DEBT			
	2020	2019	
Net financial debt	**€ 541**	**€ 2,679**	**-80%**
L/t debts	€ 6,054	€ 473	1,181%
S/t debts	€ 984	€ 2,598	-62%
Cash and other equivalent liquid assets	€ -6,497	€ -392	1,559%
Cash	€ -5,980	€ -387	1,446%
S/t Financial investments	€ -517	€ -5	10,237%
EBITDA	**€ 859**	**€ 3,076**	**-72%**
DFN/EBITDA	**0.63**	**0.87**	**-28%**

Source: FacePhi

Financial Information

There is an upward trend in debt, which is offset by a **significant increase in cash.**



Debt

Net Equity

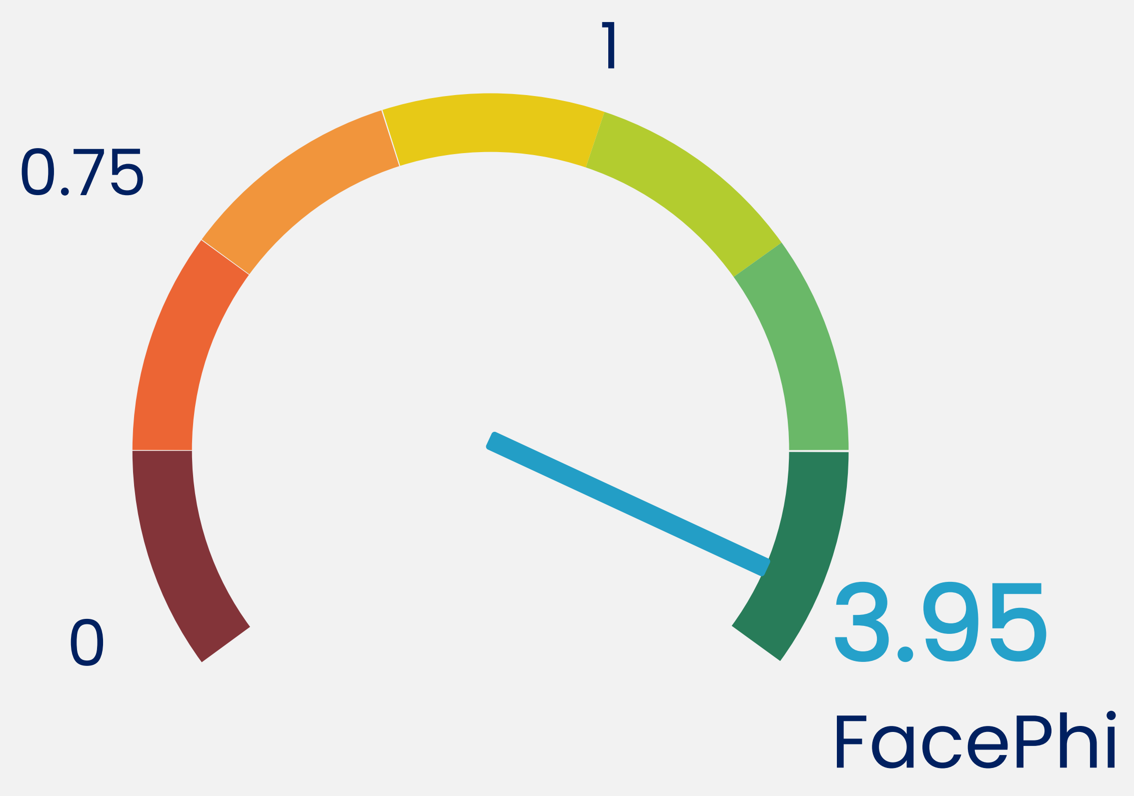
Cash and Equivalent Assets

Financial Information

Ratios

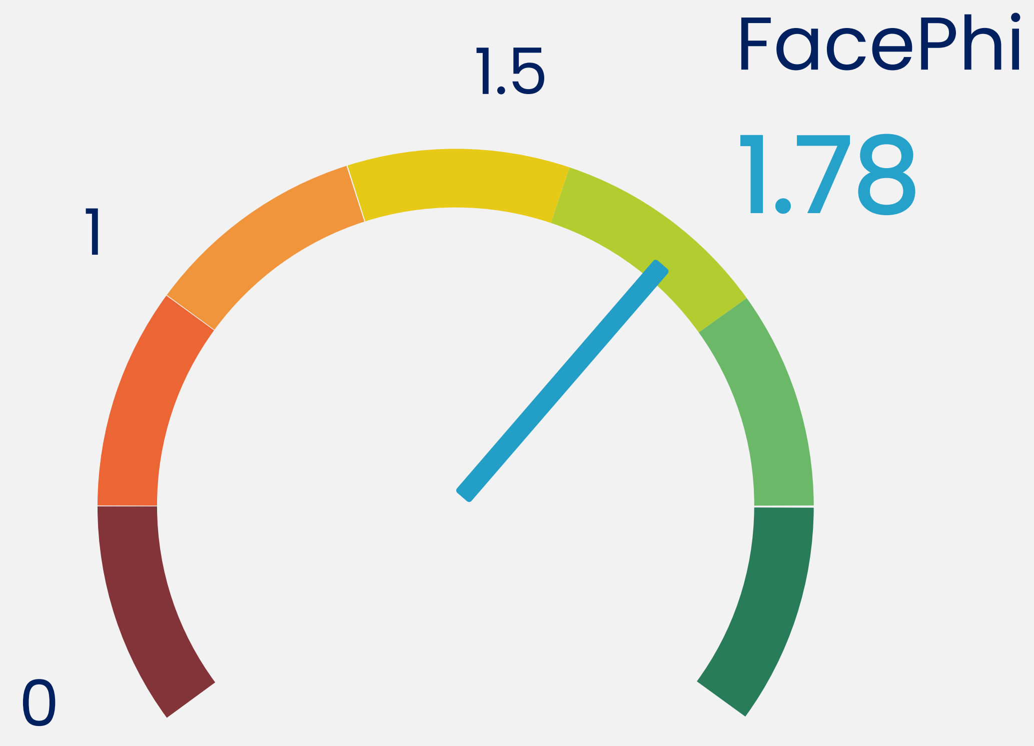
WORKING CAPITAL **8.26M €**

Liquidity Ratio



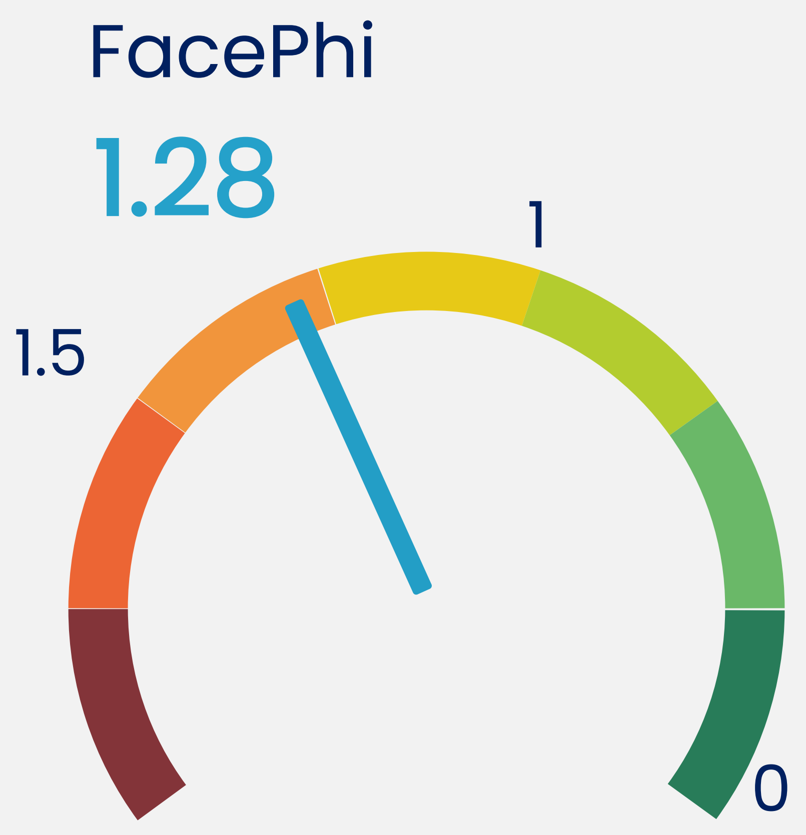
*Current Assets/Current Liabilities

Solvency Ratio



*Total Assets/Total Liabilities

Debt Ratio



*Liabilities/Net Worth

04

Structure and Awards

FacePhi
Beyond Biometrics

Structure and Awards

Diversification and Specialization of Departments

During 2020, the company has gone from having three general blocks as main departments, to diversifying and professionalizing itself in much more specific departments with better prepared managers.

In addition, and due to this, the number of people who make up these new departments has grown, achieving greater specialization.

ORGANISATION CHART 2020

TOTAL 60

BOARD OF DIRECTORS
3

INVESTORS
2

FINANCE
3

CORPORATE CULTURE
1

ADMINISTRATION
2

LEGAL
1

PURCHASING
2

MARKETING
5

PRODUCT
25

SYSTEMS
3

QA
2

SALES
4

PROJECTS
5

PARTNERS
2

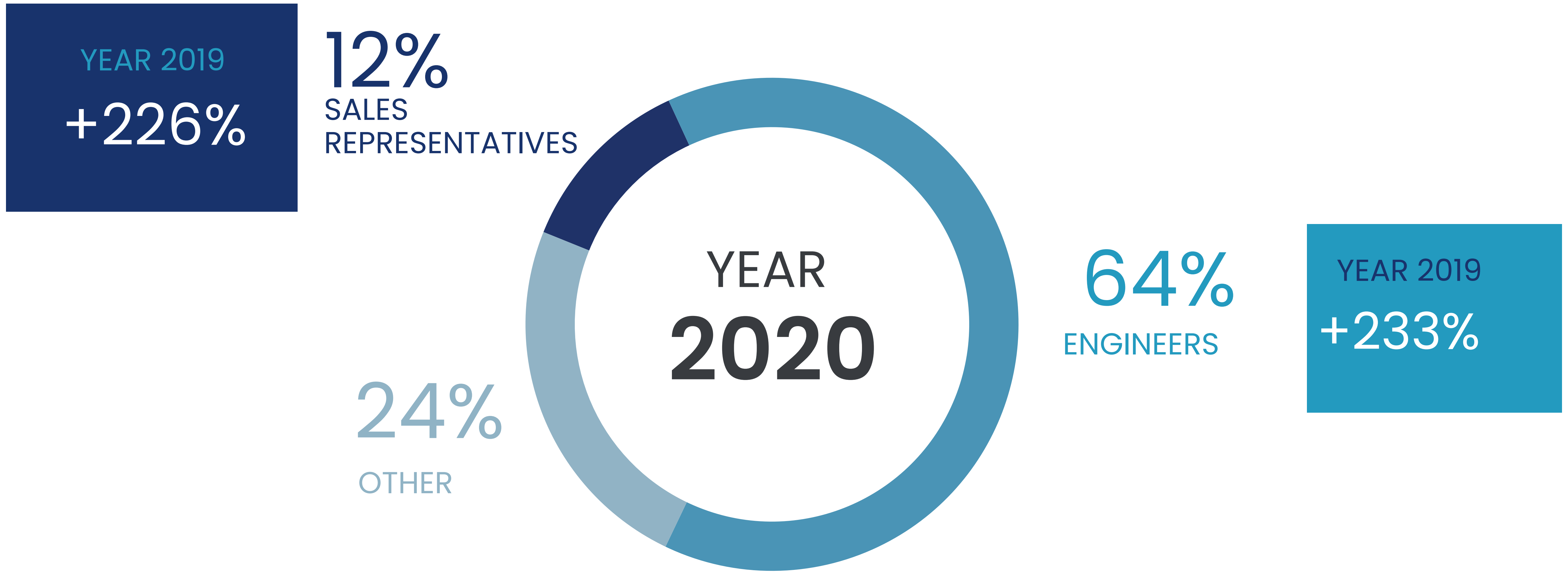
Structure and Awards

Diversification and Specialization of Departments

Compared to 2019, the company has grown by 233% and 226% the number of engineers and sales staff, respectively. This increase is related to the company's interest in improving technology and the growth of the commercial network in the different markets.

Although this report refers to the year 2020, at the date of publication we had more than one hundred workers.

** These data include the Alicante office (Spain) and the South Korean subsidiary.*



Structure and Awards

Awards and acknowledgements

FacePhi was awarded the 2020 **National SME of the Year Award**, one of the most prestigious at the business level. An award granted by **Banco Santander and the Chamber of Commerce of Spain** and where it was selected from among more than 1600 Spanish companies.

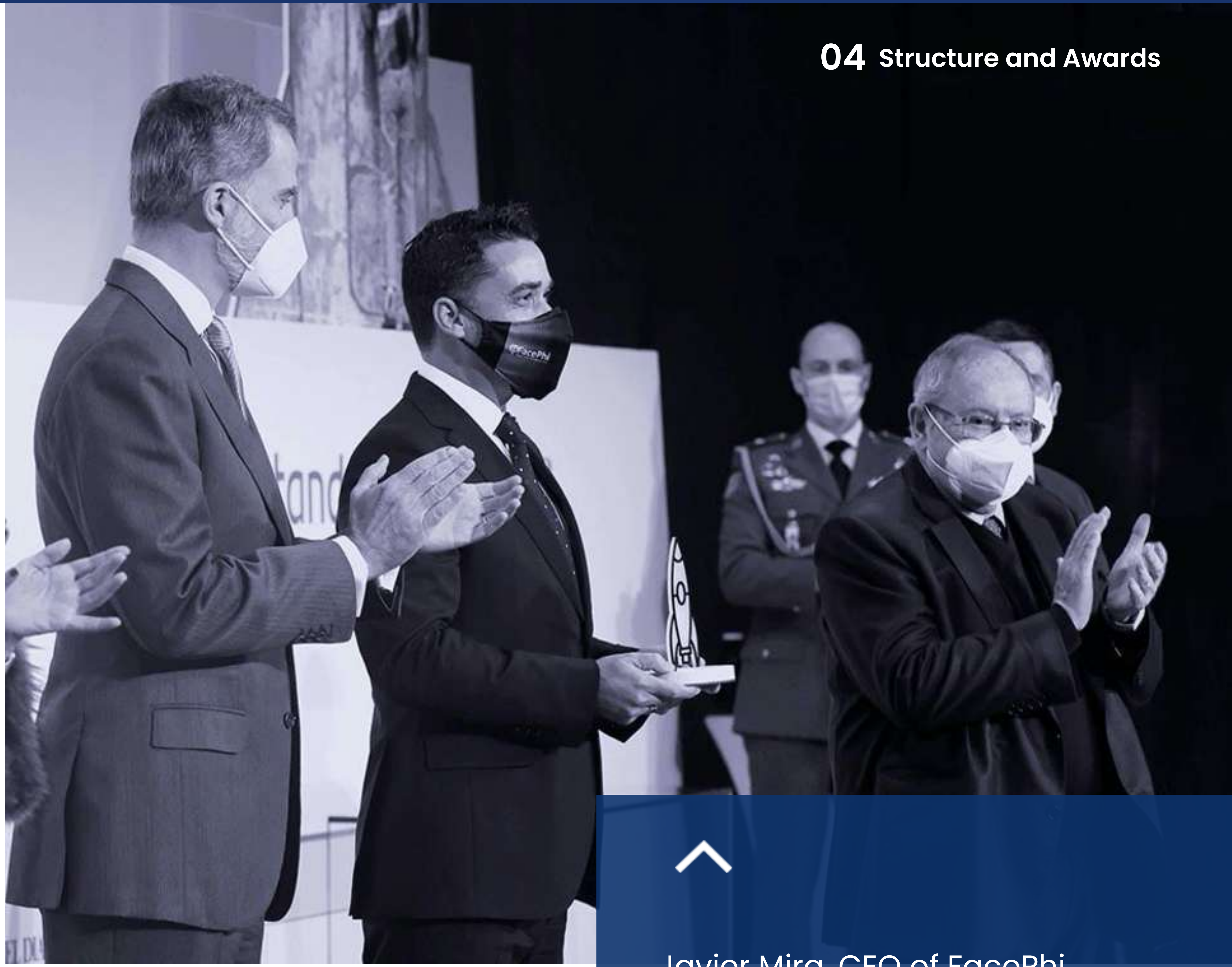
Consecutively, in 2020 and 2021, the company is part of the **prestigious RegTech100 list**, which brings together the most important world RegTechs.

In addition, last year it was awarded as one of the **Top10 Fintech in Spain**, awards organized by Finnovating.

REGTECH100 2020

REGTECH100 2021

Finnovating



IV PREMIO 2020 PYME DEL AÑO

Santander Cámara

Javier Mira, CEO of FacePhi, receiving the 2020 national SME of the Year award from H.M. the King of Spain, D. Felipe VI.

05

2020 Conclusions & 2021 Perspectives

FacePhi
Beyond Biometrics

2020 Conclusions & 2021 Perspectives

Despite the challenges that 2020 has presented, FacePhi has continued to consolidate itself as a **leading company** in its sector, thanks to the great growth in the number of **new clients**, the opening of **new markets** and the entry into **new sectors**.

Among the objectives of FacePhi for 2021 is to **continue growing geographically**, expanding especially in the regions of Latam and Asia, **growing vertically**, taking technology to new sectors and **increasing use cases** by applying our solutions to any scenario where user identification is required.

Open new markets

Growing geographically supposes the opening of new areas to market the technology.

The Pinetree Securities project has led to FacePhi's entry into the Vietnamese market, marking a new milestone in the rapid expansion across the Asian continent.

Keep obtaining certifications

Obtaining certificates in international standards positions the company at the forefront of the sector and provides security guarantees.

We have been certified in the ISO 27001 standard, guaranteeing the confidentiality, integrity and availability of information assets, while minimizing information security risks.

Attract new talent

The recruitment of talent implies the diversification and professionalization of the different areas of the company.

At the end of 2020 we closed with 60 employees, exceeding one hundred today. Among the company's projects is doubling the workforce at the end of 2021.

Drive innovation

Today, FacePhi is recognized as a benchmark in innovation thanks to its technology.

The project with Daegu Bank, one of the largest banks in Korea, has meant a breakthrough in innovation in the country's banking system, and has allowed FacePhi to access its regulatory sandbox and generate the first use case of account creation with 100% digital onboarding.

Lead industry events

Gaining visibility at industry events and investor events positions FacePhi as a leading and transparent company.

We seek to gain visibility in sector events, such as Money2020 USA, and for investors, such as the MedCap Forum or our own roadshows.

2020 Conclusions & 2021 Perspectives

FacePhi is awarded the ISO 27001 Standard

The Spanish technology company validates implementation of the Information Security Management System (ISMS) via ISO 27001:2013 certification.

Read Press Release

FacePhi lands in Vietnam

The Spanish technology company enters a new market thanks to its digital onboarding project for the finance company Pinetree Securities, specialized in investment services.

Read Press Release

FacePhi strengthens its presence in Latin America with its entry into the Argentine investtech, Inviu

FacePhi continues to lead the fintech alliances in Argentina after bringing its digital onboarding system to Inviu, an investtech of Grupo Financiero Galicia.

Read Press Release

ITSS and FacePhi reach a global agreement to accelerate digitalisation in the banking sector

The Swiss firm ITSS, specialised in software integration for banking, becomes an ally of FacePhi.

Read Press Release

FacePhi, National SME of the Year Award

This award, awarded by Banco Santander and the Spanish Chamber of Commerce, one of the most prestigious awards in today's business world

Read Press Release

FacePhi and Mibanco join forces to promote mobile microcredits in Latin America

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