FACEPHI BIOMETRÍA, S.A. and Subsidiaries

In compliance with the requirements set forth in BME Growth CIRCULAR 3/2020, the Corporate Enterprises Act and the Commercial Code, on 30 October 2023 the Board of Directors of the trading company FacePhi Biometría, S.A. drew up the consolidated interim financial statements of FacePhi Biometría, S.A. and Subsidiaries for the period ended 30 June 2023, issued on 69 pages numbered from 1 to 69.

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

SIGNATORIES

Javier Mira Miró
Chairman - Joint Managing Director

Fernando Orteso de Travesedo
Vice-Chairman

Juan Alfonso Ortiz Company
Board-Member Secretary

Pablo Reig Boronat
Independent Director

David J. Devesa Rodríguez
Board-Member Vice-Secretary

FACEPHI BIOMETRÍA, S.A. and Subsidiaries

Consolidated Interim Financial Statements for the half year ended on 30 June 2023

PROTECTING IDENTITY
TO BUILD THE FUTURE

Table of Contents of the Consolidated Interim Financial Statements and the explanatory notes

Consolidated balance sheet
as at 30th June 2023

(In Euros)

ASSETS	NOTES TO THE REPORT	30/06/2023	31/12/2022
A) NON-CURRENT ASSETS		**18,798,812**	**16,373,886**
I. Intangible fixed assets	**4**	**8,731,808**	**7,606,650**
9. Other intangible fixed assets		8,731,808	7,606,650
II. Tangible fixed assets	**5**	**2,790,163**	**1,813,748**
1. Land and buildings		1,758,565	0
2. Technical facilities and other tangible fixed assets		905,052	866,354
3. Fixed assets in progress and advances		126,546	947,394
V. Long-term financial investments	**7**	**168,149**	**170,371**
5. Other financial assets		168,149	170,371
VI. Deferred tax assets	**10.4**	**1,555,337**	**1,558,878**
VII. Non-current trade debts	**7**	**5,553,355**	**5,224,239**
B) CURRENT ASSETS		**19,136,159**	**15,876,800**
III. Trade debtors and other accounts receivable	**7**	**16,185,296**	**13,100,287**
1. Clients from sales and provision of services		14,309,687	11,200,954
5. Assets for current taxes	**10**	(733)	(733)
6. Other credits with PPAA	**10**	1,876,342	1,900,066
V. Short-term financial investments	**7**	**223,183**	**155,553**
5. Other financial assets		223,183	155,553
VI. Short-term accruals		**822.914**	**448.792**
VII. Cash and cash equivalents	**7.4**	**1,904,766**	**2,172,169**
1. Treasury		1,904,766	2,172,169
TOTAL ASSETS (A+B)		**37,934,971**	**32,250,686**

Explanatory notes 1 to 15 form an integral part of these consolidated financial statements as at 30 June 2023.

Consolidated balance sheet as at 30th June 2023 (In Euros)			
NET EQUITY AND LIABILITIES	**NOTES TO THE REPORT**	**30/06/2023**	**31/12/2022**
A) NET EQUITY	**8**	**12,423,886**	**15,213,200**
A-1) Capital and reserves	**8.1**	**12,235,402**	**15,031,548**
I. Capital		**720,933**	**697,311**
1. Authorised capital		720,933	697,311
II. Issue premium		**17,405,431**	**15,560,800**
III. Reserves		**(821,580)**	**(1,879,151)**
2. Other reserves		(821,580)	(1,879,151)
IV. (Treasury shares and equity interests)		**(374,326)**	**(454,079)**
V. Profit (loss) for fin. year attributed to the parent company		**(4,695,056)**	**1,106,667**
A-2) Restatement for value changes	8.2	**(157,881)**	**4,030**
II. Conversion differences		**(157,881)**	**4,030**
A-3) Grants, donations and bequests	8.3	**346,365**	**177,622**
B) NON-CURRENT LIABILITIES		**4,182,950**	**4,283,808**
I. Long-term provisions		**79,387**	**86,661**
4. Other provisions		79,387	86,661
II. Long-term debts	**9**	**3,988,108**	**4,133,055**
2. Debts with credit institutions		3,856,051	3,649,671
3. Financial leasing creditors		132,057	176,195
5. Other financial liabilities	**8.3**	0	307,189
IV. Deferred tax liabilities	**10.4**	**115,455**	**64,092**
C) CURRENT LIABILITIES		**21,328,135**	**12,753,591**
II. Short-term provisions	**13**	**362,089**	**0**
1. Short-term provisions		362,089	0
III. Short-term debts	**9**	**14,127,607**	**7,312,155**
2. Debts with credit institutions		7,634,724	**3,918,990**
3. Financial leasing creditors		88,277	88,277
4. Derivatives		0	99,093
5. Other financial liabilities		6,404,606	3,205,796
V. Trade creditors and other accounts payable	**9**	**5,962,250**	**5,096,716**
1. Suppliers		2,343,261	574,252
3. Other creditors		3,618,989	4,522,464
VI. Short-term accruals	**11.a**	**876,189**	**344,720**
TOTAL NET EQUITY AND LIABILITIES (A + B + C)		**37,934,971**	**32,250,599**

Explanatory notes 1 to 15 form an integral part of these consolidated financial statements as at 30 June 2023.

Consolidated income statement for the financial year ended on 30th June 2023

(In Euros)

	NOTES TO THE REPORT	(Debit) Credit	
		30/06/2023	30/06/2022
A) ONGOING OPERATIONS			
1. Net turnover	**11.a**	**9,749,203**	**7,859,195**
b) Provision of services		9,749,203	7,859,195
3. Work performed by the Group for its assets	**11.c**	**2,100,488**	**1,855,813**
4. Supplies	**11.b**	**(1,899,781)**	**(1,426,879)**
c) Works performed by other companies		(1,899,781)	(1,426,879)
5. Other operating revenue		**84,878**	**92,960**
a) Non-core and other current operating revenue		**29,187**	**22,297**
b) Operating subsidies entered to outcome of the financial year		**55,691**	**70,663**
6. Personnel expenses	**11.d**	**(6,607,843)**	**(4,275,452)**
a) Wages, salaries and accessory exp.		(5,550,952)	(3,537,621)
b) Social Security		(1,000,647)	(735,070)
c) Provisions		(56,244)	(2,761)
7. Other operating expenses	**11.e**	**(6,318,395)**	**(3,676,570)**
a) Losses, impairment and variation of provisions for trade transactions	**6**	(301,826)	(59,618)
b) Other operating expenses		(6,016,569)	(3,616,952)
8. Amortisation of fixed assets	**4 - 5**	**(1,352,150)**	**(869,965)**
9. Allocation of subsidies for non-financial fixed assets and others	**8.3**	**141,124**	**51,760**
13. Other outcomes		**20,268**	**(8,385)**
A.1) OPERATING PROFIT (LOSS) (1+2+3+4+5+6+7+8+9+10+11+12+13)		**(4,082,207)**	**(397,523)**
14. Financial revenue		**20,694**	**476**
b) From negotiable securities and other financial instruments		20,694	476
15. Financial expenses		**(402,388)**	**(136,266)**
b) For debts with third parties c) Other financial expenses		(338,275)	(136,266)
16. Variation in fair value of financial instruments	**8.1a)**	**(268,802)**	**(551,814)**
a) Negotiation portfolio and others		(268,802)	(551,814)
17. Exchange differences	**11.f**	**219,682**	**291,457**
18. Impairment and outcome of disposal of financial instruments		**0**	**(124,938)**
b) Outcome of disposals and others	**9**	0	(124,938)
A.2) FINANCIAL PROFIT (LOSS) (14+15+16+17+18+19)		**(430,815)**	**(521,085)**
A.3) PROFIT (LOSS) BEFORE TAXES (A.1 + A.2)		**(4,513,022)**	**(918,608)**
20. Profit tax	**10.3**	**(182,034)**	**(150,190)**
A.4) PROFIT (LOSS) FOR FIN. YR. FROM ONGOING OPERATIONS (A.3 +20)		**(4,695,056)**	**(1,068,798)**
B) DISCONTINUED OPERATIONS			
A.5) CONSOLIDATED PROFIT (LOSS) FOR FIN. YR. (A.4 +21)		**(4,695,056)**	**(1,068,798)**

Explanatory notes 1 to 15 form an integral part of these consolidated financial statements as at 30 June 2023

B) Statement of total changes in net equity for the six-month period ended on 30th June 2023
(In euros)

			Parent Company's Reserves			Reserves in cons. comps				
	Capital	Issue premium	Reserves	(Treasury shares)	P/L previous financial years	By full consolidation:	P/L of financial year attributed	RVC-Conversion difference	Grants, donations and bequests	TOTAL
Initial balance as of 01.01.2022	**605,373**	**10,074,525**	**1,062,173**	**(556,510)**	**(1,682,335)**	**(366,818)**	**(553,904)**	**(3,335)**	**127,480**	**8,706,650**
I. Total consolidated recognised income and expenditure							1,106,667	(4,750)	50,142	1,152,058
II. Transactions with partners or proprietors										
1. Capital increases	91,938	4,908,007	(179,625)							4,820,320
2. (-) Capital reductions										
3. (-) Allocation of dividends										
4. Net transactions with Parent Company's treasury shares			(181,184)	102,431						(78,753)
5. Conversion of financial liabilities to net equity		578,268								578,268
6. Increase (reduction) of NE due to 1st consolidation of subsidiaries								12,116		12,116
7. Exclusion of business units to the consolidation perimeter (Note 1.c)			(592,985)			530,197	85,330			22,541
III. Other changes in Net Equity					(158,993)	(309,581)	(468,574)			
Final balance as of 31.12.2022	**697,311**	**15,560,800**	**108,379**	**(454,079)**	**(1,841,328)**	**(146,203)**	**1,106,667**	**4,030**	**177,622**	**15,213,199**
I. Restatement for changes of criteria in 2021 financial year										
II. Restatement for errors in 2021										
Initial balance as of 01.01.2023	**697,311**	**15,560,800**	**108,379**	**(454,079)**	**(1,841,328)**	**(146,203)**	**1,106,667**	**4,030**	**177,622**	**15,213,199**
I. Total consolidated recognised income and expenditure							(4,695,056)		168,743	(4,526,313)
II. Transactions with partners or proprietors										
1. Capital increases	23,622	1,476,377	(61,200)							1,438,799
2. (-) Capital reductions										
3. Conversion of financial liabilities to net equity (deriv. equity-warrants Note 9.1)		368,254								368,254
5. Net transactions with Parent Company's treasury shares			54,662	79,753						134,415
1. Distribution of the fin. year of the previous fin. year			211,226		1,841,328	(945,887)	(1,106,667)			
2. Other			(56,378)			13,821		(161,911)		(204,468)
Final balance as of 30.06.2023	**720,933**	**17,405,431**	**256,689**	**(374,326)**		**(1,078,269)**	**(4,695,056)**	**(157,881)**	**346,365**	**12,423,886**

Explanatory notes 1 to 15 form an integral part of these consolidated financial statements as at 30 June 2023.

Consolidated statement of changes in net equity for the financial year ended on 30th June 2023

(In Euros)

A) CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES	Notes to the report	30/06/2023	31/12/2022
A) CONSOLIDATED PROFIT (LOSS)		**(4,695,056)**	**2,052,553**
Income and expenditure charged directly to net equity:			
I. Changes in value of financial instruments		0	0
II. Cash flow hedging instruments		0	0
III. Grants, donations and bequests received	**8.3**	366,115	186,495
IV. Actuarial earnings and losses and other restatements		0	0
V. Non-current assets and related liabilities held for sale		0	0
VI. Conversion differences		0	0
VII. Tax effect	**8.3**	(91,529)	(46,624)
B) TOTAL INCOME AND EXPENDITURE CHARGED DIRECTLY TO CONSOLIDATED NET EQUITY (I +II + III + IV + V + VI + VII)		**274,586**	**139,871**
TRANSFER TO THE CONSOLIDATED INCOME STATEMENT:			
VIII. Changes in value of financial instruments		0	0
IX. Cash flow hedging instruments		0	0
X. Grants, donations and bequests	**8.3**	(141,124)	(119,639)
XI. Non-current assets and related liabilities held for sale		0	0
XII. Conversion differences		0	0
XIII. Tax effect	**8.3**	35,281	29,910
C) TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT (VIII + IX + X + XI +XII + XIII)		**(105,843)**	**(89,729)**
TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENDITURE (A + B + C)		**(4,526,313)**	**2,102,695**

Explanatory notes 1 to 15 form an integral part of these consolidated financial statements as at 30 June 2023.

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX-MONTH PERIOD ENDED ON 30th JUNE 2023 (In Euros)	30/06/2023	30/06/2022
A) Operating Cash Flows		
1. Profit (loss) for the financial year before tax	**(4,513,022)**	**(918,607)**
2. Restatements of outcome	**197,993**	**(466,402)**
a) Amortisation of fixed assets (+)	1,352,150	869,965
b) Value restatements for impairment (+/-)	301,826	59,618
c) Variation in provisions (+/-)	354,815	9,571
d) Recognition of subsidies (-)	(141,124)	(122,423)
f) Outcome of deregistration and disposal of financial instruments (+/-)	0	124,938
g) Financial revenues (-)	(20,694)	(476)
h) Financial expenses (+)	402,388	136,266
i) Exchange rate differences (+/-)	(219,682)	(239,862)
j) Variation in fair value of financial instruments (+/-)	268,802	551,814
k) Other income and expenditure (+/-)	(2,100,488)	(1,855,813)
3. Changes in working capital	**(2,792,162)**	**239,962**
b) Debtors and other accounts receivable (+/-)	(3,715,951)	(105,257)
c) Other current assets (+/-)	(374,122)	(204,704)
d) Creditors and other accounts payable (+/-)	865,534	719,038
e) Other current liabilities (+/-)	432,377	(169,115)
4. Other operating cash flows	**(317,581)**	**(139,289)**
a) Interest paid (-)	(338,275)	(139,765)
c) Interest collected (+)	20,694	476
5. Operating cash flow (+/-1 +/-2 +/-3 +/-4)	**(7,424,772)**	**(1,284,337)**
B) Cash flows from investments		
6. Investment outlays (-)	**(1,434,718)**	**(510,309)**
b) Intangible fixed assets	(221,560)	(236,261)
c) Tangible fixed assets	(1,145,528)	(228,196)
e) Other financial assets	(67,630)	(45,852)
7. Collection for divestment (+)	**2,364**	**35,749**
c) Tangible fixed assets	142	26,273
e) Other financial assets	2,222	9,476
8. Cash flows from investments (7-6)	**(1,432,353)**	**(474,560)**
C) Cash flows from financing activity		
9. Collection and payments for equity instruments	**1,573,214**	**2,279,551**
a) Issuance of equity instruments	1,438,799	2,345,000
c) Acquisition of treasury equity	(205,321)	(195,649)
d) Disposal of treasury equity	339,736	130,200
10. Collection and payments for financial liability instruments	**6,958,737**	**1,964,263**
a) Issuance.		
2. Debts with credit institutions (+)		
4. Others (+)	4,587,780	0
b) Repayment and amortisation of	4,850,000	2,500,000
2. Debts with credit institutions (-)		
4. Others (-)	(834,904)	(535,615)
11. Outlays for dividends and remuneration of other equity instruments	(1,644,138)	(122)
12. Financing cash flows (+/-9 +/-10 -11)	0	0
	8,531,951	**4,243,814**
D) Effect of exchange rate variations	**57,771**	**73,283**
E) Increase/decrease in cash and cash equivalents (+/-A +/-B +/-C +/-D)	**(267,403)**	**2,558,199**
Cash and cash equivalents at start of fin. year	2,172,169	1,697,327
Cash and cash equivalents at end of fin. year	1,904,766	4,255,527

Explanatory notes 1 to 15 form an integral part of these consolidated financial statements as at 30 June 2023.

1. Nature and main activities of the Group

a) Parent Company

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

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

- Research, development and marketing of all kinds of information technology material: hardware, software and electrical appliances.
- Online sales by the Internet and/or similar distribution channels, import, export, representation, marketing, distribution, intermediation, wholesale and retail sale, assembly, handling, manufacture and provision of related hardware, software services on physical support and through the sale of licenses for use, electronic products and components, electrical home appliances and telecommunications.
- Performance of Internet-based activities and provision of information and training services.
- Promotion, construction, acquisition, conveyance, intermediation, 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 on that of third parties and with property of public and private ownership.

Currently, the main activity of FacePhi Biometría S.A. and subsidiaries (hereinafter *Grupo FacePhi* or *the Group*) 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 in the expanding enterprise segment since 1 July 2014 and on Euronext Growth in Paris since 25 February 2020.

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

b) Subsidiary and associated companies

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

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

Trading Group Company (Art. 42 C. Code)	% holding	Address	Main activity
FacePhi Biometría, S.A.	Parent Company	Alicante- Spain	Marketing of biometric facial-recognition systems
FacePhi APAC Ltd	100%	Pangyo (South Korea)	Marketing of biometric facial-recognition systems
Celmuy Trading, S.A.	100%	Montevideo (Uruguay)	Marketing of biometric facial-recognition systems
Facephi Beyond Biometrics, Ltd.	100%	London (UK)	Marketing of biometric facial-recognition systems

The following was the equity position of the subsidiaries obtained from the unaudited accounting records as of 30 June 2023 and 31 December 2022 (as required):

	FacePhi APAC Ltd (*)		Celmuy Trading (*)		FacePhi Beyond Biometrics (*)	
Euros	**30.06.2023**	**31.12.2022**	**30.06.2023**	**31.12.2022**	**30.06.2023**	**31.12.2022**
Called capital	516,390	516,390	187	187	116	---
Issue premium	---	---	---	---	---	---
Reserves	(212,630)	(227,466)	43,450	---	(909,089)	---
Profit (loss) for the financial year	(29,338)	(66,428)	42,475	43,450	(1,241,608)	(909,089)
Conversion differences	(155,899)	(8,086)	(6,816)	(2,539)	(37,057)	14,654
Subsidies	---	---	---	---	---	---
Net equity	**118,523**	**214,410**	**79,296**	**41,098**	**(2,187,645)**	**(894,435)**
% holding	100%	100%	100%	100%	100%	100%
Theoretical value of holding	**118,523**	**214,410**	**79,296**	**41,098**	**(2,187,645)**	**(894,435)**

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

c) Changes to the consolidation perimeter

Celmuy Trading is a company incorporated under Uruguayan commercial law on 11 August 2020 and is registered in the Unified Tax Register of its country of origin with number 218731960012. The Parent Company acquired 100% of its share capital on 25 April 2021. It remained inactive until February 2022 and therefore did not form part of the consolidation Group on 31 December 2021. It was included within the consolidation perimeter during the 2022 financial year.

The trading company Facephi Beyond Biometrics Ltd was registered with the Companies House in England and Wales on 26 May 2022 under number 14135809. This company was registered with a capital of one hundred (100) pounds sterling (GBP) paid in during the 2023 financial year. It was included within the consolidation perimeter on its incorporation date in the 2022 financial year.

There have been no changes in the consolidation perimeter during the half year ended on 30 June 2023.

d) Business combinations

Acquisition of Ecertic Digital Solutions, S.L.

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

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

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

Therefore, the agreed acquisition price implies the existence of an implicit goodwill fund amounting to 1,627,194 euros that was attributed to the technology provided by said company for development of the digital on-boarding solutions that the Group markets at the present time and is recognised on the consolidated balance sheet as "Information Technology Applications" under the head of intangible assets.

The merger agreements – drafted and signed on 2 November 2021 with the applicable content and requirements provided for the purpose in articles 30 and 31 of Act 3/2009, the Trading Companies Structural Changes Act (*Ley de Modificaciones Estructurales (LME)*) dated 2 April – and the project issued by the governing bodies of the absorbing company FACEPHI BIOMETRÍA, S.A. and of the absorbed company ECERTIC DIGITAL SOLUTIONS, S.L. were attested before notary public on 3 March 2022.

The governing bodies of the two companies approved the merger transaction in accordance with the project on 9 November 2021. The absorbed company was acquired and liquidated by universal succession of its assets and the respective merger balance sheets as at 30 September 2021 were also approved. The effective carrying date of the absorbed company's transaction was 1 January 2022.

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

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

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

e) Consortiums and joint ventures

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

The estimated value of the contract is 711,490 euros and the execution period is 38 months. The works had not yet begun and therefore the consortium lacked assets and liabilities and had not recognised any income or expenditure as of the drafting date of these financial statements.

2 Reporting criteria of the consolidated interim financial statements

a) Regulatory framework for financial reporting applicable to the Group

These consolidated interim financial statements have been drawn up by the Parent Company's Board of Directors in accordance with the regulatory framework for financial reporting applicable to the Group laid down in the following jurisprudence:

- the Commercial Code;

  Royal Decree 1514/2007 of 16 November that adopts the General Accounting Plan and its subsequent amendments incorporated by Royal Decrees 1159/2010 of 17 September, 602/2016 of 17 December and 1/2021 of 12 January;
- Royal Decree 1159/2010 of 17 September that approves the rules for drafting consolidated annual financial statements in all aspects that do not contradict other applicable provisions of the commercial reform
- and other applicable financial reporting provisions of the regulatory framework.

b) True and fair view

These consolidated interim financial statements have been drawn up on the basis of the Group companies' accounting records in accordance with the regulatory financial reporting framework set forth in the previous paragraph and, in particular, with the accounting principles and criteria contained in the same in order to provide a true and fair view of the Group's consolidated equity, consolidated financial position, consolidated accounting outcomes and accuracy of the flows contained in the Consolidated Cash Flow Statement for the financial year in question.

The attached Consolidated Interim Financial Statements were drawn up in order to comply with the BME Growth's requirement to submit interim financial information as of 30 June 2023 as set forth in Circular 3/2020.

The Consolidated Interim Financial Statements are presented in euros – the Group's functional and reporting currency – rounded to the nearest unit.

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

c) Non-mandatory accounting principles

No non-mandatory accounting principles have been applied. Moreover, when drawing up these Consolidated Interim Financial Statements 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.

d) Critical aspects of assessing and estimating uncertainty

The Parent Company's Directors are responsible for the information contained in these explanatory notes and drafting of the same has required Group management to make certain estimates and assumptions that affect application of the regulations and valuation of assets, liabilities, income, expenditure and commitments. These estimates and assumptions are based on historical experience and other factors that are considered reasonable under the current circumstances. The following is a breakdown of the aspects that have entailed a greater degree of judgement and complexity or those for which the hypothetical assumptions and estimation have been most significant during drafting of the interim financial statements:

- *Impairment of non-current assets*: valuation of non-current assets other than financial assets requires making estimates to determine their recoverable value for the purposes of assessing their potential impairment. To determine this recoverable value, the Parent Company's directors estimate the expected future cash flows of the assets or the cash-generating units of which they form part and use an appropriate discount rate to calculate the present value of said cash flows. The cash flows depend on fulfilment of the projections included in the business plan for the next five financial years while the discount rates depend on the interest rate plus the risk premium (see note 3.4).

- *Deferred tax assets* are recognised for all deductible temporary differences, negative tax bases pending compensation and deductions pending application for which it is probable that the Group will have future taxable earnings that enable application of these assets. Significant estimates must be made to determine the amount of deferred tax assets that can be recognised taking the amounts and dates on which future taxable profits will be obtained and the reversal period of taxable temporary differences into account. As at 30 June 2023, the Group has recognised deferred tax assets for a total amount of 1,555,337 euros for temporary tax differences, taxable bases pending compensation and rebates pending application (see note 10).

These estimates are based on the best information available on the events under analysis on the reporting date of these consolidated interim financial statements. Nevertheless, it is possible that future events may require restatement (upwards or downwards) of certain entries 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 consolidated income statement.

e) The Company as a going concern

The Group has suffered significant consolidated losses before taxes amounting to 4,513,000 euros (919,000 euros as at 30 June 2022) during the period of six months ended 30 June 2023. These losses were mainly due to growth of the Group's workforce, development and implementation of the subsidiaries and investment.

Moreover, as at 30 June 2023 the Group had generated negative consolidated EBITDA of 2,428,000 euros (532,000 euros at 30 June 2022). Working capital stood at minus 2,192,000 euros at 30 June 2023 (plus 3,123,000 as at 31 December 2022).

Consolidated net equity amounted to 12,424,000 euros as at 30 June 2023, a reduction of 2,800,000 euros with respect to 31 December 2022 mainly due to losses recognised during the half-year under study. The Parent Company's Net Equity totals 14,756,000 euros as at 30 June 2023 (16,301,000 euros at 31 December 2022).

Under these circumstances, the Parent Company's Board of Directors estimates that the cash flows to be generated by execution of the Business Plan and the available financing lines – especially the new contract entered into with Nice & Green for a maximum of twenty million euros (notes 8.1 and 9) – will enable it to address its current liabilities and the Group's expansion plan. For these reasons, the consolidated interim financial statements have been drawn up on the basis of the going concern principle.

f) Comparison of the information

The current reporting period consists of the six months between 1 January 2023 and 30 June 2023. Accordingly, for the purposes of comparison, the Consolidated Balance Sheet includes the figures as at 31 December 2022, whereas the Consolidated Income Statement, the Consolidated Statement of Changes in Net Equity and the Consolidated Cash Flow Statement include comparison with the half-year from 1 January 2022 and 30 June 2022.

g) Changes in accounting criteria and correction of errors

As at 30 June 2023 the Company has not made any restatement for changes of accounting criteria with respect to those applied in the 2022 financial year and nor has it been necessary to rectify any error from said financial year or from previous periods.

3. Recognition and valuation rules

The following are the main recognition and valuation standards employed by the Facephi Group when drawing up these consolidated interim financial statements:

3.1 Consolidation principles

The following are the main criteria used in consolidation of the financial statements:

Acquisition of control

Acquisitions by the Parent Company (or any other Group Company) to obtain a controlling interest in a subsidiary constitutes a business combination that is accounted for using the acquisition method. This method requires the acquiring company to recognise the acquired identifiable assets and liabilities at full fair value on the acquisition date in a business combination and, as required, the associated goodwill or negative difference. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from the consolidation perimeter on the date on which said control ceases.

The acquisition cost is deemed to be the sum of the fair values at the acquisition date of the acquired assets, liabilities, the equity instruments issued by the acquirer and the fair value of any contingent consideration that depends on future events or fulfilment of certain conditions, which must be recognised as an asset, a liability or as net equity according to their nature.

Expenses related to the issuance of equity instruments or the financial liabilities assumed do not form part of the price of the business combination and are recognised in accordance with the regulations applicable to financial instruments. Fees paid to legal counsel or other professional persons involved in the business combination are recognised as expenses as they are incurred. Neither do internal costs incurred for these items form part of the cost of the business combination or any other applicable expenditure that the acquired entity would have incurred at all events.

The excess of the price of the business combination on the acquisition date over the proportional part of the value of the identifiable assets acquired minus that of the liabilities assumed that the holding represents in the acquired capital of the Group is recognised as goodwill. In the exceptional event that this amount exceeds the cost of the business combination, the excess shall be recognised as revenue in the income statement.

Since the Parent Company exercises effective control, the assets, liabilities, income, expenditure, cash flows and other items in the Group companies' interim financial statements are included in the Group's consolidated interim financial statements using the full consolidation method.

Effective control is understood to exist in relation to subsidiaries in which the Parent Company has a direct or indirect holding of more than 50% that entails control of the majority of the voting rights in the associated governing bodies.

This method requires the following:

Temporal homogenisation

That the subsidiaries' individual interim financial statements have been drawn up on the same date and for the same period as the consolidated interim financial statements of the Group company legally obliged to submit consolidated interim financial statements.

Valuation homogenisation

That the assets, liabilities, income, expenditure and other items in the Group companies' interim financial statements are valued by applying identical methods. Asset or liability and income or expenditure items that have been valued by methods other than those used for consolidation have been revalued for the purposes of consolidation by methods identical to those applied in the consolidation perimeter.

Aggregation

Items of the previously-homogenised individual interim financial statements are aggregated according to their nature.

Elimination of investment - net equity

The book 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. As a general rule, this compensation will be made on the basis of the values resulting from applying the acquisition method set forth above. In consolidations subsequent to the financial year in which control was acquired, the excess or shortfall of the equity generated by the subsidiary from the acquisition date attributable the the Parent Company shall be reported in the consolidated balance sheet under the head of reserves or restatements due to value changes, in accordance with their nature. The part of the excess or shortfall attributable to the external partners must be entered in the "External partners" item.

Holdings by external partners

There were no external partners as at 30 June 2023 or during the 2022 financial year.

Elimination of intragroup items

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

Conversion of the foreign subsidiaries' interim financial statements

All assets and liabilities of companies the functional currency of which is different from the euro and that are within the consolidation perimeter are converted to euros using the exchange rate at the end of each year.

Items in the income statement have been converted at the exchange rates on the dates on which the associated transactions were performed.

The difference between the amount of equity of foreign companies – including the balance of the income statement calculated in accordance with the previous section – converted at the historical exchange rate and the net equity resulting from conversion of assets and liabilities in accordance with paragraph one are entered with a positive or negative sign, as required, in the net equity of the consolidated balance sheet in the *Conversion differences* account, deducting the part that corresponds to non-controlling interests that appears in the *Non-controlling interests* account under Net Equity on the consolidated balance sheet.

Goodwill and restatements of fair value of balance sheet items that arise when acquiring a holding in a foreign undertaking are treated as assets and liabilities of the acquired entity and are therefore converted at the interest rate at year's end. The exchange differences that arise in the aforesaid account are entered to Conversion Differences.

3.2 Business combinations

Business combinations are deemed to consist of transactions in which a company gains control of one or more enterprises, understood as an integrated group of activities and assets that can be managed to provide earnings, lower costs or to provide 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 financial statements of the ultimate Spanish parent company on the date on which the transactions took place. Any differences that may arise are entered against reserves. The effective accounting date is the start date of the financial year in which the transaction is approved.

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

3.3 Consortiums and joint ventures

In accordance with the currently applicable commercial legislation, for integration and accounting recognition of transactions carried out with consortiums (Spanish acronym: *UTE*) of which the Group is a member, the proportional part of the UTE's balances shall be accounted for in the consolidated balance sheet and income statement as a function of the percentage holding. This addition shall be performed once the required homogenisation and elimination of the transactions between the Group and the UTE have been carried out in proportion to the associated holding, the asset and liability balances and the reciprocal income and expenditure.

3.4 Intangible fixed assets

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

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

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

a) Computer application development expenses

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

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

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

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

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

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

Estimates of impairment of intangible assets are based on calculation of the future cash flows derived from fulfilment of the business plan drawn up by 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 at 30 June 2023 the Parent Company estimates that there is no indication of impairment of intangible assets since the directors are reasonably sure that the business plan will be fulfilled, which means that all the intangible assets and tax credits will be fully recovered in the coming years on the basis of their forecasts.

b) Computer applications

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

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

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

c) Intellectual property

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

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

3.5 Property, plant and equipment

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

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

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

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

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

Item	Annual percentage	Years of useful life	Method
Machinery and buildings	10%	10	Straight-line
Other facilities	10%	10	Straight-line
Furnishings	5%10%	10 - 20.	Straight-line
Information processing equipment	25%	4	Straight-line
Other tangible fixed assets	10% - 20%	5 - 10.	Straight-line

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

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

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

3.6 Impairment of non-financial assets

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

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

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

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

3.7 Financial assets

Classification of financial instruments

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

The Group classifies financial instruments into one category or another depending on their characteristics and the governing body's investment strategy at the time of initial recognition.

Compensation criteria

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

Assets at amortised cost

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

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

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

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

Initial valuation

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

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

Subsequent valuation

The financial assets included in this category are valued at their amortised cost. Accrued interest is charged to the Income Statement on the basis of the effective interest rate method.

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

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

Value impairment

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

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

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

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

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

Financial assets at cost

The following securities shall be included in this category:

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

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

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

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

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

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

Initial valuation

Investments in this category will be initially valued at cost, which will be equivalent to the fair value of the consideration paid plus the transaction costs directly attributable to them. In the case of transactions between Group companies, the applicable criteria set forth in section 2 of Recognition and Valuation rule 19 on transactions between group companies and the criteria for determining the cost of the combination set forth in the Business Combination rule of the General Accounting Plan must be applied.

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

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

Subsequent valuation

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

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

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

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

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

Value impairment

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

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

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

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

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

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

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

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

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

Interest and dividends

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

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

Cancellation of financial assets

The Group writes off a financial asset, or part of it, when the contractual rights to the cash flows of the financial asset expire or have been assigned. For this to happen, the risks and benefits inherent in ownership of the asset must have been substantially transferred. Said risks and benefits are assessed by comparing the exposure of the Company to variation in the amounts and timing of the net cash flows of the assigned asset before and after transfer of the same.

The risks and benefits of ownership of the financial asset shall be understood to have been substantially assigned when their exposure to said variation is no longer significant with respect to the total variation in the present value of the future net cash flows associated with the financial asset.

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

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

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

3.8 Financial liabilities

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

Amortised cost financial liabilities

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

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

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

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

Initial valuation

Financial liabilities classified in this category are initially recognised at fair value which, in the absence of 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 liabilities in question.

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

Subsequent valuation

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

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

Deregistration and modification of financial liabilities

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

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

3.9 Net equity

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

a) Treasury 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 consolidated balance sheet. No result is recognised in the consolidated income statement for transactions capitalised with treasury equity.

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

b) Capital increases by issuance of options convertible into treasury equity

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 consolidated income statement at its valuation time at each accounting closure date.

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

Variations in the fair value of the derivative during its life (i.e. from the signature date to exercise of the option) are recognised in the consolidated 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).

3.10 Cash and cash equivalents

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

The Group reports payments and receipts from high-turnover financial assets and liabilities for their net value in the consolidated 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.

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

The Group reports assets and liabilities on the consolidated balance sheet classified into current or non-current. For these purposes, current assets or liabilities are those that meet the following criteria:

- Assets are classified as current when they are expected to be capitalised, are held for sale or consumption in the course of the normal operating cycle, are held fundamentally for trading purposes, are expected to be capitalised within twelve months after the closing date or are composed of cash and cash equivalents except in cases where they cannot be exchanged or used to settle a liability within at least the twelve months following the accounting closure date.
- Liabilities are classified as current when they are expected to be settled within the normal operating cycle, are held primarily for trading, must be settled within twelve months of the closing date or there is no unconditional right to postpone cancellation of the liabilities during the twelve months following the closing date.
- Financial liabilities are classified as current when they must be settled within the twelve months following the closing date, even if the original term is for a longer period and there is a refinancing or restructuring agreement for long-term payments that has concluded after the closing date and before the consolidated 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”.

3.12 Subsidies, donations and bequests

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

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

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

Non-refundable grants related to the acquisition of intangible fixed assets, property, plant and equipment and real estate investments are charged as income for the year in proportion to the depreciation 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.

3.13 Corporation tax

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

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

Corporation tax is recognised in the consolidated income statement except when it refers to transactions recognised directly in net equity (in which case the associated tax is also recognised in consolidated net equity) and in business combinations (in which case it is recognised in the same accounts as the other assets of the acquired undertaking).

Deferred taxes are recorded for the temporary differences existing on the date of the consolidated balance sheet between the tax base of assets and liabilities and their book values. The taxable base of an asset is considered to be the amount attributed to it for tax purposes.

The fiscal effect of temporary 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 consolidated balance sheet.

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

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

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

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

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

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

3.14 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.

3.15 Transactions with payments based on equity instruments

Transactions that are settled by the Parent 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) in exchange for receiving goods or services including services provided by employees, are considered to constitute transactions with payments based on equity instruments.

Recognition

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

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

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

Valuation

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

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

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

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

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

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

In the financial year prior to 30 June 2023 the Plan has not met any of its goals and therefore no provision has been recognised on the consolidated balance sheet at said date.

3.16 Provisions and contingencies

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

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

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

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

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

Said contingent liabilities are not subject to accounting records and their details are reported in the explanatory notes to the consolidated financial statements.

3.17 Recognition of revenue from the provision of services

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

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

- Identification of the contract with the customer.
- Identification of the contractual obligation to be met.
- Determination of the transaction price.
- Allocation of the transaction price to the obligations to be fulfilled based on the sale price of each good or service or by estimating the sale price when it cannot be otherwise ascertained.

- Recognition of the revenue from ordinary activities at the time the Company fulfils each acquired commitment.

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

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 customer, the kind 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 at a time that usually coincides with concession of the licence regardless of the licencing term (which may be in perpetuity or for periods defined in the contract). Income from services not yet provided is entered to the balance sheet as short-term accruals.

Income from maintenance, support services and provision of SaaS (cloud) services is recognised on the basis of accrual of the provision of the service.

3.17.1 Contract balances

a) Contract assets

Unconditional right to receive the consideration

When the Group has an unconditional right to the consideration regardless of the transfer of control of the assets, a collection right is recognised (under the “Trade accounts, sales and provision of services” sub-heading) in the “Trade debtors and other accounts payable” account in Current Assets or “Non-current trade debts” in non-current assets, as appropriate depending on their maturity in accordance with their normal operating cycle.

Right to receive the consideration on transfer of control

When control of an asset is in a contract is transferred without an unconditional right to issue an invoice, the Company recognises a right to collect a consideration for the transferred control. This right to receive the consideration for transfer of control is cancelled when an unconditional right to collect the consideration arises. Nevertheless, the asset will be analysed for impairment at the end of the financial year in the same way as for unconditional rights.

These balances are reported under the head of Trade accounts in Trade debtors. They are classified as current or non-current depending on their maturity date.

b) Contract liabilities

Contractual duties

If the customer pays the consideration or the Company acquires an unconditional right to receive it before transferring the goods or services to the former, the latter recognises a contract liability once the payment has been made or when it falls due.

These contract liabilities are reported under the head of Trade creditors and Other accounts payable or provisions are made against trade transactions (in current liabilities)

3.18 Leases

A lease contract is classified as a financial lease once it is considered, on the basis of the economic conditions of the agreement, that the risks and benefits inherent in ownership of the asset object of the same have been substantially transferred. Otherwise these contracts are classified as operating leases.

When the Group is the Lessee – Financial leasing

Assets acquired by means of financial leasing are recognised in accordance with their nature at the fair value of the assets or the current value of the agreed minimum payments at the beginning of the lease, whichever is lower, and a financial liability is entered for the same amount. Contingency fees, the cost of services and taxes passed on by the lessor are not included in calculation of the agreed minimum payments. Leasing payments are distributed between financial expenses and reduction of liabilities. The total financial burden of the contract is attributed to the consolidated income statement of the financial year in which it is incurred using the effective interest rate method. The assets are subject to the same depreciation, impairment and write-off criteria as other assets of the same nature.

When the Group is the lessee – Operating leases

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 consolidated income statement for the year in which they accrue on a straight-line basis over the lease period.

3.19 Foreign currency transactions

Transactions in foreign currency are converted into the operating currency using the exchange rates prevailing on the date of the transaction in question. 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 consolidated income statement.

3.20 Equity items of an environmental nature

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

As at 30 June 2023, the Directors consider that there are no contingencies of an environmental nature that could significantly affect the Group's consolidated equity, financial situation or outcomes and therefore no provisions or contingencies have been recognised under this head.

3.21 transactions with related parties

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

This valuation rule affects the related parties set forth in Rule 15 on drafting of the annual financial statements of the Spanish General Accounting Plan. A party is considered to be related to another when one of them exercises or has the capacity to exercise control – directly or indirectly or pursuant to pacts or agreements between shareholders or investors – over the other or a significant influence over its financial and operating decisions.

The following are deemed to constitute parties related to the Group: natural persons who directly or indirectly hold a stake in the voting rights of the Parent Company or of its subsidiaries in such a way that enables them to exercise significant influence over one or the other; close relatives of the same; the Group's key personnel including directors and executives together with their close relatives, and legal persons over which the aforesaid persons may exercise significant influence.

4 Intangible fixed assets

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

	Euros				
	Balance at 31.12.22	**Bus. comb. additions**	**Additions**	**Transfers**	**Balance at 30.06.23**
Cost:					
Research	56,958	---	---	---	56,958
Development	717,861	---	2,238,076	---	2,955,937
Intellectual property	84,998	---	28,953	---	113,951
Computer applications	12,157,820	---	55,019	---	12,212,839
Advances	---	---	---	---	---
Total Cost	**13,017,637**	**---**	**2,322,048**	**---**	**15,339,685**
Accumulated amortisation:					
Research	(56,958)	---	---	---	(56,958)
Development	(378,339)	---	(962,869)		(1,341,208)
Intellectual property	(24,980)	---	(7,929)	---	(32,909)
Computer applications	(4,950,709)		(226,093)		(5,176,802)
Total Accumulated Amortisation	**(5,410,986)**		**(1,196,891)**	**---**	**(6,607,877)**
Net book value	**7,606,651**				**8,731,808**

	Euros				
	Balance at 31.12.21	**Bus. comb. additions**	**Additions**	**Transfers**	**Balance at 31.12.22**
Cost:					
Research	56,958	---	---	---	56,958
Development	47,026	---	4,242,399	(3,571,563)	717,861
Intellectual property	65,992	---	19,006	---	84,998
Computer applications	6,479,140	2,054,150	52,967	3,571,563	12,157,820
Advances	---	---	---	---	---
Total Cost	**6,649,115**	**2,054,150**	**4,314,372**	**---**	**13,017,637**
Accumulated amortisation:					
Research	(56,958)	---	---	---	(56,958)
Development	(2070)	---	(376,269)		(378,339)
Intellectual property	13,604	---	(11,376)	---	(24,980)
Computer applications	(2,726,614)	(786,445)	(1,437,650)		(4,950,709)
Total Accumulated Amortisation	**(2,799,246)**	**(786,445)**	**(1,825,295)**	**---**	**(5,410,986)**
Net book value	**3,849,869**				**7,606,651**

a) Development

The Group continues to implement its investment policy and to improve its current facial biometric applications. The following are the capitalised expense milestones during the fiscal period ended 30 June 2023 and during the annual financial year ended on 31 December 2022:

	Euros	
Description:	**30.06.2023**	**31.12.2022**
Improvements to the Software Development Kit (!	2,100,488	3,423,366
Platform as a service (PAAS)	---	395,241
Total for internal development	**2,100,488**	**3,818,608**
Development acquired from third parties	137,588	423,791
Total	**2,238,076**	**4,242,399**

Said expenses are recognised under the head of Development since there are good reasons to foresee commercial success on completion, and are entered under the head of Intangible assets in accordance with their nature at that time. If there were well-substantiated reasons to consider that the project did not meet with success, the Group would recognise these expenses 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 (except for a sum of 137,588 euros) and recognised by capitalisation of production costs under the head of "Works performed by the Group for its own assets" in the consolidated income statement.

The developments capitalised as of 30 June 2023 and 31 December 2022 mainly consisted of security improvements against fraud, interactive guides for the user when recording and tools for integration of technology in multiplatform applications.

b) Intellectual property

FacePhi Biometría is the owner of the *Selphi* and *FacePhi Beyond Biometrics* registered trademarks. Registration grants protection of these trademarks in both the European Union (MUE 015106354 and MUE 015114853) 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 *Look&Phi*; MUE 017948110 *inPhinite*; MUE 017948113 *4Phingers*; MUE 017948116 *Phivox*; MUE 017948119 *SignPhi*; MUE 017948878 and *SelphID* have also been obtained.

The Group currently owns the intellectual 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	

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

The aforesaid registered trademarks continue to be protected by the Group in spite of the rebranding carried out.

As a result of said rebranding, the Group has registered the current trademarks with the European Union and with the World Intellectual property Organisation.

The following are the new registered trademarks:

MUE 018762534 FACEPHI (mixed)
MUE 018762535 FACEPHI (denominative)
MUE 018779488 FACEPHI IDENTITY PLATFORM (mixed)
4184138 FACEPHI PROTECTING IDENTITY TO BUILD THE FUTURE (OEPM)

Intellectual property rights

Entry into force of Act 1/2019 of 20 February, the Business Secrets Act, technological companies are operating in an environment in which legal certainty with respect to knowledge considered to constitute business secrets (algorithms, know-how, etc.) is greater than before and consequently provides stronger protection against potential breaches of business secrets.

Notwithstanding, the legal doctrine and jurisprudence in the field agree that the application of the Act will not be really effective until the companies – rather than simply invoking said law, are equipped with tools capable of configuring an environment of security, protection, reliability and traceability.

The Group has obtained the following technical certifications:

- Legal compliance and data protection:

- **Data protection and criminal compliance** The group complies with the following norms and standards: Criminal Risk Prevention Plan (CRP), General Data Protection Regulation (GDPR) and Organic Law on the Protection of Personal Data and Guarantee of Digital Rights (LOPDGDD) which are backed up by information security certifications.

- Governance, Risk and Corporate Compliance:

- **ISO/IEC 27001** (SGSI). FacePhi is certified under the standard that ensures the security, confidentiality, integrity and availability of information and of the systems that process it.
- **ISO 22301.** Business Continuity Management System.
- **ISO 27017.** Security Controls for Cloud Services
- **ENS**. **Spanish National Security Scheme** compliance certificate (medium level).
- **Pinakes Certification:** Spanish Banking Association recognition of FacePhi as a technology provider to any Spanish bank or financial institution.

Product and technology certifications:

- **ISO 30107-3 iBeta Level 1**. FacePhi complies with the ISO 30107 standard both in terms of its Facial Recognition algorithm (Matcher) and its PAD algorithm through Passive Liveness.
- **ISO 30107-3 iBeta Level 2**. This certification entails compliance with the highest standard to date in detection of presentation attacks in facial biometric technologies achieved by any company in the sector.
- **KISA K-NBTC certification**. This certification validates the performance of the Company's face biometric algorithm for identity verification issued by the National Biometric Testing Centre (K-NBTC), which is run by the Korean Internet Security Agency (KISA).
- **UK Digital Identity and Attributes Trust Framework (UK DIATF)**. Facephi is certified as an identity service provider (IDSP) for the UK Digital Identity Framework in connection with provision of secure, reliable digital identity services by its products and services.
- **SEPBLAC video identification circulars** Facephi is certified as a provider of onboarding and remote digital identity services within the compliance framework stipulated by the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences

- Exchange of biometric information:

- **ANSI/NIST-ITL 1-2011**. Biometric data storage standard for system interoperability.
- **ISO/IEC 19794-5**. Specifies a format for storing, recording and transmitting information on facial images, scene constraints, photographic properties, digital image attributes and best practices.

c) Computer applications

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

d) Fully amortised intangible fixed assets.

As at 30 June 2023 and 31 December 2022 the Group holds fully amortised intangible fixed assets in use in accordance with the following breakdown:

	Euros	
	30.06.2023	**31.12.2022**
Research	56,958	56,958
Computer applications	1,897,561	1,717,155
Total cost	**1,954,519**	**1,774,113**

e) Sundry information

During the half-year ended 30 June 2023 the Group has not received subsidies related to intangible fixed assets.

As at 30 June 2023 and 31 December 2022 the Group has no firm commitments to third parties to invest in intangible fixed assets or to dispose of them.

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

f) Non-current asset impairment test

The recoverable value of non-current assets has been assessed by considering the Parent Company as a single cash-generating unit (CGU) by estimating their value in use using cash-flow projections based on the business plan and estimates made by management for the next five (5) years. The discount rate applied to the cash flow projections was 8.75% 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 20% for the financial projection period (2023-2027) and of 2% per annum as of 2027. The Group continues to invest in human resources aimed at the sales and marketing activity, developing the business in countries where it already operates and by opening new offices and developing sales channels that will enable it to increase its turnover.

- EBITDA: the Group estimates that its EBITDA will undergo a progressive increase by obtaining new contracts and optimising its human resource structure.
- Discount rate: a WACC of 8.75% in accordance with that calculated by analysts who follow the Company has been used.
- CAPEX: the Group estimates that its investments in intangible fixed assets, mainly for development of and improvements to its technology, will continue to grow in line with the growth in turnover and the human resource structure.

Sensitivity to changes in hypotheses

In view of the differences between the book values of the Company's net assets under analysis and their value in use, management considers it highly unlikely that any reasonably predictable or probable variation in any of the hypotheses set forth above (e.g., a 1% increase in WACC and/or a 1% fall in the growth rate) would mean that the book value of the assets would exceed their recoverable value. Nevertheless, at the end of each financial year the Company reassesses its business plan and adapts the hypotheses on the basis of the current environment and any new forecasts.

5. Tangible fixed assets

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

Cost:

	Euros							
Item	**Cost as at 31.12.21**	**Additions**	**Disposals**	**Cost as at 31.12.22**	**Additions**	**Disposals**	**Transfers**	**Cost as at 31.06.23**
Technical facilities	1,347	---	---	1,347	---	---	---	1,347
Machinery	---	698	---	698	---	(15)	---	683
Other facilities	32,167	---	---	32,167	24,176	---	---	56,343
Furnishings	83,080	13,711	(3,599)	79,481	36,436	(5,297)	---	110,620
Information processing equipment	438,081	581,231	---	1,019,312	132,421	---	---	1,151,733
Transport vehicles	---	26,273	(26,273)	---	---	---	---	---
Land and buildings	---	---	---	---	---	---	1,773,343	1,773,343
Other tangible fixed assets	9,213	---	---	9,213	---	---	---	9,213
Fixed assets in progress and advances	---	947,394	---	947,394	952,495	---	(1,773,343)	126,546
Total cost	**563,887**	**1,569,307**	**(29,871)**	**2,089,612**	**1,145,528**	**(5,312)**	**---**	**3,229,828**

Amortisation:

	Euros							
Item	**Balance as at 31.12.21**	**Additions**	**Disposals**	**Balance at 31.12.22**	**Additions**	**Disposals**	**Transfers**	**Balance as at 31.06.23**
Machinery	---	59	---	(59)	(66)	---	---	125
Other facilities	6,845	3,217	---	(10,062)	(2,011)	---	---	(12,073)
Furnishings	28,784	7,169	(455)	(35,494)	(9,866)	5,170	---	(40,190)
Information processing equipment	101,606	137,178	---	(238,661)	(128,299)	---	---	(366,960)
Land and buildings	---	---	---	---	(14,778)	---	---	(14,778)
Other tangible fixed assets	4,587	712	---	(5,299)	(239)	---	---	(5,538)
Total amortisation	**141,823**	**(148,334)**	**(455)**	**(289,574)**	**(155,259)**	**5,170**	**---**	**(439,664)**

Net book value:

	Euros	
Item	**Balance at 30.06.23**	**Balance at 31.12.22**
Technical facilities	1,347	1,347
Machinery	558	639
Other facilities	44,270	22,105
Furnishings	70,430	57,698
Information processing equipment	784,773	780,651
Other tangible fixed assets	3,674	3,913
Buildings	1,758,565	---
Fixed assets in progress and advances	126,546	947,394
Net book value	**2,790,163**	**1,813,748**

Additions for investments in tangible fixed assets during the half year ended 30 June 2023 and during the 2022 financial year mainly correspond to works – which finished in early June 2023 – on the new business centre in the city of Alicante that the Company has leased to carry out its activity. The other additions mainly involve information technology equipment for newly-recruited personnel.

a) Fully amortised assets:

As at 30 June 2023 the Group holds fully-amortised tangible fixed assets in use, the cost of which amounts to 50,184 euros (36,986 euros at 31 December 2022) in accordance with the following breakdown:

	Euros	
Item	**2023**	**2022**
Furnishings	8,652	4,235
Information processing equipment	36,514	28,715
Other tangible fixed assets	5,018	4,036
Total	**50,184**	**36,986**

b) Insurance:

The Group has taken out insurance policies to cover the risks to which its tangible fixed assets are subject. The coverage provided by these policies is considered to be sufficient.

c) Sundry information

No financial expenses have been capitalised and there are no encumbrances or liens on items of tangible fixed assets. Neither has the Group made or reversed value restatements for impairment of any item of its intangible fixed assets.

d) Operating leases:

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

	Euros			
	Facephi		Rest of Group	
Minimum future payments	**30.06.23**	**31.12.22**	**30.06.23**	**31.12.22**
Up to one year	237,109	120,886	101,126	74,880
Between one and five years	1,538,607	203,499	14.495	18,363
More than five years	1,555,840	---	---	---
Total	**3,331,556**	**324,385**	**101,140**	**93,243**

The following are the amounts of the lease payments recognised in the income statement as expenses for the period under analysis and the most significant characteristics of the lease contracts:

Description of the lease	Expense for period ended 30.06.2023	Expense for the 2022 fin. year	Due date	Renewal	Price update criteria
Offices, garages and storage	23,941	77,886	06/05/2025	N/A	YES (CPI)
Madrid Office	58,247	18,787	30/06/2023	N/A	NO
Subsidiaries' offices	112,733	76,582	30/09/2023	N/A	NO
Computer hardware	550	1,842	21/05/2024	N/A	NO
Computer hardware	982	984	18/06/2022	N/A	NO
Computer hardware		1,009	18/12/2023	N/A	NO
Transport vehicles	10,481	---	03/01/2022	N/A	NO
Transport vehicles	37,462	58,015	08/01/2023	N/A	NO
Rentals, software, cloud and others	255,727	389,632	N/A	N/A	N/A
Total	**500,123**	**624,736**			

The Parent Company entered into two operating leasing contracts during the 2017 financial year 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 leases expired on 3 January 2022. Both contracts were classified as operating leases due to the fact that exercising the purchase option at maturity was not considered at the time of initial recognition. On 8 January 2020 the Parent Company entered into two operating rental contracts for vehicles intended for the use of members of the Board of Directors. The monthly fee amounts to 2,223 euros per vehicle during the three-year term of the lease contracts. These contracts expired in January of the current financial year and the Group has entered into new vehicle leasing contracts intended for use by senior management and members of the Board of Directors. These contracts will terminate in January 2026. The monthly fee of the first contract is 2,726.04 euros and 2,168.19 euros for the second.

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

Due to the fact that the Group has implemented teleworking measures for employees whose functions so enable, this lease contract was terminated by mutual agreement on 30 September 2022. Therefore, this contract no longer exists at the drafting date of these consolidated interim financial statements.

In order to extend its registered headquarters and corporate offices, in the month of May 2020 the Parent Company entered into a new lease contract with a term of five years and monthly rent of 2,493 euros. This contract may be cancelled with two (2) months' prior notice and compensation for withdrawal equal to three (3) month's rent after the first three (3) years. A rental bond amounting to 4,986 euros was placed. At the drafting date of these financial statements this bond has been returned.

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

31 December 2022. A rental bond of 34,000 euros, the equivalent of two monthly rent payments, has been placed. The conditioning works finished in June 2023.

a) *Financial leasing*

During the 2022 financial year the Group acquired an information processing server by entering into a financial leasing contract for a total amount of 275,000 euros. In order to comply with the conditions of substantial transfer of the risks and benefits inherent in ownership of the asset, the recognition and valuation rule set forth in Note 3.4 was activated under the head of "machinery" in the tangible fixed assets account in connection with said financing contract..

The following is a breakdown of the most important conditions of the financing contract in effect during the financial year and its position as at 30 June 2023 and 31 December 2022:

			Euros					
Object of the contract	Start	Term (months)	Cost Asset	Instalments paid as at 30.06.23	Amount pending payment as at 30.06.23			Purchase option
					Capital		Interest pending payment	
					S/T	L/T		
Information Processing unit	15/11/2022	36	275,000	61,687	88,277	132,057	12,276	---
		Total	**275,000**	**61,687**	**88,277**	**132,057**	**12,276**	**---**

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

In relation to said contract, during the half-year ended on 30 June 2023, the Group paid the sums of 43,648 euros and 5,483 euros in principal and interest respectively (10,528 euros and 2,028 euros in the 2022 financial year).

The financial lease transaction in effect as at 30 June 2023 and the previous financial year accrued interest at an average rate of 4.54%.

Accordingly, the following is a breakdown of the book value of the asset acquired under the financial lease contract as at 30 June 2023 and 31 December 2022:

	Euros		
	30.06.23		
Item	Cost	Accumulated amortisation	Net book value
Information Processing unit.	275,000	57,292	217,708
Total	**275,000**	**57,292**	**217,708**

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

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

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

Credit risk

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

Due to their excellent credit standing, the Group's main debtors do not pose specific credit risks of cancellation of the balances pending collection at the end of the financial year. The following is a breakdown of Trade Debtors and other accounts receivable by seniority as at 30 June 2023 and 31 December 2022:

	30.06.23	31.12.22
Long-term debts not due	5,553,355	5,224,239
Short-term debts not due	12,468,384	10,996,804
Past due but not doubtful	1,841,303	204,150
Doubtful	2,144,845	1,897,511
	22,007,887	**18,322,704**
Restatements due to impairment (Note 7.3)	**(2,144,845)**	**(1,897,511)**
Total	**19,863,042**	**16,425,193**

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 9) and the convertible debt issuance financing agreements entered into with the investment fund Nice & Green, S.A. (hereinafter “Nice & Green”) (see note 8.1).

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. Borrowing at fixed interest rates exposes the Company to fair value interest rate risk.

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 11.

The Group's financial management cannot predict the effects of exchange rates on future operating results due to the potential volatility of the foreign exchange markets. The Group does not currently 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 for the Company's cash flows.

d. Price risks

There are no significant price risks.

Fair value estimate

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

7. Financial assets

7.1 Analysis by category

The following table shows the book value of each category of financial instrument provided for in Rule nine of the Spanish General Accounting Plan's (PGC) recognition and valuation rules in accordance with the information set forth in Note 3.7 except for cash and cash equivalents (see Note 7.4):

	Euros			
	Short-term		Long-term	
	30.06.23	31.12.22	30.06.23	31.12.22
Equity instruments				
Valued at cost (Note 7.3)	---	---	---	---
Credits, derivatives and others				
Valued at amortised cost:				
Trade debtors and other accounts receivable (Note 7.3) (*)	14,312,294	11,283,754	5,553,355	5,224,239
Loans to personnel	2,150	2,150	1,700	1,700
Other financial assets (Note 7.3)	223,183	155,553	166,449	168,671
TOTAL	**14,535,627**	**11,441,457**	**5,721,504**	**5,394,610**

(*) 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.

7.2 Analysis by maturity

The following are the amounts of financial instruments with specific or determinable maturities, classified by year of maturity:

As at 30 June 2023:

	Euros					
	30.06.24	30.06.25	30.06.26	30.06.27	Subsequent years	Total
Financial assets						
Debtors and other accounts receivable (*)	14,312,294	2,777,725	1,200,606	677,828	897,197	19,865,650
Other financial assets	223,183	42,714	79,315		44,420	389,632
	14,535,477	**2,820,439**	**1,279,921**	**677,828**	**941,617**	**20,255,282**

As at 31 December 2022:

	Euros					
	2022	2024	2025	2026	Subsequent years	Total
Financial assets						
Equity instruments	---	---	---	---		
Debtors and other accounts receivable (*)	11,283,754	2,247,575	1,401,640	677,828	---	16,507,992
Other financial assets	155,553	42,714	79,315		48,342	325,924
	11,439,306	**2,290,289**	**1,480,955**	**677,828**	**945,539**	**16,833,916**

7.3 Trade debtors and other accounts receivable

	Euros	
	30.06.23	**31.12.22**
Long-term loans and receivables:		
Equity instruments	---	---
Loans to personnel	1,700	1,700
Other financial assets	166,449	168,671
	168,149	**244,187**
Long-term trade credits	**5,553,355**	**5,224,239**
Short-term loans and receivables:		
Loans to personnel	2,150	2,150
Other financial assets	221,033	153,403
	223,183	**155,553**
Trade credits and other short-term accounts receivable		
Trade receivables for provision of services	16,454,532	13,098,465
Impairment of the value of credits for trade transactions	(2,144,845)	(1,897,511)
Sundry debtors	2,607	82,725
Advances to personnel	5,871	75
Deferred tax assets (note 10.1)	(733)	(733)
Other credits with government agencies (Note 10.1)	1,867,863	1,817,267
	16,185,296	**13,100,287**

Loans to personnel

On 11 November 2020 the Group 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 were posted as short and long-term credits to employees respectively.

The amount pending repayment stands at 3,850 euros as at 30 June 2023 of which 2,150 euros are due in the short term and 1,700 euros in the long-term.

Impairment of trade credits

The following is the movement in the provisions for impairment losses on trade receivables:

	Euros	
	30.06.23	**31.12.22**
Initial balance	**1,897,511**	**1,177,596**
Losses for impairment of credits	247,334	719,915
Impairment reversion	---	---
Final balance	**2,144,845**	**1,897,511**

The Group has also recognised a loss of 54,492 euros due to a bad debt in 2023.

The Group's collection conditions allow its customers up to one year to pay for goods and services.

Group management considers that the credit risk is sufficiently guaranteed in view of the solvency of the debtors with whom it works (mainly financial institutions).

Other short and long-term financial assets

As at 30 June 2023 the "Other long-term financial assets" account includes the rental bonds for the Group's offices amounting to 94,342 euros (the same amount as at 31 December 2022), 74,329 euros (the same amount as at 31 December 2022) as a final good-faith bond for the public tender awarded by AENA in financial 2021 for supply and upgrading of a facial biometrics system.

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

Moreover, on 30 June 2023 the "Other short-term financial assets" account includes the sum of 31,344 euros (the same amount as at 31 December 2022) for a fixed-term deposit with a nominal value of $US 35,500 and maturity on 8 July 2023 as a guarantee placed with a customers for provision of licencing, support and consultancy services.

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

7.4 Cash on hand and other cash equivalents

The following is a breakdown of the cash and cash equivalents item on the attached consolidated balance sheet:

	Euros	
	30.06.23	31.12.22
Cash, euros	1,549	1,549
Cash, foreign currency	300	117
Banks and credit inst. demand c/c, euros	1,280,502	1,083,361
Banks and credit inst. demand f.c. (note 11.f)	622,415	1,087,142
Total	**1,904,766**	**2,172,169**

The treasury item under the head of “Banks and financial institutions” includes an entry of 298,515 euros (277,758 euros at 31 December 2022) for financial deposits in the securities trading and settlement entities of Euronext and BME Growth 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 period under analysis there are no restrictions on the availability of the balances kept in demand current accounts.

As a result of the financial restructuring agreement entered into on 14 December 2020, a pledge right has been implemented over the Parent Company’s current accounts and other available liquid assets for the sum of 1,311,783 euros (1,608,374 euros as at 31 December 2022) (see Note 9.3.a).

8. Net equity

8.1 Capital and reserves

The attached statement of changes in net equity shows the breakdown and movement of the Company’s capital and reserves during the financial periods ended on 30 June 2023 and 31 December 2022.

a) Share capital and share premium

The following is the composition of the Parent Company’s share capital and share issue premium as at 30 June 2023 and at the end of the previous financial year:

	30.06.23		31.12.22	
	Capital	Issue premium	Capital	Issue premium
Authorised	720,933	17,405,431	697,311	15,560,800
	720,933	**17,405,431**	**697,311**	**15,560,800**

The following is a breakdown of movements of share capital and share issue premiums recognised as at 30 June 2023 and 31 December 2022:

2023

	Number of shares	Par value	Share capital	Issue premium
Opening balance as at 1 January 2023	**17,432,768**	**0.04**	**697,311**	**15,560,800**
Capital increase 19.01.2023	196,448	0.04	7,858	567,735
Capital increase 26.01.2023	394,104	0.04	15,764	1,276,896
Final balance as at 30 June 2023	**18,023,320**	**0.04**	**720,933**	**17,405,431**

2022

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

Financing contract – Convertible warrants

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

The price of conversion into shares considered in the financing agreement may not be lower than 130% of the nominal value of the Parent Company's shares, which means 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 three trading days prior to the date on which the conversion right is exercised. The investment commitment ended on 31 December 2022.

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

Issuance of the February 2022 equity warrants

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

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

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

With respect to the aforesaid notifications, the associated capital conversion and increase agreement was formalised on 21 March 2022 pursuant to an instrument executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 331 of his journal record and registered in the Companies Registry of Alicante on 6 April 2022.

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

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

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

Issuance of the June 2022 equity warrants

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

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

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

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

Moreover, Nice & Green did not finally execute the sum of 1,000,000 euros for the issuance of the "June 2022 EW". However, the parties entered into separate loans for the aforesaid amount as indicated in Note 12.3.b).

Issuance of the November 2022 equity warrants

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

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

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

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

1,500,000 euros remained to be converted at the beginning of the 2023 financial year. On 10 and 23 January 2023 Nice & Green requested conversion into shares of the amount pending execution under the following conditions:

Notification date	Amount	Conversion of EW	Price in finan. yr.	Par value	Issue premium	Capital	Issue premium
10/01/2023	500,000	196,448	2.5452	0.04	2.5052	7,858	492,141
23/01/2023	1,000,000	394,104	2.5374	0.04	2.4974	15,764	984,235
Totals	**1,500,000**	**590,552**				**23,622**	**1,476,376**

With respect to the aforesaid notifications, the associated capital conversion and increase agreements were formalised on 16 and 23 January 2023 pursuant to instruments executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under numbers 62 and 95 of his journal record and registered in the Companies Registry of Alicante on 13 and 24 February 2023 respectively.

Effect on the income statement and on net equity as at 30 June 2023 and 31 December 2022 of the convertible EW issues and their conversion into treasury shares

Since the fixed-for-fixed swap rule was not met in accordance with the valuation criteria and standards set forth in note 3.8.b), according to the EW issuance conditions a financial derivative is created during the life of the warrant issue until the time it is converted into shares.

The variation in the fair value of the financial derivative as at 31 December 2022 entails a net loss of 99,903 euros After the conversion of the outstanding amount of 1,500,000 euros in the two capital increases in January 2023 mentioned above, the actual loss at the time of both conversions was 368,255 euros as increased value of the issue premium. Therefore, a loss was recognised in the consolidated income statement under the head of "17. Variation in the fair value of financial instruments" as at 30 June 2023.

Variations in the fair value of the derivative during its lifetime (i.e., from the signature date to exercise of the option), were recognised on 31 December 2022 for a total of 578,215 euros (298,928 euros at 30 June 2023) under the head of “17. Variation in the fair value of financial instruments” in the consolidated income statement as a financial cost and recognised as a balancing entry in consolidated net equity as an increased share premium equivalent to the sum of the cash received for the conversion minus the fair value accumulated by the derivative until that moment.

These variations are set forth in the following breakdown:

As at 30 June 2023

	Number of shares	Conversion price	Fair value	Share premium / Cost
Capital increase 19.01.2023	196,448	2.5452	2.93	75,593
Capital increase 26.01.2023	394,104	2.5374	3.28	292,662
				368,255

As at 31 December 2022

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

Financing contract – Convertible debentures

On 27 April 2023 the Parent Company entered into a third financing agreement with similar features to the previous transactions with Nice & Green, S.A., but this time the financing instruments are different since the agreement calls for issuance of convertible debentures. The Parent Company's Extraordinary General Meeting held on 20 June 2023 agreed, in accordance with article 297.1.b) of the Corporate Enterprises Act (LSC), to delegate the power to issue debentures convertible into shares in the Parent Company for a maximum conversion sum of twenty million euros (€ 20,000,000) to the and to increase the Company’s share capital by the amount required to address conversion of said debentures to the Board of Directors. In accordance with art 417 of the LSC, the pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green S.A. Said delegated power was limited by the condition that the total amount of the increases in share capital agreed on one or more occasions may not exceed the equivalent of half of the share capital at the time, i.e. 360.466.40 euros under any circumstances.

The number of new shares to be issued on conversion of each convertible debenture shall be determined in accordance with the following formula:

N = Vn /P
Where:

“N”: is the number of new shares to be issued.
“Vn”: is the calling price of the convertible debentures.
“P”: is (i) the issue price rounded to four (4) decimal places or; (ii) the par value of the shares, whichever is higher.

The issue price shall be calculated by applying the following formula:

Issuance price = benchmark VWAP * 92%
“Benchmark price” means (i) the VWAP published on the trading day immediately prior to the conversion date or (ii) the VWAP of the three (3) trading days immediately prior to the conversion date, whichever is lower. The VWAP of the trading days on which the issuer has sold more than 15% of the daily trading volume of the shares shall be excluded for the purposes of calculating the benchmark VWAP.

As at 30 June 2023, there have been no issue or conversions in connection with said financing instrument with respect to the cash on hand used to date (Nota 9).

a.2) Share capital and issue premium executed in previous financial years

The conditions of the share capital issues executed and formalised in previous financial years and performed pursuant to the financing framework agreement entered into on 16 September 2019 with Nice & Green S.A. were reported in detail in the reports to the Parent Company’s individual Annual Financial Statements for the relevant financial years. Section a.1) above also contains a breakdown of the impact of the share issues and capital increases in the 2023 and 2022 financial years on net equity.

a.3) Significant holdings

Pursuant to the provisions of Regulation (EU) 596/2014 on market abuse, of Article 227 of the Consolidated Text of the Securities Market Act adopted by Royal Legislative Decree 6/2023 of 17 October and of BME MTF Equity’s BME Growth Circular 3/2020, as at 30 June 2023 and 31 December 2022 the following shareholders held percentages of the Parent Company’s share capital equal to or greater than 5%:

	%	%
	06/2023	**12/2022**
Banque Cantonale Vaudoise (Nice & Green)	13.59	11.06
Salvador Martí Varó	6.33	7.40
Javier Mira Miró (*)	4.35	6.02
Juan Alfonso Ortiz Company (**)	3.98	6.45
José Cristóbal Callado Solana	4.99	5.31

(*) 6.82%, considering the 141,470, 35,196, 33,000, and 235,001 shares pledged as collateral to Nice & Green according to the Material Fact published on 18 September 2019, the Inside Information published on 15 December 2020, the Other Material Information published on 1 July 2022 and the Inside Information published on 5 May 2023 respectively.

(**) 6.50% taking into account 150,586, 26,080, 43,666 and 235,001 shares deposited with Nice & Green as collateral pursuant to the Material Fact published on 18 September 2019, the Inside Information published on 15 December 2020, the Other Material Information published on 1 July 2022 and the Inside Information published on 5 May 2023 respectively.

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 collateral.

b) **Treasury shares**

All treasury shares held as at 30 June 2023 amount to 374,326 euros (454,079 euros at 31 December 2022) represented by 151,144 shares (155,144 shares at the end of the previous financial year), which represents 0.93% (0.84% as at 31 December 2022) of the Parent Company's share capital. Therefore, it is well below the 10% limit set 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 shares 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.
- With a minimum and maximum price: 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 half year ended 30 June 2023 and the financial year ended on 31 December 2022:

	31.12.22	**Acquisitions**	**Disposals**	**30.06.2023**
Cost of treasury shares	454,079	205,321	(285,074)	374,326

	31.12.21	**Acquisitions**	**Disposals**	**31.12.022**
Cost of treasury shares	556,510	338,101	(440,533)	454,079

During the half year ended in June 2023 the Company sold treasury shares for a loss of 54,662 euros (earnings of 181,184 euros in 2022) which has been entered under the head of "*Voluntary Reserves*".

c) **Parent Company's Reserves**

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

	Euros	
	2023	**2022**
Legal reserve	139,933	108,553
Voluntary Reserve	491,737	592,811
Ecertic merger reserves	(592,985)	(592,985)
Total	**38,685**	**108,379**

Legal reserve

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

Voluntary reserves

Voluntary reserves include profits from previous years that were neither distributed nor assigned to mandatory reserves as at 30 June 2023 and 31 December 2022.

These reserves are freely available.

As set forth in the attached Consolidated Statement of Changes in Net Equity, during the half year ended on 30 June 2023 the sum of 61,200 euros (179,625 euros in the previous financial year) net of tax effect was charged against these reserves for the cost of issuance and expenses incurred as a result of the capital increases capitalised during the year and 54,662 euros (181,184 euros in the 2022 financial year) for the results obtained from the sale and purchase of treasury shares (see Note 8.1.b).

Limitations on allocation of dividends

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

- If the value of net assets is at least equal to that of the share capital once the distribution has been applied. For these purposes, the profits allocated directly to net equity may not directly or indirectly distributed. If there are losses from previous years that reduce the Parent Company's net equity to less than the figure for the share capital, the profit, if any, shall be used to offset these losses before it can be allocated to other uses.

- If there are intangible assets deriving from capitalisation of R&D expenses and/or goodwill on the asset side of the balance sheet. In this event, dividends may only be distributed if the amount of available reserves is at least equal to the net amount of the non-amortised intangible assets.

d) Reserves in consolidated companies

In accordance with the criteria set forth in note 3.1, this entry in Capital and Reserves on the consolidated balance sheet represents undistributed profits generated by the subsidiaries from the date of their incorporation into the Group. The following is a breakdown of this item as at 30 June 2023 and 31 December 2022.

	Euros	
	2023	**2022**
By full consolidation:		
Facephi APAC	(212,630)	(146,202)
Celmuy	43,450	---
Facephi Beyond UK	(909,089)	---
Total	**(1,078,269)**	**(146,202)**

e) Contribution to consolidated outcome

The following table shows the contribution of each company in the consolidation perimeter to the consolidated outcome:

	Profit (Loss)		
Subsidiary	**June 2023**	**June 2022**	**2022**
Facephi – Parent company	(3,517,508)	(883,256)	2,052,553
Ecertic – Subsidiary	---	---	---
Facephi APAC – Subsidiary	(29,338)	(33,568)	(66,428)
Celmuy – Subsidiary	42,475	(151,973)	43,450
Facephi Beyond UK – Subsidiary	(1,190,687)	---	(909,089)
Consolidation restatements		---	(13,819)
Total	**(4,695,056)**	**(1,068,797)**	**1,106,667**

8.2. Restatement for value changes - conversion differences

In compliance with the conversion criteria for annual financial statements of foreign companies that use a functional currency other than the euro set forth in note 3.1, the Group has recognised a negative conversion difference amounting to 212,977 euros net of the associated tax effect (4,030 euros in the 2022 financial year) on the consolidated balance sheet in net equity as at 30 June 2023. Said amount represents the difference between the amount of the net equity of the subsidiaries converted at the historical exchange rate and the net equity position deriving from the conversion of assets, rights and debentures at the closing exchange rate of all local currencies in which each member of the Group operates.

The following is the breakdown of conversion differences during the half-year ended on 30 June 2023 and during the 2022 financial year:

	Euros	
	2023	**2022**
Balance at start of financial year	**4,030**	**(3,335)**
Variation in equity for conversion differences	(161,911)	(4,750)
Conversion diff. on addition to consolidation perimeter	---	12,116
Balance at end of financial year	**(157,881)**	**4,030**

8.3. Subsidies

The following table shows the amount and nature of the subsidies on the Balance Sheet as of 30 June 2023 and 31 December 2022 under the head of "*Subsidies, donations and bequests*" and their variations during this and the previous financial year:

Financial year at 30 June 2023

Granting body	Year granted	Amount granted	Balance at 31.12.22	Additions for year	Transferred to profit (loss) 30.06.23	Tax effect	Balance at 30.06.23
Europe (H2020)	2016	1,692,600	15,699	---	(20,932)	5,233	0
CDTI	2018	180,390	34,141	---	(18,228)	4,557	20,470
IMIDCA	2021	110,884	74,847	---	(11,088)	2,722	66,481
IMINOD	2021	25,154	15,092	---	(2,515)	629	13,206
Red.es	2022	416,621	37,843	366,115	(88,361)	(69,398)	246,208
		2,425,649	**177,622**	**366,115**	**(141,124)**	**(56,248)**	**346,365**

Financial year at 31 December 2022

Granting body	Year granted	Amount granted	Balance as at 31.12.21	Additions for financial year	Transferred to profit (loss) 31.12.22	Tax effect	Balance at 31.12.22
Europe (H2020)	2016	1,692,600	65,997	---	(67,063)	16,766	15,699
CDTI	2018	180,390	61,484		(36,456)	9,114	34,141
IMIDCA	2021	110,884	---	110,884	(11,088)	(24,949)	74,847
IMINOD	2021	25,154	---	25,154	(5,031)	(5,031)	15,092
Red.es	2022	50,457	---	50,457	---	(12,614)	37,843
		2,059,485	**127,480**	**186,495**	**119,639**	**(16,714)**	**177,622**

With a total budget of nearly 80,000 million euros between 2014 and 2020, H2020 is the largest European funding program 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 its activity during the following 24 months consisting of execution of the project known as "Facial Recognition in Banking Security (FACES)".

This agreement contained a clause whereby the subsidy would be awarded 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 Fixed Assets and, on the other, for operating costs. 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 on the occasion of acquisition of the subsidiary Ecertic Digital Solutions, S.L.U., the Group recognised grants for a net amount of 116,168 euros as a result of a grant awarded in 2018 for a gross amount 180,390 euros to finance the project to develop a platform for accreditation of digital identity using biometric technology.

Group companies were awarded the following capital subsidies during the 2022 financial year:

- On 30 November 2021 the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy of 70,663 euros for “SME Innovation Projects. Innovation in Electronic, Information and Communication Technologies (EICTs) 2021” for an eligible cost of 162,500 euros. The eligible expenses period runs from 1 January 2021 to 31 December 2022. All the project execution works were carried out during the first half of the 2022 financial year.

- On 23 December 2021 the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy of 141,139 euros for “R&D projects in Cooperation (PIDCOP-CV) 2021” for eligible costs totalling 235,615 euros. The project execution period was from 11 March 2021 to 31 December 2022.

During the 2022 financial year the Group has benefitted from a RED.ES, M.P subsidy under the 2021 call for aid aimed at design engineering for research and development in artificial intelligence and other digital technologies and their integration into value chains for the sum of 1,270,090 euros to support investment in personnel costs. The Company is currently capitalising this grant and recognises it as a subsidy in net equity on the basis of the costs actually incurred. As at 30 June 2023 the Company maintains a portion in short-term liabilities as debt convertible into subsidies amounting to 790,750 euros (905,233 euros short-term and 307,189 euros long-term as of 31 December 2022)."

9. Financial liabilities

9.1 Analysis by category

The following table shows the book value of each category of financial liabilities provided for in Rule nine of the Spanish General Accounting Plan’s (PGC) recognition and valuation rules in accordance with the information set forth in Note 3.8:

	Euros					
	Long-term financial liabilities					
	Debts with credit inst.		Creditors for financial leasing		Derivatives and others (*)	
Valued at amortised cost:	30.06.23	31.12.22	30.06.23	31.12.22	30.06.23	31.12.22
Debits and accounts payable (Note 9.3)	3,856,051	3,649,671	132,057	176,195	---	307,189
TOTAL	**3,856,051**	**3,649,671**	**132,057**	**176,195**	**---**	**307,189**

(*) Does not include balances with government agencies.

Euros		
Short-term financial liabilities		
Debts with credit inst.	Creditors for financial leasing	Derivatives and others (*)

Valued at amortised cost:	30.06.23	31.12.22	30.06.23	31.12.22	30.06.23	31.12.22
Debits and accounts payable (Note 9.3)	7,634,724	3,918,990	88,277	88,277	11,944,022	7,879,879
TOTAL	**7,634,724**	**3,918,990**	**88,277**	**88,277**	**11,944,022**	**7,879,879**

(*) Does not include balances with government agencies.

9.2 Analysis by maturity

The following are the amounts of financial liabilities with specific or determinable maturities, classified by year of maturity:

As at 30 June 2023:

	Financial liabilities					
	30/6/24	30/6/25	30/6/26	30/6/27	Subsequent years	Total
Debts with financial institutions Financial leasing creditors	7,634,724	1,931,774	1,219,477	704,800	----	11,490,775
Derivative (Note 8.1)	88,277	132,057	---	---	---	220,334
Other financial liabilities	11,944,022	---	---	---	---	11,944,022
	19,667,023	**2,063,831**	**1,219,477**	**704,800**		**23,655,131**

As at 31 December 2022:

	Financial liabilities					
	2023	2024	2025	2026	Subsequent years	Total
Debts with financial institutions	3,918,990	1,543,635	1,700,227	171,183	234,625	7,568,660
Financial leasing creditors	88,277	92,287	83,908	---	---	264,472
Other financial liabilities	7,879,879	307,189	---	---	---	8,187,068
	11,887,146	**1,943,111**	**1,784,135**	**171,183**	**234,625**	**16,020,200**

9.3. Debits and accounts payable

	30.06.23	31.12.22
Long term debts:	**3,988,108**	**4,133,055**
Debts with financial institutions	3,856,051	3,649,671
Financial leasing creditors	132,057	176,195
Debts convertible to subsidies (note 8.3)	---	307,189
Short term debts:	**14,127,607**	**7,312,155**
Debts with financial institutions	7,634,724	3,918,990
Financial leasing creditors	88,277	88,277
Debts convertible to subsidies (note 8.3)	790,750	905,366
Derivatives (Note 8.1.a.3)	---	99,093
Other financial debts	5,613,856	2,300,429
Trade creditors and other accounts payable:	**5,962,250**	**5,096,716**
Short-term debts with suppliers	2,343,261	574,252
Sundry creditors	2,175,590	2,468,018
Trade advances	25,091	26,091
Personnel (salaries pending payment)	995,474	1,506,629
Current tax liabilities	---	87
Other debts with government agencies (Note 10.1)	422,834	521,726
Debits and accounts payable	**24,077,965**	**16,542,013**

The following is a breakdown of the debts with credit institutions as at 30 June 2023 and 31 December 2022:

	Euros		Euros	
	30.06.23		31.12.22	
	Short-term	Long-term	Short-term	Long-term
Bank loans	7,480,802	3,856,051	3,837,170	3,649,671
Debts for drawn credit (debtor)	---	---	---	---
Credit cards	71,672	---	50,268	---
Uncollected accrued interest	82,250	---	31,551	---
Total	**7,634,724**	**3,856,051**	**3,918,990**	**3,649,671**

a) Loans with credit institutions

The following is a breakdown of the most important conditions of the financial loans in effect as of 30 June 2023 and 31 December 2022:

			Euros			
			30.06.23		31.12.22	
Type of transaction	**Maturity**	**Limit**	**Short-term**	**Long-term**	**Short-term**	**Long-term**
Loan [(1)]	03.04.28	1,000,000	161,311	655,153	159,502	736,255
Loan [(2)]	08.05.26	1,000,000	24,940	975,060	---	---
Syndicated loan A	30.06.25	6,000,000	1,306,042	2,225,838	1,231,169	2,913,416
Syndicated credits B	21.04.23	5,000,000	5,000,000	---	1,999,999	---
Syndicated credits C	13.02.23	2,000,000	988,509	---	446,500	---
		Total	**7,480,802**	**3,856,051**	**3,837,170**	**3,649,671**

[(1)] ICO PYMES loan On 3 May 2021 the Group obtained an extension of the grace period for repayment of the principal and the associated extension of maturity.

[(2)] ICO Loan executed on 8 May 2023 with a grace period of one year.

The interest rate for debts with credit institutions is the Euribor plus a margin considered to be consistent with market costs. As at 30 June 2023 the Group has recognised the sum of 82,250 euros as accrued interest pending settlement (11,713 euros at the end of the previous financial year).

The average interest rate on long-term debts with credit institutions, as of 30 June 2023 is 5.85% (4.90% in the previous financial 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 agreement, which is structured in three tranches:

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

The interest rate applicable to each settlement period will be Euribor + an initial 2.5% 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 its future cash flows set forth in the business plan, Group Management considers that it will be able to meet all its contractual obligations deriving from the loans and financial credits currently in effect.

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

The Company expects to comply with the ratios set for the 2023 financial year. If said compliance is in doubt, and as a precautionary measure, the Company undertakes to set the appropriate procedures in motion to request and obtain a waiver from the credit institutions for the syndicated loan before the end of the year in order to avoid the requirement of short-term amortisation of said credit.

b) Other short-term financial liabilities

The following is a breakdown of other short-term financial liabilities as at the end of the financial year:

Type of transaction	30.06.2023	31.12.2022
Debts convertible to subsidies (note 8.3)	790,750	905,366
Nice & Green loans	5,613,856	2,300,002
Others	---	99,520
Total	**6,404,606**	**2,641,247**

As at 30 June 2023 the Parent Company is involved in two financial transactions with Nice & Green for a total of 5.6 million euros as shown in the following breakdown:

- Payment of five (5) million euros by treasury outlays of 2.5 million euros on 27 April 2023, 1.25 million euros on 5 June 2023 and 1.25 million euros on 19 June 2023 for capital increases pursuant to the framework financing agreement signed in May 2023 (note 8.1), the amortised cost value of which amounts to 4,913,427 euros. In view of the fact that it was a financial instrument at amortised cost, the Parent Company recognised the implicit financial expenses on the basis of twelve (12) months from each treasury outlay since the timeframe of conversion by the investor is unknown. The interest recognised as at 30 June 2023 amounts to 63,427 euros. The Company enters the outstanding implicit interest at the time of conversion if a conversion is executed before the maturity date.

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

1.5 million euros had been recognised from the previous financing agreement with Nice & Green, which has already been sold as at 31 December 2022. This amount was converted to capital in two conversions executed in January 2023 (note 8.1).

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

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

Item	**30.06.23**	**31.12.22**
	Days	**Days**
Average period of payment to suppliers	28.12	24.58
Paid transaction ratio	28.42	23.76
Past-due transaction ratio	27.30	49.54
	Euros	
Total payments made	6,661,357	7,266,275
Total pending payments	2,384,015	842,452

	06/2023	**31/12/2022**
Number of invoices		
Total number of invoices paid	1,292	2,191
Number of invoices paid before the legal deadline	1,224	2,093
%	95%	96%
Amount in euros		
Total amount of paid invoices	6,661,357	11,245,432
Amount of invoices paid within the legal deadline	5,842,412	10,440,799
%	88%	93%

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 Services encompasses the amounts recognised as such in accordance with the Spanish General Accounting Plan.

10. Government agencies and tax position

10.1 Current balances with government agencies

The following is the composition of the Company's credit and debit balances with government agencies as at 30 June 2023 and 31 December 2022:

	Euros			
	30.06.23		31.12.22	
	Assets	Liabilities	Assets	Liabilities
Deferred tax assets (Note 10.4)	**1,555,337**		**1,558,878**	
Deferred tax asset for:				
• VAT	318,810		336,265	
• Withholdings and payments on account	77,014		483	
Other govt. agencies: Subsidies granted	1,480,518		1,480,518	
Other credits with government agencies	**1,876,342**		**1,816,267**	
Deferred tax liabilities (note 10.4)		**115,455**		**64-092**
Debts with Social Security Organisations		219,604		328.03 5
Deferred tax liability for:				
• VAT		3,244		10,153
• Personal income tax withholdings		199,986		183,538
Other debts with government agencies		**422,834**		**521,726**
Current tax assets/liabilities	**(733)**	**--**	**(733)**	**87**

10.2 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 30 June 2023, all the Group's 's tax returns since 30 June 2019 for the main taxes to which it subject are pending inspection.

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

10.3 Reconciliation of the accounting outcome and current expense for profit tax

Since these are consolidated interim financial statements, no provision has been made for profit tax due to the fact that the Group has reported losses during the half year ended 30 June 2023. Notwithstanding the above, there is an entry in this income statement for the sum of 182,034 euros (150,190 euros as at 30 June 2022) for withholdings at origin by the tax agencies of third countries, deduction of which is pending recognition for double taxation at the end of the period.

10.4 Deferred tax assets and liabilities

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

The following is a breakdown of the Group's deferred tax assets recognised in the consolidated interim balance sheet as at 30 June 2023 for the sum of 1,555,337 euros, unchanged with respect to the year ended 31 December 2022.

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

(*) 2022 corporation tax estimate (Note 13.3)

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

Tax credits for negative taxable bases

The Company had taxable bases for the sum of 1,552,135 euros that had been offset at the end of the previous financial year.

Deferred tax liabilities

The temporary differences derived from the subsidies received by the Group and transferred to the outcome for the financial year are set forth in this section.

The following is the breakdown of movements under this head during the 2023 and 2022 financial years:

	Euros	
	2022	**2022**
Initial balance	**64,092**	**42,493**
Temporary differences created / (reversed) for:		
- Capital subsidies granted (Note 8.3)	91,529	46,624
- Capital subsidies transferred to profit/(loss) (note 8.3)	(35,281)	(29,910)
- Conversion differences	(4,885)	4,885
Final balance	**115,455**	**64,092**

11. Income and expenditure

a) Net turnover

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

	%	%
Market	**06/2023**	**6/2022**
Spain	1.8	2.32
Rest of the European Union	---	---
Other countries	98.20	97.68
	100.00	**100.00**

Net turnover can also be analysed by business line:

	%	%
Line	**06/2023**	**6/2022**
Provision of services	100	100
	100	**100**

As at 30 June 2023 the sum of 876,189 euros (393,809 euros at 30 June 2022) 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, maintenance services and provision of SaaS services (cloud computing) that will accrue during the next half-year.

b) Supplies

Costs accrued for licensed use of certain computer programs and software necessary to develop the products that the Group will subsequently market under license are set forth under this head in the consolidated income statement. The sum of 1,899,781 euros has been recognised as at 30 June 2023 (1,426,879 euros at 30 June 2022).

c) Work performed by the Group for its assets

	Euros	
	06/2023	**6/2022**
Work carried out by the Company for its assets		
Facephi (Note 4)	2,100,488	1,855,813
	2,100,488	**1,855,813**

The amounts set forth in the above table, capitalised in intangible assets, originate in the improvements and new versions of its computer applications that the Group has continued to make (see note 4).

d) Personnel expenses

The following is a breakdown of this item as at 30 June 2023 and 2022

	Euros	
	06/2023	6/2022
Wages, salaries and similar	5,534,669	3,537,621
Severance payments	16,282	---
Company's Soc. Sec. payments	932,342	687,283
Other social expenses	94,730	40,793
Remuneration: Defined contrib. pension scheme	---	9,755
Provisions	54,770	----
	6,632,793	**4,275,452**

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

	06/2023	6/2022
Senior management	1	1
Scientific, intellectual and support technicians and professionals	155	139
Clerical workers	54	42
Sales force	19	6
Total average employees	**229**	**188**

These Company employees were distributed by gender as follows:

	06/2023			6/2022		
	Men	Women	Total	Men	Women	Total
Executive directors	1	---	1	1	---	1
Scientific, intellectual and support technicians and professionals	126	29	155	116	23	139
Clerical workers	20	34	54	12	30	42
Sales force	13	6	19	4	2	6
Total workforce at the end of the period	**159**	**69**	**229**	**133**	**55**	**188**

At 30 June 2023 and 2022, the Company employs 2 workers with a disability equal to or greater than 33%.

e) Other operating expenses

The following is a breakdown of this item as at 30 June 2023 and 2022:

	Euros	
	06/2023	6/2022
External services:		
Leases and royalties	489,642	261,288
Repairs and upkeep	17,843	10,827
Freelance professional services	4,130,787	2,316,837
Transport	13,407	598
Insurance premiums	88,719	51,978
Banking and similar services	47,693	47,072
Advertising, promotion and public relations	555,587	515,232
Supplies	7,010	7,147
Other services	662,209	401,462
Other expenses		
Taxes	3,672	4,510
Losses, impairment and variation of provisions for trade transactions	301,826	59,618
Other operating expenses	**6,318,395**	**3,676,570**

f) Foreign currency: Exchange differences

The overall value of assets included in the Consolidated Interim Balance Sheet denominated in foreign currency (f.c.) amounts to 6,461,570 euros. The following are the most significant items:

		Euros	
Item	**Currency**	**06/2023**	**6/2022**
Trade accounts (foreign currency)	USD	2,857,443	3,216,701
Trade accounts (foreign currency)	KRW	20,140	90,952
Treasury (c/c in f.c.)	USD	622,459	2,839,051
Treasury (c/c in f.c.)	KRW	232,938	282,604
Treasury (cash f.c.)	USD	5	918
Fixed-term deposits (f.c.)	USD	31,344	31,344
	Total	**3,764,329**	**6,461,570**

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

		Euros	
Item	**Currency**	**6/2023**	**6/2022**
Creditors (f.c.)	USD	1,367,370	1,289,658
Creditors (f.c.)	KRW	21,451	15,587
Creditors (f.c.)	GBP	1,419	---
Trade advances	KRW	25,091	74,515
	Total	**1,415,331**	**1,379,760**

The following are the amounts of transactions conducted in foreign currency:

	Euros	
	6/2023	6/2022
Services received (USD)	(1,744,174)	(1,619,859)
Sales, provision of services (USD)	9,267,330	7,523,305
Sales, provision of services (KRW)	204,555	156,848
Services received (KRW)	(27,917)	(54,758)

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 30 June 2023 and 2022:

Financial instrument	Currency	Exchange differences 6/2023	Exchange differences 6/2022
Negative cash differences	USD	3,759	1,129
Positive cash differences	USD	(1,870)	(68,338)
Negative differences from trade collections	USD	127,460	11,574
Positive differences from trade collections	USD	(68,661)	(112,264)
Negative differences for payments to suppliers	USD	1,491	45,005
Negative cash differences	KRW	---	---
Positive cash differences	KRW	---	(6,073)
Positive differences balances with financial inst.	USD	(7,035)	(267)
Positive differences for supplier payments	USD	(19,732)	(923)
Total for transactions settled during the period		**35,412**	**(130,157)**

Financial instrument	Currency	Exchange differences 6/2023	Exchange differences 6/2022
Positive differences due to trade balances	USD	(234,835)	(162,030)
Positive differences due to financial investment bal.	USD	467	(254)
Negative differences for supplier balances	USD	(20,726)	13,018
Total for transactions pending maturity		**(255,094)**	**(161,300)**
Total exchange differences attributed		**(219,682)**	**(291,457)**

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

The Governing Bodies and the Board of Directors received the following remuneration for the 2023 financial year in accordance with the proposal by the Appointments and Remuneration Committee dated 20 April 2022, subsequently ratified by the Parent company's General Meeting held on 30 June 2023:

- Senior management remuneration: a fixed amount of 660,000 euros plus a variable payment subject to the variation in certain objective magnitudes.

- Remuneration of the Board of Directors: the sum of 390,000 euros, of which the sum of 300,000 euros is earmarked for remuneration for the Audit Committee and the Appointments and Remuneration Committee.

Pursuant to these agreements, the following remuneration accrued as of 30 June 2023 and 2022:

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

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

	Euros	
	6/2023	6/2022
Remuneration:		
Remuneration-Senior Management	330,000	420,000
Variable remuneration-Senior Management	165,000	60,000
Board and Audit and Remuneration Committee allowances	195,000	150,000
Insurance premiums	2,623	2,492
Total remuneration	**692,623**	**632,492**

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

b) Directors in relation to conflicts of interest

In compliance with the duty of avoiding situations that could entail conflict with the interest with the Group, 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 (no such cases have occurred in this financial year to date) provided for in article 229 of said Act.

13. Provisions and contingencies

The Parent Company has placed sureties to guarantee compliance with the service and licensing contracts entered into with some of its clients. The following is a breakdown of these bonds as at 30 June 2023 and 31 December 2022:

			Euros	
Issue	**Maturity**	**F.C.**	**30/06/23**	**31/12/22**
08/07/2021	20/09/2026	USD (*)	33,133	33,133
04/01/2022	08/01/2024	USD (**)	9,375	9,375
14/09/2022	31/08/2023	EUR	50,000	49,864
15/03/2023	30/07/2024	USD	17,063	---
31/01/2022	25/08/2024	USD	23,951	23,951
12/05/2022	16/05/2023	USD	---	142,415
12/04/2023	01/04/2024	USD	102,294	---
		Totals	**235,816**	**258,739**

(*) Said surety is pledged in a fixed-term deposit for USD 35,500 (Note 7).

(**) Said surety is pledged in a fixed-term deposit for USD 10,000 (Note 7).

As at 30 June 2023, the Group recognised a provision for the sum of 362,089 euros with the associated expense under the head of “supplies” on the consolidated income statement in relation to the estimated expenses associated with a supplier on a sale already made.

14. Sundry information

a) Audit fees

On 30 July 2023 the Parent Company's General Meeting agreed to appoint ERNST & YOUNG, S.L. as auditors for the financial years ending on 31 December 2023, 2024 and 2025.

The following are the estimated professional fees for the financial year 2023 for the services provided by the current auditors and those invoiced to the former auditors in 2022:

	Euros	
	2023 estimate	**2022**
Audit services:		
Audit of the individual annual financial statements	37,000	24,650
Audit of consolidated annual financial statements	16,400	11,000
Other services related to the audits:		
Review of the consolidated interim financial statements as at 30/06	22,600	14,190
Other accounting verification services:	2,400	6,600
Total	**78,400**	**56,440**

As at 30 June 2023 no additional fees have accrued by other companies belonging to the same network as the Auditor (nor at 31 December 2022 by the previous auditor).

b) Off-balance-sheet agreements

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

15. Subsequent events

The Parent Company has reached an agreement with Compañía Española de Financiación del Desarrollo, COFIDES, S.A., S.M.E, under which the latter grants the former a FONPYME credit line for a term of three (3) years with a maximum total amount of 500,000 euros as financial support for the establishment of a sales and marketing subsidiary in the United Kingdom.

On 21 July 2023 the Parent Company requested issuance for conversion of convertible debentures for the sum of 5,000,000 euros (500 debentures with a nominal value of 10,000 euros each) under the financing contract entered into with Nice & Green (notes 8.1 and 9). The agreement was attested before notary public on 24 July 2023. Nice & Green undertakes to execute the conversion within twelve (12) months.

On 27 July 2023 Nice ¬ Green notified conversion of 2,800,000 euros (280 debentures with a nominal value of 10,000 euros each) under the following conditions:

Notification date	Amount	Conversion (shares)	Price in finan. yr.	Par value	Issue premium	Capital	Issue premium
27/07/2023	2,800,000	1,214,655	2.2648	0.04	2.3048	48,594	2,751,404

This conversion was executed before notary public on 2 August 2023.

There have been no other significant subsequent events as at the drafting date of these consolidated interim financial statements.

Alicante, 30 September 2023

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