Annual Financial Statements and Management Report
31 December 2023

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Management Report

Balance sheet
as at 31 December 2023
(In euros)

ASSETS	NOTES TO THE REPORT	31/12/2023	31/12/2022
A) NON-CURRENT ASSETS		**30,427,857**	**16,681,956**
I. Intangible fixed assets	4	**11,837,865**	**7,606,650**
1. Development		675,842	339,522
3. Patents, licences, trademarks and similar		68,367	60,018
5. Computer applications		11,093,656	7,207,110
II. Tangible fixed assets	5	**2,256,865**	**1,713,190**
1. Land and buildings		2,025,031	0
2. Technical facilities and other tangible fixed assets		540,834	765,796
3. Fixed assets in progress and advances		0	947,394
IV. Long-term investments in group and associated companies	8	**3,925,417**	**454,627**
1. Equity instruments		435,430	435,314
2. Loans to companies		3,489,987	19,313
V. Long-term financial investments	9	**129,785**	**127,913**
2. Loans to third parties		1,700	1,700
5. Other financial assets		128,085	126,213
VI. Deferred tax assets	13	**4,901,032**	**1,555,337**
VII. Non-current trade debts	9	**7,067,893**	**5,224,239**
B) CURRENT ASSETS		**18,085,530**	**16,252,849**
III. Trade debtors and other accounts receivable	9	**14,762,253**	**12,951,027**
1. Clients for sales and provision of services		12,973,216	11,147,258
2. Clients, Group and associated companies	16	0	47,713
3. Sundry debtors		433	433
5. Current tax assets	13	(733)	(733)
6. Other credits with government agencies	13	1,789,338	1,756,357
IV. Short-term investments in group and associated companies	8	**0**	**885,456**
2. Loans to companies		0	885,456
V. Short-term financial investments	9	**49,414**	**55,793**
5. Other financial assets		49,414	55,793
VI. Short-term accruals		**675,239**	**448,792**
VII. Cash and cash equivalents	10	**2,598,624**	**1,911,782**
1. Treasury		2,598,624	1,911,782
TOTAL ASSETS (A+B)		**48,513,387**	**32,934,804**

The attached report forms an inseparable part of the Balance Sheet as at 31 December 2023.

Balance sheet as at 31 December 2023 (In euros)			
NET EQUITY AND LIABILITIES	NOTES TO THE REPORT	31/12/2023	31/12/2022
A) NET EQUITY	11	**23,199,752**	**16,301,258**
A-1) Capital and reserves	11.1	**22,569,909**	**16,123,636**
I. Capital		**851,585**	**697,311**
1. Authorised capital		**851,585**	**697,311**
II. Issue premium		**24,231,301**	**15,560,800**
III. Reserves		**208,198**	**108,379**
1. Legal and statutory		**139,462**	**108,553**
2. Other reserves		**68,735**	**(175)**
IV. (Treasury stock)		**(393,977)**	**(454,079)**
V. Profit (loss) previous financial years		**0**	**(1,841,328)**
2. (Losses from previous financial years)		**0**	**(1,841,328)**
VII. Profit (loss) for the financial year		**(2,327,198)**	**2,052,553**
A-3) Grants, donations and bequests received	11.2	**629,843**	**177,622**
B) NON-CURRENT LIABILITIES		**3,258,245**	**4,229,166**
I. Long-term provisions		**36,904**	**36,904**
4. Other provisions		36,904	36,904
II. Long-term debts	12	**3,011,394**	**4,133,055**
2. Debts with credit institutions		2,927,486	3,649,671
3. Financial leasing creditors		83,908	176,195
5. Other financial liabilities		0	307,189
IV. Deferred tax liabilities	13	**209,947**	**59,207**
C) CURRENT LIABILITIES		**22,055,390**	**12,404,380**
II. Short-term provisions	14	**288,168**	**0**
III. Short-term debts	12	**10,162,351**	**7,312,155**
2. Debts with credit institutions		8,603,348	3,918,990
3. Financial leasing creditors		92,287	88,277
4. Derivatives	11	0	99,093
5. Other financial liabilities		1,466,715	3,205,796
V. Trade creditors and other accounts payable	12	**10,473,071**	**4,747,504**
1. Suppliers		3,640,986	563,163
b) Short-term suppliers		3,640,986	563,163
2. Suppliers, group and associated companies	16	175,828	0
3. Sundry creditors		5,478,887	2,300,937
4. Personnel (remuneration pending payment)		620,918	1,463,777
6. Other debts with government agencies	13	556,453	419,627
VI. Short-term accruals	14.a	**1,131,801**	**344,720**
TOTAL NET EQUITY AND LIABILITIES (A + B + C)		**48,513,387**	**32,934,804**

The attached report forms an inseparable part of the Balance Sheet as at 31 December 2023.

Income statement for the financial year ended on 31 December 2023

(In euros)

	NOTES TO THE REPORT	(Debit) Credit 2023	(Debit) Credit 2022
A) ONGOING OPERATIONS			
1. Net turnover	**14.a**	**24,104,918**	**21,843,067**
b) Provision of services		24,104,918	21,843,067
3. Work performed by the Company for its assets	**14.c**	**4,170,850**	**3,818,608**
4. Supplies	**14.b**	**(5,033,366)**	**(3,185,110)**
c) Work performed by other companies		(5,033,366)	(3,185,110)
5. Other operating revenue		**176,256**	**182,798**
a) Non-core and other current operating revenue		64,874	101,330
b) Operating subsidies entered to outcome of the financial year	14.d	111,382	81,468
6. Personnel expenses	**14.e**	**(10,829,765)**	**(9,834,528)**
a) Wages, salaries and similar		(8,924,369)	(8,256,091)
b) Social Security		(1,903,921)	(1,575,676)
c) Provisions		(1,475)	(2,761)
7. Other operating expenses	**14.f**	**(11,572,755)**	**(8,293,565)**
a) External services		(10,303,391)	(6,952,150)
b) Taxes		(714)	(729)
c) Losses, impairment and variation of provisions for trade transactions	9	(1,268,650)	(719,915)
d) Other operating expenses		0	(620,771)
8. Amortisation of fixed assets	**4 - 5**	**(4,748,268)**	**(1,967,525)**
9. Allocation of subsidies for non-financial fixed assets and others	**14.d**	**276,406**	**119,639**
11. Impairment and outcome for disposal of fixed assets		**3,420**	**(1,987)**
b) Outcome of disposals and others		3,420	(1,987)
13. Other outcomes		**41,469**	**2,627**
A.1) OPERATING PROFIT (LOSS) (1+2+3+4+5+6+7+8+9+10+11+12+13)		**(3,410,835)**	**2,684,024**
14. Financial revenue		**311,103**	**0**
b) From negotiable securities and other financial instruments		**311,103**	**0**
15. Financial expenses		**(1,708,200)**	**(299,856)**
b) For debts with third parties		**(1,708,200)**	(299,856)
16. Variation in fair value of financial instruments		**(268,802)**	**(677,308)**
a) Business portfolio and others	11.1	(268,802)	(677,308)
17. Exchange differences	**14.g**	**4,016**	**389,626**
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)		**(1,661,883)**	**(712,475)**
A.3) PROFIT (LOSS) BEFORE TAXES (A.1 + A.2)		**(5,072,718)**	**1,971,549**
20. Corporation tax	**13.3**	**2,745,520**	**81,004**
A.4) PROFIT (LOSS) FOR FIN. YR. FROM ONGOING OPERATIONS (A.3 + 20)		**(2,327,198)**	**2,052,553**
B) DISCONTINUED OPERATIONS			
A.5) PROFIT (LOSS) FOR FIN. YEAR (A.4 + 21)		**(2,327,198)**	**2,052,553**

The attached report forms an inseparable part of the Income Statement as at 31 December 2023.

Statement of changes in net equity for the financial year ended on 31 December 2023

(In euros)

A) Recognised income and expenditure statement	Notes to the report	31/12/2023	31/12/2022
A) INCOME STATEMENT PROFIT (LOSS)		**(2,327,198)**	**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	**11.2**	878,367	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	**13.4**	(218,842)	(46,624)
B) TOTAL INCOME AND EXPENDITURE CHARGED DIRECTLY TO NET EQUITY (I + II + III + IV + V + VI + VII)		**659,525**	**139,871**
TRANSFERRED TO INCOME STATEMENT			
VIII. Changes in value of financial instruments		0	0
IX. Cash flow hedging instruments		0	0
X. Grants, donations and bequests	**11.2**	(276,406)	(119,639)
XI. Non-current assets and related liabilities held for sale		0	0
XII. Conversion differences		0	0
XIII. Tax effect	**13.4**	69,102	29,910
C) TOTAL TRANSFERS TO THE INCOME STATEMENT (VIII + IX +X + XI +XII + XIII)		**(207,305)**	**(89,729)**
TOTAL RECOGNISED INCOME AND EXPENDITURE (A + B + C)		**(1,874,978)**	**2,102,695**

B) Statement of total changes in net equity for the financial year ended on 31 December 2023

(In euros)

	Capital	Issue premium	Reserves	(Treasury stock)	P/L previous financial years	P/L of financial year attributed	Grants, donations and bequests	TOTAL
Initial balance as at 01.01.2022	**605,373**	**10,074,525**	**1,062,173**	**(556,510)**	**(1,682,335)**	**(158,993)**	**65,997**	**9,410,230**
I. Total consolidated recognised income and expenditure						2,052,553	50,142	2,102,695
II. Transactions with partners or proprietors	91,938	5,486,275	(953,794)	102,431			61,484	4,788,334
1. Capital increases	91,938	4,908,007	(179,625)					4,820,320
2. Conversion of financial liabilities to net equity (note 11.1)		578,268						578,268
3. Transactions with treasury stock			(181,184)	102,431				(78,753)
4. Increase (reduction) of NE due business combination			(592,985)				61,484	(531,501)
III. Other changes in Net Equity					(158,993)	158,993		
Final balance as of 31.12.2022	**697,311**	**15,560,800**	**108,379**	**(454,079)**	**(1,841,328)**	**2,052,553**	**177,622**	**16,301,258**
I. Restatement for changes of criteria in fin. yr. 2021								
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)**	**2,052,553**	**177,622**	**16,301,258**
I. Total recognised income and expenditure						(2,327,198)	452,221	(1,874,978)
II. Transactions with partners or proprietors								
1. Capital increases	154,274	7,745,721	(61,200)					7,838,795
2. Conversion of financial liabilities to net equity (Note 11.1)		924,780						924,780
3. Transactions with treasury stock			(50,206)	60,103				9,897
III. Other changes in Net Equity			211,225		1,841,328	2,052,553		
Final balance as of 31.12.2023	**851,585**	**24,231,301**	**208,198**	**(393,976)**		**(2,327,198)**	**629,843**	**23,199,753**

The attached report forms an inseparable part of the Statement of Changes in Net Equity as at 31 December 2023.

	Cash flow statement for the financial year ended on 31 December 2023 (In euros)		
	Notes to the report	31/12/2023	31/12/2021
A) Operating cash flows			
1. Profit (loss) for the financial year before tax		**(5,072,718)**	**1,971,549**
2. Restatements of outcome		**7,114,227**	**(663,687)**
a) Amortisation of fixed assets (+)	4-5	4,748,268	1,967,525
b) Value restatements for impairment (+/-)		1,268,650	719,915
c) Variation in provisions (+/-)		(288,168)	0
d) Recognition of subsidies (-)	11.2	(276,406)	(201,107)
e) Outcome of deregistration and disposal of fixed assets (+/-)		0	1,987
f) Outcome of deregistration and disposal of financial instruments (+/-)		0	124,938
g) Financial revenues (-)		(311,103)	0
h) Financial expenses (+)		1,708,200	299,856
i) Exchange rate differences (+/-)		(4,016)	(435,511)
j) Variation in fair value of financial instruments (+/-)		268,802	677,318
k) Other income and expenditure (-/+)		0	(3,818,608)
3. Changes in working capital		**1,369,049**	**(6,361,046)**
b) Debtors and other accounts receivable (+/-)		(4,923,531)	(7,926,755)
c) Other current assets (+/-)		(220,068)	(151,004)
d) Creditors and other accounts payable (+/-)		5,725,567	1,934,918
e) Other current liabilities (+/-)		787,081	(218,205)
4. Other operating cash flows		**(495,097)**	**(237,835)**
a) Interest paid (-)		(806,200)	(283,518)
c) Interest collected (+)		311,103	0
d) Collection (payment) of corporation tax (+/-)		0	0
e) Other payments (collections) (+/-)		0	45,683
5. Operating cash flows (+/-1 +/-2 +/-3 +/-4)		**2,915,461**	**(5,291,020)**
B) Cash flows from investments			
6. Investment outlays (-)		**(12,478,748)**	**(2,910,568)**
a) In group and associated companies	8	(2,640,180)	(885,456)
b) Intangible fixed assets	4	(8,336,148)	(495,764)
c) Tangible fixed assets	5	(1,502,420)	(1,468,552)
e) Other financial assets		0	(60,797)
7. Collection for divestment (+)		**54,962**	**36,901**
a) Group and associated companies		54,962	**0**
c) Tangible fixed assets		0	27,430
e) Other financial assets		0	9,471
8. Cash flows from investments (7-6)		**(12,423,785)**	**(2,873,668)**
C) Cash flows from financing activity			
9. Collection and payments for equity instruments		**7,960,102**	**4,708,743**
a) Issuance of equity instruments	11.1	7,900,000	4,760,487

	Note		
b) Amortisation of equity instruments		0	0
c) Acquisition of treasury stock	11.1	(450,744)	(338,101)
d) Disposal of treasury stock	11.1	510,846	259,348
e) Grants, donations and bequests received			27,009
10. Collection and payments for financial liability instruments		**2,231,054**	**3,894,130**
a) Issue.			
2. Debts with credit institutions (+)	12	5,235,888	1,604,229
4. Others (+)	12	500,000	2,300,429
b) Return and amortisation of			
2. Debts with credit institutions (-)		(1,273,715)	(10,528)
4. Others (-).		(2,231,118)	0
11. Outlays for dividends and remuneration of other equity instruments		**0**	**0**
12. Financing cash flows (+/-9 +/-10 -11)		**10,191,156**	**8,602,874**
D) Effect of exchange rate variations		**4,016**	**107,072**
E) Increase/decrease in cash and cash equivalents (+/- A +/-B +/-C +/-D)		**686,848**	**545,255**
Cash and cash equivalents at start of fin. year		1,911,776	1,366,521
Cash and cash equivalents at end of fin. year		2,598,624	1,911,776

The attached report forms an inseparable part of the Cash Flow Statement as at 31 December 2023.

REPORT ON THE ANNUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2023

NOTE 1: NATURE AND MAIN ACTIVITIES

a) Nature and main activities

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

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

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

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

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

b) Composition of the Group

In accordance with the information provided in Note 8, the Company is the controlling interest of the Facephi Group (hereinafter the *Group*).

In accordance with the provisions of Royal Decree 1159/2010 of 17 September that adopts the rules for drafting consolidated annual financial statements, the Company's governing body drew up the Group's Consolidated Annual Financial Statements for the financial year ended on 31 December 2023 on 31 March 2024. Once approved by the General Meeting, these Financial Statements will be registered with the Companies Registry of Alicante.

Notes 8 and 16.b of this Report contain information related to balances and transactions with the various Group companies and other related parties in accordance with currently applicable commercial legislation.

c) Business combinations

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 million euros. Company management considers that this transaction achieves the strategic objective of boosting the digital on-boarding service in its commercial portfolio and consolidating its leadership in the field of identification and authentication at both the domestic and the international levels. The transaction was settled by cash for the sum of 1,159,999 euros and provision of 164,706 of the 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:

Euro	**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 entails the existence of an implicit goodwill fund amounting to 1,627,194 euros as at 31 December 2020 attributed to the technology provided by said company for development of the digital on-boarding solutions that the Company markets at the present time and is recognised, with its associated amortisation, on the Balance Sheet under the head of "Information Technology Applications" in the intangible assets account.

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

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

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

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

	Euro	
Heads	**Debit**	**Credit**
Intangible fixed assets	1,267,704	
Tangible fixed assets	8,367	
Trade debtors and other accounts receivable	15,815	
Group trade accounts	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**

c) Consortiums and joint ventures

In the 2023 and 2022 financial years the Company formed part of *UTE DH Healthcare Provider Software Spain, S.L.U – Facephi Biometría, S.A.* with a 21.08% holding in the consortium domiciled in Madrid that was incorporated to execute the object of the contract awarded by the Directorate of the National

Institute of Health Management (INGESA) for installation and integration of a master system for hospital patients with biometric identification for the Melilla District Hospital, the Ceuta University Hospital and the Ceuta and Melilla primary attention system.

The estimated value of the contract is 711,490 euros and the execution period, starting in December 2021 is 38 months. Since the activity had not commenced as of the drafting date of these annual financial statements, the entity lacks both assets and liabilities and has generated neither income nor expenditure. Accordingly, the status of the contract is not considered to constitute a material contingency.

NOTE 2: FINANCIAL STATEMENTS REPORTING CRITERIA

a) Regulatory framework of financial reporting applicable to the Company

These Annual Financial Statements have been prepared by the Board of Directors in accordance with the regulatory framework for financial reporting applicable to the Company as set forth in:

- The Commercial Code and other applicable commercial legislation.
- The Consolidated Text of the Corporate Enterprises Act.
- Royal Decree 1514/2007 of 16 November that adopts the General Accounting Plan and its subsequent modifications incorporated by Royal Decrees 1159/2010 of 17 September, 602/2016 of 17 December and 1/2021 of 12 January.
- The mandatory standards adopted by the Accounting and Auditing Institute in development of the General Accounting Plan and its complementary standards.
- All other applicable Spanish accounting regulations.

b) True and fair image

The attached Annual Financial Statements have been prepared based on the Company's accounting records and are presented in accordance with the regulatory framework for financial reporting applicable to the same, and particularly to the accounting principles and criteria contained therein. Thus, they reflect a true and fair view of the equity, financial situation, outcome of the Company's operations and the related cash flows produced during the 2023 financial year. The Cash Flow Statement has been drawn up to truthfully report on the origin and use of the Company's monetary assets representing cash and cash equivalents.

These Annual Financial Statements are drawn up in euros, which is both the Company's reporting and its operating currency. The figures in this Report – even the calculated amounts – are rounded to the nearest whole number without including the decimals.

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

These Annual Financial Statements, drawn up by the Company's Board of Directors, will be submitted to the Ordinary General Meeting for approval and are expected to be approved without reservations or amendments. The 2022 Financial Statements were approved by the Ordinary General Meeting held on 30 June 2023.

c) Non-mandatory accounting principles

No non-mandatory accounting principles have been applied. The Company's Board of Directors has also drawn up these Annual Financial Statements taking all the mandatory accounting principles and standards that have a significant effect on said the same into consideration. No mandatory accounting criterion has been ignored.

d) Critical aspects of the assessment and estimates of uncertainty

The Company's directors are responsible for the information set forth in these Annual Financial Statements.

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

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

- *Provisions for impairment of investments in Group and related companies*: the accounting treatment of investments in Group and related companies entails making estimates at the end of each accounting period to determine whether their value has been impaired and whether a valuation restatement should be charged to the Income Statement for the period or whether a previously-posted provision should be reversed. Determining the need to recognise an impairment loss or reversal of the same, as required, involves making estimates that include analysis of the reasons for any impairment (or recovery, as required) of the value in addition to the timing and the amount involved, among others.

  The recoverable value of financial investments in Group and related companies is calculated in accordance with the content of Note 3.5.

  The uncertainties inherent in the estimates required to determine the recoverable value and assumptions concerning the future development of investments involve a significant degree of judgment due to the fact that the timing and nature of future business-related changes are difficult to foresee.

- *Impairment of non-current assets*: valuation of non-current assets other than financial assets requires making estimations to determine their recoverable value for the purposes of assessing their potential impairment. To determine this recoverable value, the Company's directors estimate the expected future cash flows of the assets or the cash-generating units of which they 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 Company's business plan for the next five financial years while the discount rates depend on the interest rate plus the risk premium (see note 3.3).

- *Deferred tax assets* are recognised for all deductible temporary differences, negative tax bases pending compensation and deductions pending application for which it is probable that the Company will have future taxable earnings that enable application of these assets. Taking the amounts and dates on which future taxable profits will be obtained and the reversal period of taxable temporary differences into account, the Company's directors must make significant estimates to determine the amount of deferred tax assets that can be recognised. As at 31 December 2023, the Company has recognised deferred tax assets for a total amount of 4,901,032 euros (1,555,337 euros at 31 December 2022) for temporary tax differences, taxable bases pending compensation and rebates pending application (see note 13).

These estimates are based on the best information available for analysis as at 31 December 2023. Nevertheless, it is possible that future events may make it necessary to change them (upwards or downwards) in coming financial years. Said changes, if any, will always be made in a prospective manner in accordance with the provisions of Rule 22 of the General Accounting Plan, recognising the effects of any changes in the estimates in the associated Income Statement.

During the 2023 financial year there were no significant changes in the accounting judgements and estimates that the Company applied in previous financial years, and neither do we expect such changes to affect drafting of these Annual Financial Statements.

e) The Company as a going concern

The Company reported a loss before taxes amounting to 5,072,000 euros at the end of the financial year (1,971,000 euros of profit in 2022) and an operating loss of 3,410,000 euros (2,684,000 euros of operating profit in 2022). As at 31 December 2023 the Company's net equity amounts to 23,200,000 euros (16,301,000 in 2022) and the working capital to the negative figure of -3,970,000 euros at the end of the 2023 financial year (+3,848,000 euros in 2022).

Based on its strategic plan and budget for the 2024 financial year, the Company's directors have drawn up a cash projection for the next 18 months. This forecast shows that the Company may need additional funds to finance its business activity in the short term.

On the drafting date of these Annual Financial Statements there are various mitigating factors in connection with the financial situation indicated in the previous paragraphs, although some of them have a component of uncertainty:

- A positive treasury outlook with anticipated inflows based on collections from current customers estimated for the 2024 financial year that would cover a significant proportion of the required total.

- On 21 March 2024 the Company entered into a binding Memorandum of Agreement (MOA) with the South Korean software developer Hancom. Said Agreement envisages two commercial and investment tranches for a total amount of five million euros within a maximum of 90 days from the signature date of the MOA. Failure to meet the aforesaid timeframe would entail termination of the Agreement. The directors, based on communications with Hancom, expect that the agreements will be signed within the stated period and that as a result, the cash inflow will occur in the coming months.

- On 14 December 2020 the Company entered into a syndicated financing contract with various financial institutions for the sum of 13 million euros which, as at 31 December 2023, has a total outstanding short-term balance of 7,564,000 euros in the short term and 1,532,000 euros in the long term (note 12.2). As at the drafting date of these Financial Statements the syndicated financing contract currently in effect is being renegotiated. The directors, however, expect that it will be signed in the near future. Based on the conversations with the financial entities involved, signature of said refinancing would result in the Company obtaining additional financing of up to eight million euros.

- The Company is the beneficiary of a convertible bond financing line with the Nice & Green investment fund (N&G) executed on 27 April 2023. This fund has supported the Company since 2019 with other investment contracts and is currently its largest shareholder (roughly 18%). The aforesaid contract established an investment of twenty million euros by N&G in convertible bonds. A new addendum to the contract was signed on 17 January 2024, under which the 20-million-euro maximum investment initially planned was reduced to 11.1 million, of which 6.9 million have been issued in 2023 and converted into bonds, leaving a net positive flow pending drawdown of 3.5 million euros once the loan of 700 thousand euros has been discounted (notes 12.4 and 20). As of today, we are also in the process of obtaining a signed commitment from the aforesaid investment fund to finance the Company over the next twelve months for an additional amount of up to six million euros.

- The Company has several financing alternatives to those mentioned in the above paragraphs, none of which has yet been formally granted. However, in the event that the Company needed them, the directors consider they would be readily available and that they would be sufficient to enable payment of the Company’s short-term payments and all its obligations.

- Improvement of the Company's profitability in the 2024 financial year due to development of internal products that will improve the Company's operating margins.

- According to management forecasts, the Company has the option of reducing its costs in order to improve the EBITDA at the end of the 2024 financial year.

- Taking the fact that the Company it is a scaleup into account – which means that it is undergoing rapid growth with significant increases in the workforce and costs to drive growth in products, markets and so forth – its liquidity risk management is based on the criteria of prudence, although it continuously needs strong cash flows to meet short-term payments. Even so, as set forth above, the Company has reported working capital in the black in recent financial years.

- It should also be noted that the Company is fully paid up with respect to all payments arising from its obligations with banking entities and the tax agencies.

- Company management continues to develop new commercial possibilities in order to internally develop products that will increase our operating margins, opening new markets to ensure that Company has greater prospective expansion potential. Accordingly, Company management continues to apply cost control policies and to enhance its sales channels to improve profitability levels in the medium/long term.

In conclusion, the Company's directors consider that there are sufficient mitigating factors with respect to the book losses, which is why these Annual Financial Statements have been drawn up on the going concern principle.

f) Comparison of information

In addition to the figures for the 2023 financial year, for comparative purposes these Annual Financial Statements present, with each item on the Balance Sheet, the Income Statement, the Statement of Changes in Net Equity, the Cash Flow Statement and the quantitative information required in the notes to the Financial Statements for the 2022 financial year approved by the General Meeting.

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

g) Changes in accounting criteria and correction of errors

The Company has not made any restatement for changes of accounting criteria during the financial year ended 31 December 2023 and nor has it been necessary to rectify any error from said financial year or from previous periods.

NOTE 3: RECOGNITION AND VALUATION RULES

The Annual Financial Statements have been drawn up in accordance with the main valuation and classification rules set forth in the currently applicable General Accounting Plan.

The following are the most important accounting criteria applied to the Annual Financial Statements:

3.1)Intangible fixed assets

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

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

At all events, they must be analysed at least once a year to detect any indication of value impairment in order to restate their carrying value as required.

a) Software development expenses

The *development expenses* of the information technology applications that are subsequently marketed are capitalised at the time 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;
- allocation, attribution and distribution over time of the costs of each project are clearly established;
- there are well-founded reasons for a technically successful conclusion to the project at all times, whether the Company intends to operate it directly or to sell resulting product to a third party if there is a market for the same once the project is concluded;
- the financial-commercial profitability of the project is reasonably assured;
- financing to complete the projects in question is reasonably well assured; in addition to the availability of suitable technical or other resources to complete the project and to use or sell the intangible asset, financing to enable completion of the projects is reasonably assured;
- the Company intends to finish the intangible fixed asset in question in order to use or sell it.

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

Under no circumstances shall the disbursements initially recognised as expenses for the financial year and which have subsequently met the conditions set for capitalisation be activated.

Own personnel expenses and the costs of the services acquired from third parties that have participated in development of the applications and software

are entered as increased costs of the same with payment under the head of *Work carried out by the Company for its Fixed Assets* in the Income Statement.

Other development costs are recognised as expenses when they are incurred. Development costs previously recognised as expenses are not restated as assets in subsequent years. In accordance with the conditions indicated above in this section, capitalised development costs are amortised on a straight-line basis during their estimated useful life – which shall not exceed five (5) years – for each project.

In the event of a change in the favourable project circumstances that enabled development expenses to be capitalised, the portion pending amortisation will be charged to income for the year in which said circumstances changed.

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

As at 31 December 2023 the Company estimates that there is no indication of impairment of intangible assets since the directors are reasonably sure that the business plan will be fulfilled, which means that on the basis of their forecasts, all the intangible assets and tax credits will be fully recovered in the coming years.

b) <u>Software</u>

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

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

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

c) <u>Intellectual property</u>

Intellectual property is 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 are posted to the inventory of the acquiring company. Intellectual property includes but is not limited to:

patents for inventions, utility model protection certificates, industrial design and other modalities consistent with the applicable legislation.

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

3.2 Tangible fixed assets

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

The costs of the extension, modernisation or improvement of tangible fixed assets are incorporated within the asset as an increase in its value only if they represent an increase in its capacity, productivity or an extension to its useful life, and wherever it is possible to calculate or estimate the book value of the elements cancelled from the inventory having been replaced.

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

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

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

	Annual	Years of useful	Method
Buildings (*)	10%	10	Straight-line
Other facilities	10%	10	Straight-line
Furnishings	5% - 10%	10 / 20	Straight-line
I.T. equipment	25%	4	Straight-line
Other tangible fixed assets	10% - 20%	5 - 10	Straight-line

(*) 10 years taking the leasing period of the property into account.

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

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

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

3.3 Impairment of non-financial assets

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

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

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

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

3.4 Leases

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

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

3.5 Financial assets

Classification of financial instruments

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

The Company classifies financial instruments into one category or another depending on their characteristics and the 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 Company holds an investment solely for the purpose of receiving cash flows arising from execution of the contract and the contractual conditions of the financial asset entail cash flows that are exclusively payments of capital and interest on the outstanding principal on specific dates, the financial asset shall be recognised in said category even when it is listed for 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 Company’s trade transactions with deferred payment, and

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

Initial valuation

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

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

Subsequent valuation

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

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

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

<u>Value impairment</u>

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

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

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

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

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

Financial assets carried at cost

The following securities shall be included in this category:

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

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

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

d) contributions made as a consequence of an equity account or similar contract;

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

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

Initial valuation

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

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

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

Subsequent valuation

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

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

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

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

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

Value impairment

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

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

In the absence of better evidence of the recoverable amount of investments in equity instruments, the impairment loss estimate for this class of assets will be calculated on the basis of the equity of the investee and the tacit capital gains existing at the valuation date net of tax effect. Provided that the investee has invested in another company in turn, this value shall be calculated by taking the equity set forth in the 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 set forth in the General Accounting Plan. However, if high inflation rates are involved, the values to be considered will be those resulting from the restated financial statements as set forth in the foreign currency rule.

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

Recognition of value impairment restatements and their reversal, if any, will be entered respectively as an expense or as revenue in the Income Statement. 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 if valuation restatements have been made directly attributable to the equity resulting from said investment prior to the aforesaid classification, these restatements shall be maintained after the classification until the investment is disposed of or written off – at which time they shall be recognised in the Income Statement – or until the following circumstances occur:

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

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

Interest and dividends

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

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

Accordingly, if the allocated dividends are derived unmistakably from results generated prior to the acquisition date because amounts greater than the profit generated by the investee company since it was acquired, they shall not be recognised as income and the book value of the investment will be reduced.

The judgment as to whether the investee has generated profit will be based exclusively on the profits recognised in the individual Income Statement as of the acquisition date, unless the allocation against said profits is to be unquestionably classified as recovery of the investment from the perspective of the entity receiving the dividend.

Deregistration of financial assets

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

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

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

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

3.6 Financial liabilities

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

Financial liabilities measured at amortised cost

The Company classifies all financial liabilities in this category except when they must be valuated at fair value with changes in the Income Statement.

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

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

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

Initial valuation

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

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

Subsequent valuation

This category of financial liabilities is valued at amortised cost. Accrued interest is charged to the Income Statement on the basis of the effective interest rate method.

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

Deregistration and modification of financial liabilities

The Company will deregister a financial liability, or part of it, when the associated obligation has extinguished; i.e., when it has been settled, cancelled, or has expired. It will also 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 the consideration paid including directly-attributable transaction costs that also include any assigned asset different from the cash or liability assumed, is recognised in the Income Statement for the financial year in which it occurs.

3.7 Net equity

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

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

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

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

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

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

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

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

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

3.8 Cash and cash equivalents

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

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

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

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

- Assets are classified as current when they are expected to be capitalised, are held for sale or consumption in the course of the Company's normal operating cycle, are held fundamentally for trading purposes, are expected to be capitalised within the twelve months following the accounting closure 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 closure date.

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

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

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

3.10 Subsidies, donations and bequests

Reimbursable grants are recognised as liabilities until they meet the conditions to be considered non-reimbursable, while non-reimbursable subsidies are recognised directly in net 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 capital and reserves.

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

3.11 Corporation tax

The corporation tax expense or revenue on the outcome of the financial year is the sum of 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 Income statement except when it refers to transactions recognised directly in Net Equity, in which case the associated tax is also recognised in Net Equity.

The expense or revenue for deferred tax corresponds to recognition or cancellation of deferred tax assets or liabilities. Deferred tax assets and liabilities include temporary differences – identified as amounts that are expected to be payable or recoverable due to differences between the carrying amounts of assets and liabilities and their tax value – and any outstanding negative tax bases and credits for tax deductions not fiscally applied. These amounts are recognised by applying the tax rate at which it is expected to recover or settle them to the associated temporary difference or credit.

Deferred tax liabilities are recognised for all taxable temporary differences except those derived from initial recognition of goodwill or other assets and liabilities in a transaction that does not affect fiscal or accounting outcomes and is not a business combination including those associated with investment in subsidiaries, group and associated companies and joint ventures in which the Company can control the reversion timeframe and when reversion in the foreseeable future is improbable.

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

Deferred tax assets recognised are reconsidered on each accounting closure and the appropriate restatements are made if there are doubts about their future recoverability. Accordingly, at each accounting closure the deferred tax assets not recognised on the Balance Sheet are assessed and entered to the extent that there is a reasonable expectation that they will be recovered by application of future tax benefits.

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

3.12 Employee benefits

a) Severance payments

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

b) Exclusivity clause

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

3.13 Transactions with payments based on equity instruments

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

Recognition

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

If the Company can choose between making the payment with equity instruments or in cash, it shall recognise a liability to the extent to which it has incurred a present obligation to settle in cash or with other assets. Otherwise, it will recognise an entry in Net Equity. If it is the goods or services supplier that exercises the option, the Company will recognise a compound financial instrument that will include a liability component due to the other party's right 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 Net Equity will be valued at the fair value of the equity instruments assigned on the date on which the Company obtains the goods or the other party provides the services.

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

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

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

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

As of 31 December 2023 and 2022 the plan has not met any of its goals and therefore no provision has been recognised on the Balance Sheet at said date.

3.14)Provisions and contingencies

Provisions for environmental restoration, restructuring costs and litigation are recognised when the Company has a current obligation, whether legal or implicit, as a result of past events and it is likely 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. Restatements of the provision as a result of updating are recognised as a financial expense as they accrue.

Provisions with maturities of less than or equal to one year, with an insignificant financial effect, are not discounted.

When it is expected that part of the disbursement required to settle the provision will be reimbursed by a third party, the reimbursement is recognised as an independent asset provided collection is practically ensured.

Contingent liabilities are considered to constitute obligations arising as a result of past events the materialisation of which is conditional upon the occurrence or not of one or more future events independent of the Company's intentions.

These contingent liabilities are not entered to the accounts but are set forth in the management report.

3.15 Business combinations

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

The merger, spin-off and non-monetary contribution transactions of a business between Group companies are recognised by valuing the equity instrument acquired at their book values in the consolidated annual financial statements of the last Spanish parent company on the date on which the transaction was performed. If Consolidated Annual Financial Statements are not drawn up, these transactions are assessed at the values existing prior to the transaction recognised in the individual Annual Financial Statements of the investor. Any differences that may arise are entered against reserves. The effective accounting date is the start date of the financial year in which the transaction is approved.

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

3.16 Recognition of revenue 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 Company includes 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 not significant.

The Company recognises the income when its amount can be reliably valued, it is probable that future economic benefits will be received by the same and the following specific conditions for each activity agreed with the customers have been met. The amount of the income cannot be reliably valued until all contingencies related to the sale have been resolved. The Company bases its estimates on historical results taking the type of customer, the kind of transaction and the specific terms of each agreement into account.

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

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

3.16.1 Contract balances

a) Contract assets

Unconditional right to collect the consideration

Regardless of when transfer of control of the assets occurs, a collection right is recognised (*Clients for sales and provision of services* sub-head) under the head of *Trade debtors and other accounts payable* in current assets or *Non-current trade debts* in non-current assets, as appropriate, due to their maturity in accordance with their normal operating cycle when the Company has an unconditional right to the consideration.

Right to the consideration due to transfer of control

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

Like the unconditional rights, these balances are recognised in Trade debtors under the head of Clients. They are classified as current or non-current depending on their maturity The balance as of 31 December 2023 was 11,045,514 euros and 7,067,893 euros respectively (7,725,586 euros and 5,224,239 euros respectively as at 31 December 2022) (Note 9.1).

b) Contract liabilities

<u>Contract liabilities</u>

If the client pays the consideration or the Company has an unconditional right to receive it, the Company recognizes a contract liability before transferring the good or service to the client when payment has been made or is due.

These contract liabilities are presented under the head of *Trade creditors and other accounts payable* or provisions are made for trade operations (in Current Liabilities).

3.17 Transactions in foreign currency

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

3.18 Balances and transactions with Group companies and other related parties

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

This valuation rule affects related parties as defined in Rule 15 on preparation of Annual Financial Statements in the Spanish General Accounting Plan. Consequently:

a) A company is understood to form part of a group when the parent company and another entity are linked by a direct or indirect control relationship. An indirect relationship is held to be analogous to that provided for in article 42 of the Spanish Commercial Code or when the companies are controlled by any means by one or more natural or legal persons acting jointly or are under the same management by agreements or statutory clauses.

b) It is understood that a company is an associate of another when, without it being a group company in the sense indicated above, a dominant legal entity or natural person (person with significant control - PSC) exercise significant influence over said associated company due to possession of a holding in the same that creates a lasting connection intended to contribute to the activity of the controlling interest.

c) Multi-group companies are understood to mean entities jointly managed by the dominant company or by one or more group companies including the controlling legal or natural persons and one or more third parties that do not belong to the consolidation group.

The following are deemed to constitute parties related to Company in addition to group, associated and multi-group companies: natural persons who directly or indirectly hold a stake in the voting rights of the 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, Company's key personnel including directors and executives together with their close relatives and legal persons over which the aforesaid persons may exercise significant influence.

3.19 Equity items of an environmental nature

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

The Company's directors consider that, as at 31 December 2023 and 2022, there are no contingencies of an environmental nature that could significantly affect the Company's equity, financial situation or consolidated outcomes and therefore no provisions or contingencies have been recognised under this head.

3.20)Consortiums

In accordance with Recognition and Valuation Rule 20 of the Spanish General Accounting Plan, the proportional part of the consortium's balances shall be accounted for in the Balance Sheet and Income Statement as a function of the percentage holding for integration and accounting recognition of transactions carried out with consortiums (UTE) of which the Company is a member to ensure that after the associated temporal and valuation homogenisation, all assets, liabilities, income and expenses are duly recorded and reported in the Annual Financial Statements in the appropriate proportion at the end of the financial year.

As indicated in note 1.d), the Company forms part of a consortium that had not started its activity at the end of the 2023 financial year and therefore there are no movements associated with the same in the Financial Statements drawn up on said date.

NOTE 4. INTANGIBLE FIXED ASSETS

The following are the breakdown and movement of the items included under the head of *Intangible Fixed Assets*:

Cost:

	Euro								
Item	**Cost at 31.12.21**	**Business combs.**	**Additions**	**Transfers**	**Cost at 31.12.22**	**Additions**	**Cancellatio ns**	**Transfers**	**Cost at 31.12.23**
Research	56,958	---	---	---	56,958	---	(56,958)	---	---
Development	47,026	---	4,242,399	(3,571,563)	717,861	4,558,153	---	(4,450,877)	825,136
Intellectual property	65,992	---	19,006	---	84,998	32,860	(8,648)	---	109,210
Software	6,479,140	2,054,150	52,967	3,571,563	12,157,820	3,745,136	(3,336,958)	4,496,987	17,062,984
Total cost	**6,649,115**	**2,054,150**	**4,314,372**	**---**	**13,017,637**	**8,336,148**	**(3,402,565)**	**46,110**	**17,997,331**

Amortisation:

	Euro							
Item	**Balance at 31.12.21**	**Business combs.**	**Provs. Fin. year**	**Balance as at 31.12.22**	**Provs. Fin. year**	**Cancellati ons**	**Transfers**	**Balance as at 31.12.23**
Research	56,958	---	---	56,958	---	(56,958)	---	---
Development	2,070	---	376,269	378,339	2,161,519	---	(2,390,564)	(149,294)
Intellectual property	13,604	---	11,376	24,980	24,511	(8,648)	---	40,843
Software	786,445	786,445	1,437,650	4,950,709	1,965,013	(3,336,958)	2,390,564	(5,969,328
Total amortisation	**2,799,246**	**786,445**	**1,825,295**	**5,410,987**	**4,151,043**	**3,402,565**	**---**	**6,159,465**

Net book value:

	Euro	
Item	**Balance as at 31.12.22**	**Balance as at 31.12.23**
Research	---	---
Development	3,911,085	675,842
Intellectual property	60,018	68,367
Software	3,635,547	11,093,656
Total net value	**7,606,650**	**11,837,865**

a) Development

The Group continues to implement its investment policy and to improve its current facial biometric applications. The capitalised expenses during the financial year ended 31 December 2023 and 31 December 2022 are associated with the following milestones:

	Euro	
Description:	**31.12.2023**	**31.12.2022**
Improvements to software development kit (SDK)	3,676,988	3,423,366
Platform as a service (PAAS)	--	395,241
Identity Platform	493,862	
Total internal development	**4,170,850**	**3,818,608**
Development acquired from third parties	387,303	423,791
Total	**4,558,153**	**4,242,399**

Said expenses are recognised under the head of Development since there are good reasons to foresee commercial success on completion, at which time they are reclassified under the head of Intangible assets in accordance with their nature. If there were well-substantiated reasons to consider that the project will not be successful, the Company would write off these expenses and recognise them as losses in intangible fixed assets. Almost all the activity involved in development of new applications or improvements to current ones has been performed internally (except for the sum of 387,303 euros) and recognised by capitalisation of production costs under the head of *Works performed by the Company for its own assets* in the Income Statement.

Developments activated as at 31 December 2023 and 31 December 2022 consisted mainly of anti-fraud security improvements, interactive user guides during registration and tools for integrating technology into multi-platform applications.

As at 31 December 2023 the sum of 4,450,877 euros (3,571,563 euros in 2022) was transferred to the *Software* account as a consequence of the start of marketing of the facial biometric improvements and new solutions.

b) Intellectual property

FacePhi Biometría S.A. is the holder of the *Selphi* and *FacePhi Beyond Biometrics* trademarks (MUE 015106354 and MUE 015114853 respectively) that are thus protected in both the European Union and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126.

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

The Company currently holds of the following registered trademarks:

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

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

The Company still protects the aforesaid registered trademarks in spite of the fact that the Group is currently undergoing a rebranding process.

Pursuant to this rebranding, the following updated trademarks have been registered in the European Union and with the World Intellectual Property Organization (WIPO).

The new registered trademarks are:

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

<u>Intellectual property rights</u>

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

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

The Company holds the following technical certifications:

- Legal compliance and data protection:

- **Data protection and criminal compliance:** We comply with the following regulations: Facephi's Criminal Risk Prevention Plan (CRP), the General Data Protection Regulation (GDPR), Organic Law on the Protection of Personal Data and Guarantee of Digital Rights (Spanish acronym LOPDGDD) backed by information security certifications.

- Governance, risk and corporate compliance

- **ISO/IEC 27001** (ISMS). A standard for information security management systems (ISMS) to ensure the confidentiality, integrity and availability of the information and the systems that process it.
- **ISO 22301.** Business continuity management system.
- **ISO 27017.** Controls and guidance for cloud service providers and users.
- **ENS.** Certification by the Spanish National Security Scheme (intermediate level).
- **Pinakes certification** (framework designed to manage and monitor the cybersecurity controls of technology suppliers supporting Spanish financial entities).

Product and technology certification

- **ISO 30107-3 iBeta Level 1.** Both Facephi's facial recognition algorithm (matcher) and its PAD algorithm with passive liveness comply with this level of the ISO 30107 standard.
- **ISO 30107-3 iBeta Level 2.** Certification at this level represents compliance with the highest standard in of presentation attack detection (PAD) using facial biometric technologies that any company in the sector has achieved to date.
- **KISA K-NBTC certification.** Certification that validates the performance of the Company's identity verification algorithm issued by the National Biometric Testing Centre (K-NBTC) of the Korea Internet Security Agency (KISA).
- **UK Digital Identity and Attributes Trust Framework (UK DIATF).** Facephi is certified as an identity service provider (IDSP) within the UK Digital Identity framework for provision of secure, reliable digital identity services by means of its products and services.
- **SEPBLAC video-identification circulars.** Facephi is a certified supplier of onboarding and remote digital identity services within the compliance framework established by the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (Sepblac).

- Biometric information interchange:

- **ANSI/NIST-ITL 1-2011**. Data format for storage and interchange of biometric information for system interoperability.
- **ISO/IEC 19794-5** Specifies a format for storing, recording, and transmitting information of facial images, scene constraints, photographic properties and digital image attributes of the facial images and provides best practices.

c) Software

The Company, in accordance with the identifiability criteria of Intangible Fixed Assets, transfers the production cost of software improvements and utilities according to their nature (software) developed by Company itself that have entered the marketing phase for generation of income inherent in its activity.

Additions made during the 2023 financial year are mainly licensing contracts purchased from a biometric provider that the Company integrates into the products it distributes and which are amortised on a straight-line basis over the term of the contract in question.

The Company has deregistered certain I.T. applications that were fully amortised during the 2023 financial year

d) Fully-amortised intangible fixed assets

The Company held the following fully-amortised tangible fixed assets as of 31 December 2023 and 31 December 2022:

	Euro	
	31.12.2023	**31.12.2022**
Research	-	56,958
Software	11,326	1,717,155
Total cost	**11,326**	**1,774,113**

e) Sundry information

As set forth in note 11.2, during the 2022 financial year the Company received subsidies related to intangible fixed assets for capitalised development expenses, some of which were applied in 2023.

As at 31 December 2023 and 31 December 2022 the Company has no firm intangible fixed asset investment or sale commitments to third parties.

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

f) Non-current asset impairment test

The recoverable value of non-current assets has been assessed by considering a single cash-generating unit (CGU) by estimating their value in use by means of cash-flow projections based on the business plan and estimates made by management for the next five years. The discount rate applied to the cash flow projections was 8.71% and the cash flows after the five-year period are extrapolated using a growth rate of 2%. No impairment has been detected in the value of the assets.

Key assumptions for calculating value in use

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

- Growth: based on its forecasts and information from the biometrics sector, the Company expects to boost its growth by 62% in 2024 and maintain a growth rate of around 30-35% for the financial projection period (2025-2028) and of 2% per annum as of 2028. The Company continues to invest in human resources aimed at 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 Company estimates that its EBITDA grow progressively, obtaining new contracts and optimising its human resource structure.
- Discount rate: as noted above, a WACC of 8.71% has been used in accordance with that calculated by analysts who follow the Group.
- CapEx: the Company estimates that its investments in intangible assets, mainly for development of and improvements to its technology, will continue to grow in line with the growth in turnover and the human resource structure.

Sensitivity to changes in hypotheses

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

NOTE 5. TANGIBLE FIXED ASSETS

The following is the breakdown and movement of the items that comprise Tangible Fixed Assets:

Cost:

Item	Euro								
	Cost at 31.12.21	**Business combs.**	**Additions**	**Cancellations**	**Cost at 31.12.22**	**Additions**	**Cancellations**	**Transfers**	**Cost at 31.12.23**
Land and buildings	---	---	---	---	---	372,325	---	1,773,343	2,145,668
Technical facilities	1,347	---	---	---	1,347	---	(1,347)	---	---
Other facilities	32,167	---	---	---	32,167	2,364	---	24,176	58,707
Furnishings	83,080	---	---	(3,599)	79,481	---	(4,486)	28,903	103,898
I.T. equipment	419,869	10,040	494,885	---	924,794	202,594	(325,343)	---	802,045
Other tangible fixed assets	9,213	---	26,273	(26,273)	9,213	---	(4,433)	---	4,780
Fixed assets under construction and advances	---	---	947,394	---	947,394	925,137	---	(1,872,532)	---
Total cost	**545,676**	**10,040**	**1,468,552**	**(29,871)**	**1,994,396**	**1,502,420**	**(335,608)**	**(46,110)**	**3,115,098**

Amortisation:

Item		Euro						
	Balance at 31.12.21	**Business combs.**	**Provision. fin. year.**	**Cancellations**	**Balance as at 31.12.22**	**Provision. fin. year.**	**Cancellations**	**Balance as at 31.12.23**
Land and buildings	---	---	---	---	---	120,637	---	120,637
Other facilities	6,845	---	3,217	---	10,062	6,142	---	16,204
Furnishings	28,784	---	6,499	(455)	34,828	10,581	(3,781)	41,628
I.T. equipment	97,540	1,673	131,803	---	231,016	460,497	(322,484)	369,029
Other tangible fixed assets	4,587		712	---	5,299	867	(4,432)	1,734
Total amortisation	**137,757**		**142,230**	**(455)**	**281,205**	**598,725**	**(330,698)**	**549,233**

Net book value:

Item	Euro	
	Balance as at 31.12.22	**Balance as at 31.12.23**
Land and buildings	---	2,025,031
Technical facilities	1,347	---
Other facilities	22,105	42,502
Furnishings	44,653	31,135
I.T. equipment	693,778	433,016
Other tangible fixed assets	3,913	3,046
Fixed assets under construction and advances	947,394	---
Total net value	**1,713,190**	**2,565,865**

Additions for investments in tangible fixed assets during the 2023 and 2022 financial years mainly involve the works for the new business centre in the city of Alicante that the Company has leased to carry out its activity and which were finished by early June 2023. Apart from said works, additions during the financial year under study mainly involve information technology equipment for newly-recruited personnel.

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

a) Fully written-off assets

The following is a breakdown of the Company's fully-amortised tangible fixed assets still in use at the end of the 2023 and 2022 financial years:

	Euro	
Item	**2023**	**2022**
Furnishings	--	4,235
I.T. equipment	9,961	28,715
Other tangible fixed assets	--	4,036
Total	**9,961**	**36,986**

b) Insurance

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

c) Sundry information

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

NOTE 6. LEASES AND OTHER TRANSACTIONS OF A SIMILAR NATURE

a) Operating leases

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

	Euro	
Minimum future payments	**31.12.23**	**31.12.22**
Up to one year	237,109	120,886
Between one and five years	1,538,607	203,499
More than five years	1,555,840	---
Total	**3,331,556**	**324,385**

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

Description of the lease	Expense 2023 fin. year	Expense 2022 fin. year	Due date	Renewal	Price update criteria
Offices, garages and storage	29,083	77,886	06/05/2025	N/A	YES (CPI)
Madrid Office	118,896	18,787	30/06/2024	N/A	NO
Branch offices	80,882	76,582	21/05/2024	N/A	NO
I.T. hardware	1,773	1,842	21/05/2024	N/A	NO
I.T. hardware	---	984	18/06/2022	N/A	NO
I.T. hardware	1,099	1,009	18/0/2024	N/A	NO
Furnishings	16,777	--	17/07/2028	N/A	NO
Components de transport	68,265	58,015	08/01/2027	N/A	NO
Rentals, software, cloud and others	792,557	389,632	N/A	N/A	N/A
Total	**1,109,332**	**548,154**			

Since 1 October 2017 an operating lease contract has been in force for the offices in which the Company conducted its activity. The term of the 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 Company has placed the sum of 5,600 euros as a rental bond and an additional guarantee of 2,800 euros.

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

In order to extend the head office and the corporate headquarters, Company entered into a new lease agreement in May 2020 for a period of five years and a monthly rent of 2,493 euros. This contract can be terminated with two months' prior notice after the first three years have elapsed and three months' rent as compensation for withdrawal. The Company has placed a rental bond of 4,986 euros.

Moreover, due to the fact that the Company is taking measures to modernise its work model, on 4 March 2022 it entered into a new lease contract in a business centre in the city of Alicante for a period of ten years counting from the end of the conditioning works or from 31 December 2022, whichever occurs first, including a 3-year mandatory permanence period. The lessor grants a 12-month grace period counting from the end of the conditioning works or from 31 December 2022. The Company has placed a rental bond of 34,000 euros, the equivalent of two monthly rent payments. The works finished in June 2023 and the monthly rent payment is 24,752 euros.

b) Financial leasing

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

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

			Euro					
Object of the contract	**Start**	**Term (months)**	**Cost Asset**	**Instalments paid as at 31.12.23**	**Amount pending payment as at 31.12.23**			**Purchase option**
					Capital		**Interest pending payment**	
					S/T	**L/T**		
Information processing equipment	15/11/2022	36	275,000	110,818	92,287	83,908	7,773	---
Total			**275,000**	**110,818**	**92.287**	**83,908**	**7,773**	**---**

			Euro					
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 equipment	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**	**---**

During the financial year ended 31 December 2023, the Company paid the sums of 88,276 euros and 9,985 euros in principal and interest respectively under said contract (10,528 euros and 2,027 respectively euros in 2022).

The financial lease transaction in effect as at 31 December 2023 and 2022 accrued interest at an average rate of 4.54%.

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

	Euro					
	31.12.23			31.12.22		
Item	Cost	Accumulated amortisation	Net book value	Cost	Accumulated amortisation	Net book value
Information processing equipment	275,000	103,125	171,875	275,000	11,458	263,542
Total	**275,000**	**103,125**	**171,875**	**275,000**	**11,458**	**263,542**

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

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

Credit risk

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

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

	Euro	
	31.12.23	**31.12.22**
Long-term debts not due	7,067,893	5,224,239
Short-term debts not due	11,045,947	10,943,108
Past due but not doubtful	1,927,702	204,150
Doubtful	2,769,079	1,897,511
Total	**22,810,621**	**18,269,008**
Restatements due to impairment (note 9.1)	(2,769,079)	(1,897,511)
Total	**20,041,542**	**16,371,497**

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 extension of our credit lines with financial institutions (note 12), the convertible debt issuance financing agreements entered into with the investment fund Nice & Green, S.A. (hereinafter “Nice & Green”) (see note 11) and the other mitigating factors mentioned in Note 2.e).

Market-related financial risks

a. Interest rate risk on cash flows and fair value

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

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

b. Exchange rate risk

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

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

c. Price risks

The Company is not exposed to significant price risks.

Fair value estimate

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

(NOTE 8) FINANCIAL INVESTMENTS IN GROUP COMPANIES

The following are the movements recognised under the head of *Short and long-term investments in group and associated companies* at the end of the 2023 and 2022 financial years:

	Euro								
	Balance at 31.12.21	Additions	Cancellations	/Transfers	Balance at 31.12.22	Additions	Cancellations	Transfers	Balance at 31.12.23
Long-term									
□ Multigr. and assoc. company equity instruments	2,516,577	---	---	(2,000,000)	516,577	117	---	---	516,693
□Financing loans to group and related companies	19,313	---	---	---	19,313	----	---	3,470,674	3,489,987
□ Interest on l/t cred. to gr. and related companies	---	---	---	---	---	---	---	---	---
□ Impairment of holdings in Group	(81,264)	---	---	---	(81,264)	---	---	---	(81,264)
□ Impairment loans to group comps.	---	---	---	---	---	---	---	---	---
Total l/t inv. in group and assoc. comps.	**2,454,627**	**---**	**---**	**(2,000,000)**	**454,627**	**117**	**---**	**3,470,674**	**3,925,417**
Short-term:									
□Financing loans to group and related companies	192,196	1,588,628	(22,401)	(872,966)	885,456	2,640,180	(54,962)	(3,470,674)	---
Total s/t inv. in group and assoc. comps.	192,196	**1,588,628**	**(22,401)**	**(872,966)**	**885,456**	2,640,180	**(54,962)**	**(3,470,674)**	---

8.1 Equity instruments in group companies

The following is the information on the Group companies as at 31 December 2023:

FacePhi APAC Ltd

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

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

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 million euros. Company management considers that this transaction achieves the strategic objective of boosting the digital on-boarding service in its commercial portfolio and consolidating its leadership in the field of identification and authentication at both the domestic and the international levels. The transaction was settled by cash for the sum of 1,159,999 euros and provision of 164,706 of the Company's treasury shares for 840,001 euros, the fair value of the transferred shares (Note 11.1.b).

The fair value of Ecertic's assets and liabilities as at 1 January 2022, together with their book value before the acquisition, were entered as follows once the company had been acquired:

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

Therefore, the agreed acquisition price entails the existence of an implicit goodwill fund amounting to 1,627,194 euros as at 31 December 2020 attributable to the technology provided by said company for development of the digital on-boarding solutions that the Company currently markets.

As indicated in Note 1.c) Business combinations, on 9 November2021 the Company's governing body and that of Ecertic Digital Solutions, S.L., approved the merger transaction in accordance with the project. The absorbed company was wound up and its net worth acquired by universal succession for accounting purposes on 1 January 2022, which is the reason why the Company's holding of 2,000,000 euros in the absorbed company was written off on the same date.

Celmuy Trading, S.A.

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

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

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

Facephi Beyond Biometrics, Ltd.

On 26 May 2022 Facephi Beyond Biometrics Ltd was registered in the Companies Registry of England and Wales under number 14135809. It is subject to U.K. law and was incorporated with a capital of 100 pounds sterling (GBP) that had not been called on the drafting date of these Annual Financial Statements.

Equity position of companies within the consolidation group

The following was the equity position of the subsidiaries obtained from their unaudited accounting records as of 31 December 2023 and 2022:

	Celmuy Trading, S.A.		Facephi Beyond Biometrics, Ltd.		FacePhi APAC Ltd	
	2023	2022	2023	2022	2023	2022
Called capital	187	187	116	116	516,390	516,390
Issue premium	---	---	---	---	---	---
Reserves	43,450	---	(909,089)	---	(212,630)	(227,466)
Outcome of the financial year	111,087	43,450	(2,109,845)	(909,089)	16,409	(66,428)
Conversion differences	(9,491)	(2,539)	(893)	14,654	(79,445)	(8,086)
Subsidies	--	---	--	---	---	---
Net equity	**145,233**	**41,098**	**(3,019,711)**	**(894,435)**	**240,723**	**214,410**
% holding	100%	100%	100%	100%	100%	100%
Theoretical value of holding	**145,233**	**41,098**	**(3,019,711)**	**(894,435)**	**240,723**	**214,410**
Cost	187	187	116	1	516,390	516,390
Impairment	--	--	--	--	(81,263)	(81,263)
Net book value	**187**	**187**	**117**	**1**	**435,126**	**435,126**

The impairment loss estimate is reviewed annually on the basis of the net equity of the investee company and of the expected future cash flows of the same. No further impairment was recognised during the 2023 and 2022 financial years.

8.2 Long-term financing credits

As of 31 December 2023 and 2022, the Company has granted credit to the following companies:

	Euro	
	31.12.22	31.12.23
FacePhi APAC Ltd	19,313	19,313
Facephi Beyond Biometrics, Ltd.	-	3,470,674
Total	**19,313**	**3,489,987**

No interest had accrued as at 31 December 2023 and 2022.

As mentioned in point 8.2 above, the subsidiary Facephi Beyond Biometrics, Ltd was incorporated during the 2022 financial year. The Company lent money to this subsidiary during the 2022 and 2023 financial years to pay for its start-up activity. The total amount of credit as at 31 December 2023 amounted to 3,470,674 euros, which do not have a predetermined maturity date. However, the subsidiary's business plan foresees returning said money in the medium term, for which reason it has been classified as long-term credit.

8.3 Short-term financing credits

As at 31 December 2023 and 2022, the Company has granted credit to the following companies:

	Euro	
	31.12.22	**31.12.23**
Celmuy Trading, S.A.	54,962	-
Facephi Beyond Biometrics, Ltd.	830,494	-
Total	**885,456**	**-**

The Company provided additional credit to the Group company Facephi Beyond Biometrics, Ltd for the sum of 3,470,674 euros as at 31 December 2023, transferred to the long term as explained in section 8.2 above due to the fact that the Company does not expect the amount to be reimbursed in the short term.

NOTE 9. FINANCIAL ASSETS

9.1 Analysis by category

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

	Euro			
	Loans, derivatives and others			
	Short-term		Long-term	
	2023	**2022**	**2023**	**2022**
Assets at cost:				
• Equity instruments	---	---	---	
Assets at amortised cost				
• Trade debtors and other accounts receivable [(*)]	12,973,649	11,195,404	7,067,893	5,224,239
• Loans to personnel	2,050	---	1,700	1,700
• Other financial assets	47,364	55,793	128,085	126,213
Total	**13,022,630**	**11,251,196**	**7,197,678**	**5,352,152**

[(*)] 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.

Trade debtors and other accounts receivable

The following is the breakdown of this item on the Balance Sheet as at 31 December 2023 and 2022:

	Euro	
	2023	2022
Non-current trade debts		
• Trade receivables for provision of services, invoices pending issuance	7,067,893	5,224,239
Total long-term	**7,067,893**	**5,224,239**
S/t trade debtors and other accounts receivable		
• Trade receivables for provision of services	1,927,702	3,421,673
• Trade invoices pending issuance	11,045,514	7,725,586
• Doubtful trade receivables	2,769,079	1,897,511
• Group trade accounts (Note 16.b)		47,713
• Sundry debtors	433	433
• Impairment of trade credits	(2,769,079)	(1,897,511)
• Current tax assets	(733)	(733)
• Others credits with govt. agencies (Note 13.1)	1,789,338	1,756,357
Total	**14,762,253**	**12,951,027**

The Company's collection conditions allow its customers up to one year to pay for goods and services. This is normal business practice in the sector in which it operates and particularly in technology assignment and licensing agreements. The Company recognises the consideration at amortised cost under the head of *Non-current trade debts* in Assets on the Balance Sheet in cases where the invoicing period is longer than one year.

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

Impairment of trade credits

The following is the breakdown of losses for value impairment by trade receivables credit risk during the 2023 and 2022 financial years:

	Euro	
	2023	2022
Initial balance	**1,897,511**	**1,177,596**
Provision for impairment of accounts receivable	1,004,393	719,915
Reversal of unused amounts	(132,825)	---
Final balance	**2,769,079**	**1,897,511**

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

The Company also recognised losses under the same head due to bad debts for the sum of 397,082 euros (0 euros in the 2022 financial year) directly in the Income Statement in the 2023 financial year.

Other short and long-term financial assets

As at 31 December 2023 the *Other long-term financial assets* account includes the rental bonds for the offices for the sum of 53,756 euros (51,884 euros as of 31 December 2022), 74,329 euros (same amount as of 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 31 December 2023 the *Other short-term financial assets* account includes the sum of 31,344 euros (same amount as at 31 December 2022) for a fixed-term deposit (F.T.D.) for a par value of $US 35,500 as a guarantee placed with a customers for provision of licencing, support and consultancy.

This short-term item also includes the sum of 1,265 euros placed on 10 May 2022 as a contribution to the UTE DH Healthcare Provider Software Spain, S.L.U. – Facephi Biometrics, S.A. explained in note 1.d) and other bonds for negligible amounts.

9.2 Analysis by maturity

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as at 31 December 2023:

	Financial assets					
	2024	**2025**	**2026**	**2027**	**Subsequent years**	**Total**
Financial asset						
• Debtors and other accounts receivable (*)	12,973,649	4,356,334	1,814,362	646,166	251,031	20,041,542
• Other financial assets	49,414	79,315		---	40,770	179,199
Total	**13,023,063**	**4,435,649**	**1,814,362**	**646,166**	**301,501**	**20,220,741**

(*) Does not include balances with government agencies.

Internal

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

	Financial assets					
	2023	**2024**	**2025**	**2026**	**Subsequent years**	**Total**
Financial asset						
• Equity instruments	---	---	---	---		
• Debtors and other accounts receivable (*)	11,195,404	2,247,575	1.401.640 ---	677.828---	897.197---	16,419,642
• Other financial assets	55,793	10,100	79.315---		38.498---	183,706
Total	**11,251,196**	**2,257,675**	**1.480.955 ---**	**677,828**	**935,695**	**16,603,348**

(*) Does not include balances with government agencies.

(NOTE 10) CASH AND CASH EQUIVALENTS

The following breakdown shows the cash and cash equivalents account as at 31 December 2023 and 2022:

	Euro	
	2023	**2022**
Cash, euros	1,324	1,549
Cash, foreign currency (note 14.g)	677	112
Banks and credit inst. demand c/c, euros	1,097,386	1,083,361
Banks and credit inst. demand c/c, f.c. (note 14.g)	1,499,237	826,760
Total	**2,598,624**	**1,911,782**

The treasury item under the head of *Banks and financial institutions* includes an entry of 285,677 euros (277,758 euros at 31 December 2021) for financial deposits in the trading and settlement entities of Euronext and BME Growth securities respectively, the funds of which are not freely available to the Company unless the liquidity provider estimates that the cash or shares at its disposal are excessive.

As a result of the financial restructuring agreement entered into on 14 December 2020, the Company had established a pledge right over the current accounts and other available liquid assets for the sum of 2,279,907 euros (1,608,374 euros as at 31 de December 2022) (see Note 12.2).

(NOTE 11) NET EQUITY

The attached Statement of Changes in Net Equity shows the breakdown and movement of the various accounts under the head of Net Equity during the financial periods ended on 31 December 2023 and 2022.

11.1 Capital and reserves

a) Share capital and issue premium

The following is the composition of the Company's share capital and issue premium as at 31 December 2023 and 2022:

	Euro			
	2023		2022	
	Capital	Issue premium	Capital	Issue premium
Authorised	851,585	24,231,301	697,311	15,560,800
Total	**851,585**	**24,231,301**	**697,311**	**15,560,800**

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

	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
Capital increase 02.08.2023	1,214,855	0.04	48,594	2,994,884
Capital increase 17.10.2023	1,293,889	0.04	51,756	2,339,549
Capital increase 17.10.2023	470,506	0.04	18,820	850,745
Capital increase 16.11.2023	287,053	0.04	11,482	640,692
Balance at 31 December 2023	**21,289,623**	**0.04**	**851,585**	**24,231,301**

	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
Final balance as at 31 December 2022	**17,432,768**	**0.04**	**697,311**	**15,560,800**

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

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

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

<u>Issuance of the February 2022 equity warrants</u>

On 16 February 2022 the Board of Directors adopted a resolution to conduct an issue of 48,076,923 equity warrants convertible to the Company's shares for a maximum of 2,500,000 euros (the February 2022 Equity Warrants). Nice & Green was the only recipient of the 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	Exercise price	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 the Castilla-La Mancha Notaries Association 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	Exercise price	Par value	Issue premium	Capital	Issue premium
01/04/2022	99,999	38,172	2.6197	0.04	2.5797	1,526.88	98,472.31
03/05/2022	249,998	104,558	2.3910	0.04	2.3510	4,182.32	245,815.86
13/05/2022	549,999	237,642	2.3144	0.04	2.2744	9,505.68	540,492.96
19/05/2022	499,999	212,983	2.3476	0.04	2.3076	8,519.32	491,479.57
27/05/2022	499,999	180,531	2.7696	0.04	2.7296	7,221.24	492,777.42
Totals	**1,899,994**	**773,886**				**30,955**	**1,869,038**

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

Issuance of the June 2022 equity warrants

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

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

Notification date	Amount	Conversion of EW	Exercise price	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 March 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 April 2022.

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

Issuance of the November 2022 equity warrants

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

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

Notification date	Amount	Conversion of EW	Exercise price	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 the Notaries Association 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.

The sum of 1,500,000 euros remained available for conversion at the beginning of 2023. 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	Exercise price	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 agreement was formalised on 16 and 23 January 2023 pursuant to instruments executed before the notary public of the Castilla-La Mancha Notaries Association 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 Equity as at 31 December 2022 and 31 December 2023 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.

La variation in the fair value of the financial derivative as at 31 December 2022 entails a net loss of 99,903 euros. After conversion of the pending amount of 1,500,000 euros with the aforesaid two capital increases in January 2023, the actual loss at the time of these two conversions amounted to 268,802 euros as increased value of the share premium, a loss was consequently recognised as at 31 December 2023 under head 17, Variation in the Fair Value of Financial Instruments in the Income Statement.

Variations in the fair value of the derivative during its life (that is, from the signature date to exercise of the option) are recognised under head 17, *Variation in the Fair Value of Financial Instruments* in the Financial Statements as a financial cost and reflected in the reciprocal entry in Equity as increased value of the issue premium. The increase in the premium in 2023 amounted to 368,255 euros (578,215 euros in 2022), the equivalent of the treasury inflow received for the conversion minus the accumulated fair value by the derivative to said date.

The following is the breakdown of the above movements

As at 31 December 2023

	Number of shares	Conversion price	Fair value	Issue 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
Derived value recognised in the previous financial year at 12/12/2022				(99,093)
Total recognised under head *17. Variations in the Fair Value of Financial Instruments* in the Income Statement for the financial year (loss).				269,162

As at 31 December 2022

	Number of shares	Conversion price	Fair value	Issue 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 bonds

On 27 April 2023 the Company entered into a third financing agreement with similar conditions and features as the previous one with Nice & Green. The financing instruments, however, were different, taking the form of issuance of convertible bonds on this occasion. The Extraordinary General Meeting held on 20 June 2023 agreed, in compliance with article 297.1.b of the Corporate Enterprises Act (LSC) to delegate the power to issue convertible equity warrants (EW) in Company shares for a maximum conversion sum of 20 million euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. In accordance with art 417 of the LSC, the pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green S.A. Said delegated power was limited by the condition that the total amount of the increases in share capital agreed on one or more occasions may not exceed the equivalent of half of the share capital at the time, i.e. 360,466.40 euros under any circumstances.

The number of new shares to be issued on conversion of each convertible bond shall be determined by application of the following formula:

$N = Vn / P$
Where:

“N” represents the number of new shares to be issued
“Vn” is the call price of the convertible bonds.
“P”: is (i) the issue price rounded to 4 decimal places; or (ii) the nominal share price, whichever is the higher.

The “issue price” shall be calculated as follows:

Issue price = Reference VWAP * 92%
"Reference VWAP" means (i) the VWAP published on the trading day preceding the conversion date or (ii) the VWAP of the last three (3) trading days immediately preceding a conversion date, whichever is the lower. For the purposes of calculating the reference VWAP, the VWAP of trading days on which the bond-holder has sold more than 15% of the daily trading volume of the shares shall not be taken into account.

Issuances and conversions under the convertible bond contract

The Company requested the first issuance for conversion of convertible bonds on 21 July 2023 for the sum of 5,000,000 euros (500 bonds with a par value of 10,000 euros each). The transaction was notarised on 24 July 2023.

On 27 July and 2023 and 5 October 2023, Nice & Green notified conversion of 2,800,000 euros (280 bonds at 10,000 euros par value each) and 2,200,000 euros (220 bonds of 10,000 euros par value each) respectively in accordance with the following conditions:

Notification date	Amount	Conversion (shares)	Exercise price	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
5/10/2023	2,200,000	1,214,855	1.7003	0.04	1.6603	51,756	2,148,244

The first of the aforesaid conversions was notarised on 2 August 2023 and registered in the Companies Registry on 12 September 2023. The second conversion was notarised on 17 October 2023 and registered in the Companies Registry on 6 November 2023.

The Company requested the second issuance for conversion of convertible bonds on 6 October 2023 for the sum of 1,900,000 euros (190 bonds with a par value of 10,000 euros each). The transaction was notarised on 24 July 2023.

On 6 October 2023 and 8 November 2023, Nice & Green notified conversion of 800.000 euros (80 bonds at 10,000 euros par value each) and 600.000 euros (60 bonds of 10,000 euros par value each) respectively in accordance with the following conditions:

Notification date	Amount	Conversion (shares)	Exercise price	Par value	Issue premium	Capital	Issue premium
6/10/2023	800,000	470,506	1.7003	0.04	1.6603	18,820	781,181
8/11/2023	600,000	287,053	2.0902	0.04	2.0502	11,482	588,516

The first of the aforesaid conversions was notarised on 17 October 2023 and registered in the Companies Registry on 11 November 2023. The second conversion was notarised on 16 November 2023 and registered in the Companies Registry on 20 December 2023.

The differences between the par value of the amounts converted into shares and the value of said debt at amortised cost gave rise to a financial expense under head 15. Financial Expenses in the Income Statement for the sum of 556,525 euros, resulting in an increase in the premium by the same amount.

With respect to the cash drawn down to date (note 12), as at 31 December 2023 the sum of 500,000 euros remained pending conversion. This amount was converted by means of a capital increase on 11 January 2024 (note 20).

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

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

a.3) Significant holdings

Pursuant to Article 228 of the Consolidated Text of the Securities Market Act adopted by Royal Legislative Decree 4/2015 of 23 October and to Circular 3/2020 of BME Growth, as at 31 December 2023 the following shareholders held a percentage of the Company's share capital equal to or greater than 5%:

	%	%
	12:2023	**12:2022**
Banque Cantonale Vaudoise (Nice & Green)	18.67	11.06
Salvador Martí Varó	--	7.40
Javier Mira Miró (*)	2.07	6.02
Juan Alfonso Ortiz Company (**)	0.51	6.45
José Cristóbal Callado Solana	--	5.31

(*) 5.85% taking into account 141,470, 35,196, 33,000, 235,001 and 350,000 shares deposited with Nice & Green as collateral pursuant to the material fact published on 18 September 2019, propriety information published on 15 December 2020, another material information published on 1 July 2022, propriety information published on 5 May 2023 and another propriety information published on 4 August 2023 respectively.

(*) 5.58% taking into account 150,586, 26,080, 43,666, 235,001 and 610,000 shares deposited with Nice & Green as collateral pursuant to the material fact published on 18 September 2019, propriety information published on 15 December 2020, another material information published on 1 July 2022, propriety information published on 5 May 2023 and another propriety information published on 4 August 2023 respectively.

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

b) Treasury stock

The total amount of treasury stock held as at 31 December 2023 is 393,977 euros (454,079 euros at 31 December 2022) represented by 158,449 shares (155,144 shares at the end of the previous financial year), the equivalent of 0.75% (0.89% in 2022) of the Company's share capital. This is well below the maximum limit of 10% provided for in article 509 of the Corporate Enterprises Act.

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

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

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

The following are the share movements during the 2023 financial year:

	2022	Purchases	Sales	2023
Cost of treasury shares	454,079	450,744	510,846	393,976

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

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

The Company sold treasury shares during the 2023 financial year for a loss of 50,206 euros (a loss of 181,184 euros as at 31 December 2022) recognised against *Voluntary Reserves.*

c) Reserves and outcome of previous financial years

The following is a breakdown of reserves at the end of the 2022 and 2023 financial years:

	Euro	
	2023	**2022**
Legal reserve	139,462	108,553
Voluntary reserves	661,721	592,811
Ecertic merger reserves (Note 1.c)	(592,985)	(592,985)
Total	**208,198**	**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, as of 31 December 2023 and 2022, include profits from previous years that were neither distributed nor assigned to mandatory reserves.

These reserves are freely available.

As set forth in the attached Statement of Changes in Net Equity, during the 2023 financial year the sum of 61,200 euros (179,625 euros in previous years) net of taxes has been recognised against these reserves for the cost of issuance and expenses incurred as a result of the capital increases carried out during the year. A loss of 50,206 euros (181,184 euros in profits during the 2022 financial year) was also recognised for the outcome of the treasury stock sale-purchase transactions (see Note 11.1.b).

Restrictions on allocation of dividends

Once legal provisions and those of the articles of incorporation have been met, only dividends charged to profit for the financial year and voluntary reserves may be allocated provided that the value of Net Equity is not less than that of shareholder's equity or will not become so as a result of the allocation.

- Consequently, profits assigned directly to Net Equity may not be directly or indirectly allocated. In the event that losses from previous years cause the value of the Company’s Net Equity of to fall below that of shareholders' equity, the profits shall be assigned to compensation for said losses.

- If the Company’s assets include Intangible assets derived from capitalisation of R&D and/goodwill. In this case, profits may only be allocated if the sum of voluntary reserves is at least equal to the net value of the non-amortised intangible assets.

d) *Proposed allocation of the outcome of the 2022 financial year*

The following is the proposed application of the outcome of the financial year ended on the 31 December 2023 pending approval by the General Meeting:

Allocation base	2023	2022
Profit (loss) for the financial year net of corporation tax	(2,327,198)	2,052,553
Total allocation base	**(2,327,198)**	**2,052,553**
Allocation		
To offset losses from previous financial years	(2,327,198)	1,841,328
To statutory reserves	---	30,909
To voluntary reserves	---	180,316
Scope of application	**(2,327,198)**	**2,052,553**

Allocation of the outcome of the financial year ended on the 31 December 2022 was approved by the General Meeting held on 30 June 2023.

Restrictions on allocation of dividends

The Company is legally obliged to allocate 10% of the profits for the financial year to legal reserves until they reach at least 20% of the share capital. Until it reaches at least 20% of the share capital, this reserve may not be allocated to shareholders.

Once the legal provisions and those of required by the articles of association have been met, dividends charged to profit for the financial year and voluntary reserves may only be allocated if:

- the value of Net Equity is not less than that of shareholder's equity or will not become so as a result of the allocation. Profits assigned directly to net worth may not be subject to direct or indirect allocation. In the event that losses from previous years cause the value of the Company's Net Equity of to fall below that of shareholders' equity, the profits shall be assigned to compensation for said losses.
- if the Company's assets include intangible assets derived from capitalisation of R&D and/or goodwill. In this case, profits may only be allocated if the sum of voluntary reserves is at least equal to the net value of the non-amortised intangible assets.

The Company has not allocated dividends since it was incorporated.

11.2. Subsidies

The following are the amounts and features of the subsidies that appear on the Balance Sheet as at 31 December 2023 and 2022 under the head of *Subsidies, donations and bequests* and movements during this and the previous financial year:

Financial year ended 31 December 2023

Granting body	Year granted	Amount granted	Balance as at 31.12.22	Additions in the financial year	Transferred to Profit (Loss) 31.12.23	Tax effect	Balance as at 31.12.23
Europe (H2020)	2016	1,692,600	15,699	---	(20,932)	5,233	---
CDTI	2018	180,390	34,141	---	(36,456)	9,114	6,799
IMIDCA	2021	110,884	74,847	---	(22,177)	5,544	58,214
IMINOD	2021	25,154	15,092	---	(5,031)	1,258	11,319
Red.es	2022	1,270,090	37,843	878,367	(191,810)	(170,889)	553,510
		3,279,118	**177,622**	**878,367**	**(276,406)**	**(149,740)**	**629,843**

Financial year ended 31 December 2022

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

H2020 is the largest European funding program for research and innovation projects. It had a total budget of roughly 80,000 million euros for the 2014 to 2020 period. The *SME Instrument* program was specifically designed to promote highly innovative SMEs with a strong appetite for growth and international projection in order to drive their success in the market.

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

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

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

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

- On 30 November 2021 the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy for SME Innovation Projects. Innovation in Electronic, Information and Communication Technologies (EICTs) 2021 for an eligible cost of 162,500 euros and a subsidy of 70,663 euros. The eligible expenses period was from 1 January 2021 to June 30 2022. Subsequently, on 25 February 2022, the Valencian Institute of Business Competitiveness (IVACE) notified the Company that the execution date had been extended until 31 December 2022.
- On 23 December 2021, IVACE approved a subsidy for *R&D Projects in Cooperation (PIDCOP-CV) 2021* for eligible costs totalling 235,615 euros and a grant of 141,369 euros. The eligible expenses period was from 11 March 2021 to 30 June 2022: Subsequently, on 25 February 2022, the Valencian Institute of Business Competitiveness (IVACE) notified the Company that the execution date had been extended until 31 December 2022.

Moreover, during the 2022 financial year the Company has benefitted from a RED.ES, M.P subsidy under the 2021 call for aid aimed at design engineering for research and development in artificial intelligence and other digital technologies and their integration into value chains, for the sum of 1,270,090 euros for investment in personnel costs and a collaboration grant amounting to 1,587,519 euros. As at 31 December 2023 the Company holds 222,807 euros of its short-term liabilities as debt convertible to subsidies (905,233 euros in short term and 307,189 euros in long term as at 31 December 2022). In 2023, the Company transferred the costs incurred in the financial year that were capitalised for the gross sum of 878,367 euros to a capital subsidy and transferred directly under the head of *Operating subsidies added to profit for the year* and subsidised costs totalling 111,382 euros allocated directly as an expense for the year to the Income Statement (note 14.d).

(NOTE 12) FINANCIAL LIABILITIES

12.1 Analysis by category

The following is the classification of financial liabilities by category and class as at 31 December 2023 and 2022:

	Euro			
	Debt with credit institutions		Derivatives and others	
	2023	2022	2023	2022
Long-term financial liabilities:				
Valued at amortised cost:				
- Bank loans and credit lines	2,927,486	3,649,671	---	---
- Financial leasing creditors (note 6)	83,908	176,195	---	---
- Other financial liabilities	---	---	---	307,189
Total long-term	**3,011,394**	**3,825,866**	**---**	**307,189**
Financial liabilities and other accounts payable				
Valued at amortised cost:				
- Bank loans and credit lines	8,603,348	3,918,990	---	---
- Financial leasing creditors (note 6)	92,287	88,277	---	---
- Trade creditors and other accounts payable (*)	---	---	9,740,791	4,327,877
- Other financial liabilities	---	---	1,466,715	3,205,796
Entered at fair value with restatement in the IS:				
- Derivatives (note 11.1.a.3)	---	---	---	99,093
Total short-term	**8,695,635**	**4,007,267**	**11,207,506**	**7,632,766**

(*) Does not include balances with government agencies.

12.2 Bank loans and credit lines

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

	Euro			
	2023		2022	
	Short-term	Long-term	Short-term	Long-term
Bank loans and credit lines	8,403,264	2,927,486	3,837,170	3,649,671
Credit cards	60,999	---	50,268	---
Uncollected accrued interest	139,085	---	31,551	---
Total	**8,603,348**	**2,927,486**	**3,918,990**	**3,649,671**

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

			Euro			
			31.12.23		31.12.22	
Type of transaction	**Maturity**	**Limit**	**Short-term**	**Long-term**	**Short-term**	**Long-term**
Loan (1)	03.04.28	1,000,000	163,256	573,000	159,502	736,255
Syndicated loan A	12.12.25	6,000,000	1,380,073	1,532,034	1,231,169	2,913,416
Syndicated loan B	12.12.24	5,000,000	5,000,000	---	1,999,999	---
Syndicated loan C	12.12.24	2,000,000	1,182,387	---	446,500	---
COFIDES loan	21.07.26	500,000	500,000	---	---	---
Loan (2)	08.05.27	1,000,000	177,548	822,452	---	---
		Total	**8,403,263**	**2,927,486**	**3,837,170**	**3,649,671**

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

(2) The ICO PYMES loan executed in 2023 with entry into effect on 8 May 2023.

The interest rate on debts with credit institutions is the Euribor plus a margin considered to be consistent with market rates. As at 31 December 2023, the Company has recognised the sum of 139,085 euros as accrued interest pending collection (31,551 euros as at 31 December 2022).

The average interest rate on long-term debts with credit institutions as at 31 December 2023 is 5.92% (4.40% in the previous financial year).

Syndicated financial restructuring agreement

On 14 December 2020 the Company reached a syndicated credit line agreement with a limit of 13 million euros with Banco Santander, CaixaBank, Banco Sabadell and Deutsche Bank, structured in three tranches:

- TRANCHE A, nominal sum of € 6 million for 5 years with half-yearly amortisation.

- TRANCHE B, Ordinary revolving credit. Nominal sum of 5 million euros for three years plus two potential 1-year renewals. The drawn-down balance of this tranche is reported in Short Term Liabilities since it is subject to annual renewal by mutual consent of the parties.

- TRANCHE C, revolving credit (bilateral contracts). Nominal sum of two million euros for three years with two annual renewals of up to 5 years. The drawn-down balance of this tranche is reported in Short Term Liabilities since it is subject to annual renewal by mutual consent of the parties.

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.

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

The debt issuance conditions related to the syndicated loan entail compliance with various annual ratios determined on the basis of net financial debt and financial expenses, both with respect to EBITDA, calculated using the information set forth in the Company's financial statements. As at 31 December 2023, the Company had not met the ratio established in the aforesaid financing agreement and therefore requested a waiver from the financial entity on 21 November 2023, which was granted on 22 December of the same year.

COFIDES loan

On 26 June 2023 the Company entered into a financing agreement with Compañía Española de Financiación del Desarrollo, COFIDES, S.A. for development of an investment project in the U.K. consisting of commercial establishment in said country by means of its subsidiary Facephi Beyond Biometrics, Ltd (the Project Company). The contract set up a financing facility in the form of a three-year loan of a maximum of 500,000 euros. On 5 July 2023 the Company requested withdrawal of the total amount, which was received on 21 July 2023. The loan will be amortised in six identical payments per half year.

The interest rate applicable to each settlement period will be Euribor + a margin. This margin consists of a fixed rate of 2.5% + a variable rate of +/- 5% depending on the net turnover of the Project Company.

The conditions related to the COFIDIS loan entail compliance with various annual ratios determined on the basis of net financial debt and financial expenses, both with respect to EBITDA, calculated using the information set forth in the Company's financial statements. As at 31 December 2023 the Company had not met the aforesaid ratios, which means that the entire principal loan amount of 500,000 euros was classified as short-term debt on the same date.

12.3 Trade creditors and other accounts payable

The following is the breakdown of this item on the Balance Sheet as at 31 December:

	Euro	
	2023	**2022**
Suppliers	3,640,986	563,163
Suppliers, group and associated companies (Note 16.b)	175,828	---
Trade receivables for provision of services	(93,305)	808,455
Creditors, invoices pending receipt	5,572,192	1,492,481
Personnel	620,918	1,463,777
Other debts with public agencies (Note 13.1)	556,753	419,627
Total trade creditors and other accounts payable	**10,473,071**	**4,747,505**

12.4 Other short- and long-term financial liabilities

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

	Euro			
	Short-term		**Long-term**	
Type of transaction	**2023**	**2022**	**2023**	**2022**
Debts convertible to subsidies	222,807	905,366	--	307,189
Nice & Green loans	1,243,482	2,300,002	---	---
Others	427	427	---	---
Total	**1,466,716**	**3,205,796**	**---**	**307,189**

As at 31 December 2023, the Company has entered into two financial transactions with Nice & Green for a total of 1.2 million euros as shown in the following breakdown:

- 500,000 euros awaiting conversion from revenues received by the investor on 19 June 2023 for a total value of 1,900,000 euros. Only this remaining balance is yet to be converted (Note 11.1). In view of the fact that this is a financial instrument carried at amortised cost, since the date of conversion by the investor is not known on issuance, the Company recognises an implicit financial expenses taking the twelve months from each treasury draw-down into account. As at 31 December 2023 the implicit interest pending conversion amounted to 43,479 euros. Conversion to capital took place in January 2024 (Note 20).

- An interest-free financing loan granted on 23 June 2022 for € 700,000 (same amount as in the previous year) with an initial 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. This loan has once again been extended as set forth in Note 20.

€ 1.5 million from the previous financing agreement with Nice & Green, which has now matured, had been recognised as at 31 December 2022. This amount was converted into capital in two conversions carried out during January 2023 (note 11.1.a).

12.5 Analysis by maturity

The following are the amounts of the non-current financial liability instruments with a specific or determinable maturity classified by year of maturity as at 31 December 2023:

	Non-current financial liabilities				
	2025	**2026**	**2027**	**Subsequent years**	**Total**
Debt with credit institutions	2,022,187	518,315	327,511	59,473	2,927,486
Creditors for financial leases	83,908	---	---	---	83,908
Total	**2,106,095**	**518,315**	**327,511**	**59,473**	**2,927,486**

As at 31 December 2022:

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

12.5 Information on the average period of payment to suppliers. Additional provision three "Duty of Information" of Act 15/2010 dated 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	2023 Days	2022 Days
Average period of payment to suppliers	47	27
Ratio of paid transactions	43	24
Ratio of transactions pending payment	61	50
	Euro	
Total payments made	13,028,247	11,245,432
Total outstanding payments	4,101,488	1,371,619

	2023	2022
Number of invoices		
Total number of invoices paid	2,978	2,191
Number of invoices paid before the legal deadline	2,828	2,093
%	95%	96%
Amount in euros		
Total amount of paid invoices	13,028,247	11,245,432
Value of invoices paid within the legal deadline	10,210,105	10,440,799
%	78%	93%

For these purposes only, the Trade Creditors account encompasses items from suppliers and sundry creditors for debts with suppliers of goods or services included within the scope of the regulations on legal payment terms. The Net Purchases and External Services Expense account encompasses the amounts recognised as such in the Spanish General Accounting Plan.

(NOTE 13) POSITION WITH RESPECT TO THE TAX AGENCIES

13.1 Current balances with government agencies

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

	Euro			
	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Deferred tax assets (Note 13.4)	**4,901,032**		**1,555,337**	
Deferred tax asset for:				
• VAT	308,677		275,696	
• Others	143		143	
Other govt. agencies: Subsidies granted	1,480,518		1,480,518	
Others credits with govt. agencies	**1,789,338**		**1,756,357**	
Deferred tax liabilities (Note 13.4)		**209,947**		**59,207**
Debts with Social Security bodies		312,281		254,679
Deferred tax liability for:				
• Personal income tax withholdings		322,523		164,948
• VAT		78,351		
Other debts with government agencies		**556,453**		**419,627**
Current tax assets/liabilities	**(733)**	**---**	**(733)**	**---**

13.2 Financial years pending verification and inspection

In compliance with the currently applicable legislation, taxes are not considered finally settled until the returns have been inspected by the tax agency within the four-year limitation period. As at 31 December 2023, none of the Company's main tax returns since 31 December 2019 have been inspected and are therefore open to examination by the tax agencies.

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

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

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

The following is the reconciliation of the accounting result with the corporation income tax base:

	Euro			
	Increases	Decreases	2023	2022
Book result for financial year (before tax)			(5,072,717)	1,971,549
Permanent differences:				
• Other non-deductible expenses	13,932		13,932	10,442
• Variations in the FV of financial instruments (Note 11.1.a.1)	268,802		268,802	677,308
• Impair. of holdings and credits with group comps (Note 8.1)				---
Income/ (expenses) attributed to Net Equity				
• Capital increase expenses (Nota 11.1.c)		(83,200)	(83,200)	(239,500)
• Compens. negative taxable bases in previous years				(1,125,150)
• Compens. ECERTIC merger negative taxable bases				(396,985)
Taxable base			**(4,873,183)**	**897,664**
Tax rate on the payable base (25%)			(1,218,296)	224,416
Rebates for cross-border double taxation				
• Current financial year				(224,416)
• Previous financial years			---	---
Tax payable			---	---
Withholdings and other payments on account			---	---
Amount payable (receivable)			**---**	**---**

As at the end of the 2023 and 2022 financial years the permanent differences are confined to consideration of non-deductible fiscal penalties and surcharges as expenses and variation in the fair value of financial instruments (derivatives) or financial expenses related to the various capital increases in accordance with the information set forth in Note 11.1.

The accounting expense / (income) for corporation tax for the 2023 and 2022 financial years is calculated as follows:

	Euro	
	2023	2022
Recognition of deductions for withholdings at source	579,375	(97,648)
Application/(activation) of deductions for the current financial year	(579,375)	322,064
Tax rate on the taxable base - current expense / (income)	(1,218,296)	---
Application of tax credit for FacePhi negative taxable bases	---	281,287
Recognition of rebates	1,657,744	(998)
Current tax expense / (income)	**(2,876,040)**	**504,705**
Tax credit for capital increase expenses	20,800	59,875
Deferred tax expense / (income)	**20,800**	**59,875**
Recognition of restatement of estimated R&D rebates (Note 13.4)	**109,720**	**(645,585)**
Total corporation tax expense / (income)	**(2,745,520)**	**(81,004)**

13.4. Deferred tax assets and liabilities

Deferred tax assets

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

Tax rebates pending application

The following table shows the breakdown of tax rebates pending application in accordance with the Company's corporation tax returns filed and the tax forecast for the current financial year as at 31 December 2023 and 2022:

As at 31 December 2023:

Item	Year of origin	2022	Generated	Applied	Estimate changes	2023
Cross-border double tax.	2018	57,862	---	---	---	57,862
ECERTIC merger R&D	2018	97,364	---	---	---	97,364
Research and development	2019	90,089	---	---	---	90,089
Cross-border double tax.	2020	205,158	---	---	---	205,158
Research and development	2020	260,497	---	---	(52,099)	208,398
Film production	2020	126,632	---	---	---	126,632
Cross-border double tax.	2021	316,078	---	---	---	316,078
Research and development	2021	303,012	---	---	(57,621)	245,391
Cross-border double tax.	2022	97,648	---	---	---	97,648
Rebate for donations (35%)	2022	998	---	---	---	998
Research and development	2022	---	1,657,744	---	---	1,657,744
Cross-border double tax.	2023	---	579,375	---	--	579,375
Rebate for donations (35%) (*)	2023	---	4,480	---	---	4,480
Total		**1,555,337**	**2,241,599**	**--**	(109,720)	**3,687,217**

(*) Rebate not recognised as at 31 December 2023

As at 31 December 2022:

Item	Year of origin	2021	Generated	Applied	Estimate changes	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**

Deductions for double taxation refer to withholdings applied to sales in Latin American countries, the Company's main markets.

In September 2021 a substantiated report of mandatory compliance (Spanish acronym IMV) was received that fiscally qualified the rebates as research and development. This entails a change from a rebate of 12% to one of 42% of the investment associated with the R&D projects. Consequently, the Company recognised the change in the estimate of the amount of these rebates for the sum of 245,208 euros in the 2022 financial year.

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

In the 2023 financial year the Company recognised an R&D+i expense rebate for 80% of the value of the IMV and the amount recognised in the corporation tax settlement for the deductions for the 2022 financial year. The Company recognised 80% of the same for the sum of 167,744 euros on the Balance Sheet since it expects to request capitalisation of the amount. In application of the same criteria, in the 2023 financial year, the deductions for R&D+i generated in the 2020 and 2021 financial years – initially recognised at 100% – were also reduced by 109,720 euros by including capitalisation of the same in the corporation tax return for the 2022 financial year.

Tax credits for negative taxable bases

The Company has the following negative tax bases to offset with future tax credits:

31 December 2023

	Euro				
Year of origin	**Pending tax bases 2022**	**Generated in 2023**	**Compensated in 2023**	**Pending bases 2023**	**Tax credit**
2023 financial year	---	4,873,183	---	4,873,183	1,218,296
Total	**---**	**4,873,183**	**---**	**4,873,183**	**1,218,296**

31 December 2022

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

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

Deferred tax liabilities

The temporary differences as at 31 December 2023 and 2022 derived from the subsidies received and transferred to the outcome for the financial year are set forth in this section.

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

	Euro	
	2023	**2022**
Initial balance	**59,207**	**21,999**
Temporary differences created / (reversed) for:		
- Capital subsidies granted	171,889	46,624
- Capital subsidies transferred to profit/(loss)	(21,149)	(29,910)
- Ecertic merger capital subsidies (Note 1.c)	--	20,495
Final balance	**209,947**	**59,207**

NOTE 14 INCOME AND EXPENDITURE

a) Net turnover

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

	%	
Market	**2023**	**2022**
Spain	1.91	1.96
Rest of the European Union	---	---
Other countries	98.09	98.04
Total	**100.00**	**100.00**

Furthermore, net turnover can be analysed by business line as follows:

	%	
Bus. line	**2023**	**2022**
Provision of services	100	100
Total	**100**	**100**

The Company recognised the sum of 1,131,801 euros as at 31 December 2023 (344,720 euros as at 31 December 2022) under the head of *Short-term accruals* in Current Liabilities on the attached Balance Sheet for estimated revenue from support and maintenance activities and provision of SaaS (cloud) services, accrual of which takes place in the following financial year.

b) Inventory

Costs accrued for licensed use of certain computer programs and software necessary to develop the products that the Company will subsequently market under license are set forth under this head in the Consolidated Income Statement. The sum of 5,033,367 euros has been recognised as at 31 December 2023 (3,185,110 euros in 2022).

c) Work performed by the Company for its own assets

	Euro	
	2023	**2022**
Work performed by the Company for its own assets	4,170,850	3,818,608
Total	**4,170,850**	**3,818,608**

The amounts set forth in the above table, capitalised in intangible assets, originate in the improvements and new versions of its software that Company has continued to make and are recognised in intangible fixed assets (see note 4).

d) Operating grants entered in profit or loss

In accordance with the criteria set forth in note 3.10 as at 31 December 2023, Company management has allocated the sum of 111,382 euros to the Income Statement (81,468 as at 31 December 2022) (see Note 11.2).

e) Personnel expenses

	Euro	
	2023	**2022**
Wages, salaries and others	8,814,050	8,167,526
Severance payments	110,318	88,565
Company social security payments	1,778,286	1,496,722
Other employee benefits	126,769	81,714
Total	**10,829,423**	**9,834,527**

As at 31 December 2023 the wages, salaries and similar account includes the sum of 624,000 euros for bonuses granted and pending payment to the Company's personnel (1,134,000 euros at the end of the previous financial year).

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

	Euro	
	2023	**2022**
Senior management	2	1
Scientific, intellectual and support technicians and professionals	141	130
Clerical workers	27	33
Sales force and similar	15	5
Average total employees	**185**	**169**

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

	2023			2022		
	Men	Women	Total	Men	Women	Total
Executive directors	2	---	2	1	---	1
Scientific, intellectual and support technicians and professionals	124	31	155	110	27	137
Clerical workers	14	16	30	11	30	41
Sales force and similar	8	9	17	3	4	7
Total workforce at the end of the financial year	**148**	**56**	**204**	**125**	**61**	**186**

As at 31 December 2023 and 2022 the Company employs two workers with a disability equal to or greater than 33%.

The average number of employees with a disability equal to or greater than 33% for fiscal year 2023 was 2 people (the same number during the 2022 financial year).

f) Other operating expenses

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

	Euro	
	2023	2022
External services:		
Research and development expenses	5,000	---
Leases and royalties (nota 6)	1,083,544	548,154
Repairs and upkeep	26,449	14,319
Freelance professional services	6,731,099	4,308,872
Transport	---	3,065
Insurance premiums	140,308	95,565
Banking and similar services	83,554	129,422
Advertising, promotion and public relations	939,890	955,930
Supplies	18,844	19,976
Other services	1,274,703	876,848
Taxes	714	729
Loss, impairment and variation of provisions for uncollectible trade transactions (note 9)	1,268,650	719,915
Other current operating losses	---	620,771
Other operating expenses	**11,572,755**	**8,293,566**

g) Foreign currency: Exchange differences

The overall value of assets denominated in foreign currency (f.c.) amounts to 21,571,689 euros (16,891,285 euros in 2022). The following are the most significant items:

		Euro	
Item	**Currency**	**2023**	**2022**
Clients (foreign currency)	USD	20,041,109	16,033,069
Treasury (c/c in f.c.)	USD	1,498,613	826,760
Treasury (cash f.c.)	USD	623	112
Fixed-term deposits (f.c.)	USD	31,344	31,344
	Total	**23,362,014**	**16,891,285**

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

		Euro	
Item	**Currency**	**2023**	**2022**
Creditors (f.c.)	USD	2,906,714	524,652
Creditors (f.c.)	GBP	84,464	--
	Total	**2,991,179**	**524,652**

Transactions in foreign currency:

	Euro	
	2023	**2022**
Services received (USD)	(5,166,967)	(4,351,105)
Services received (GBP)	(415,918)	---
Sales of services provided (USD)	23,572,820	21,414,807
Total	**17,989,935**	**17,063,701**

The following table shows the amounts of the exchange differences recognised in the Income Statement. The figures for transactions settled during the period are reported separately from those pending settlement as at 31 December 2023 and 31 December 2022:

Financial instrument	Currency	Exchange differences 2023	Exchange differences 2022
Negative cash differences	USD	162,603	14,423
Positive cash differences	USD	(1,870)	(121,495)
Negative differences from trade collections	USD	265,765	103,675
Positive differences from trade collections	USD	(180,402)	(192,157)
Negative differences for payments to suppliers	USD	43,651	165,240
Positive diffs for financial instr. balances	USD	(551,424)	(267)
Negative differences for financial instr. balances	USD	299,484	---
Positive differences for supplier payments	USD	(44,008)	(30,606)
Total for transactions settled in the financial year (+) -		**(6,201)**	**(61,187)**

Financial instrument	Currency	Exchange differences 2023	Exchange differences 2022
Negative differences due to trade balances	USD	138,079	32,176
Positive differences due to trade balances	USD	(114,618)	(340,515)
Negative differences due to financial investment balances	USD	---	55
Positive differences due to financial inv. balances	USD	---	---
Negative differences for supplier balances	USD	16,713	7,513
Positive differences for supplier balances	USD	(37,989)	(27,669)
Total for transactions pending maturity (+) / -		**2,185**	**(328,440)**
Total exchange differences allocated for the year (+) / -		**(4,016)**	**(389,626)**

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

In accordance with the proposal of the Appointments and Remuneration Committee on 15 December 2022, subsequently ratified by the General Meeting held on 30 June 2023, the Governing Bodies and the Board of Directors received the following remuneration for the 2023 financial year:

- For senior management remuneration: a total of 660,000 euros (620,000 euros in 2022) plus a variable payment subject to the variation in certain objective magnitudes. Accordingly, senior management did not receive variable remuneration due to the fact that insufficient milestones were reached.

- Remuneration of the Board of Directors: the sum of 390,000 euros (360,000 euros in 2022) also for remuneration of the Audit Committee and the Remuneration Committee.

Pursuant to these agreements, the remuneration accrued as at 31 December 2023 and 2022 was the following.

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

During the 2023 and 2022 financial years the members of the Board of Directors – some of whom are also senior managers – received the following statutory and salary remuneration including Board expenses and per diem allowances, remuneration in kind and insurance premiums of civil responsibility for managers and directors:

	Euro	
	2023	**2022**
Remuneration:		
Remuneration-senior management	660,000	620,000
Variable remuneration-senior management	---	350,000
Board and Audit and Remuneration Committee allowances	390,000	360,000
Other remuneration	68,266	29,438
Insurance premiums	16,961	2,492
Total remuneration	**1,135,227**	**1,361,930**

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

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

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

b) Directors in relation to conflicts of interest

In compliance with the duty of avoiding situations that could entail a conflict of interest with the company, all directors who have held offices on the Board of Directors have fulfilled the obligations set forth in article 228 of the consolidated text of the Corporate Enterprises Act during the 2023 financial year. Furthermore, both the Directors and persons related to the same have refrained from incurring in the cases of conflict of interest which may be authorised by the governing body provided for in article 229 of said Act.

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

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

Accordingly, as set forth in Note 1, the following are the group and related companies in accordance with the above as at 31 December 2023 and 2022:

Group Company (Art. 42 Com. Code)	% holding	Reg. 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 system support services
Facephi Beyond Biometrics, Ltd. (1)	100%	London (UK)	Marketing of biometric facial-recognition systems

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

a) Financial investments in Group companies

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

b) Balances and trade transactions with Group and related companies

The following is a breakdown of the Company's dealings with related companies during the 2023 and 2022 financial years:

	Euros (*)	
	Other services	
	2023	2022
Group companies:		
Celmuy Trading, S.A.	(1,656,096)	(620,771)
FacePhi Beyond Biometrics, Ltd	--	47,713
Total for Group companies	(1,656,096)	**(573,058)**

(*) Income / (Expenditure)

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

The following is a breakdown balances maintained with Group companies in the 2023 and 2022 financial years, except for the financial investments explained in Note 8:

	Euro			
	Debit balances		Credit balances	
	2023	2022	2023	2022
FacePhi Beyond Biometrics, Ltd	---	47,713	---	---
Celmuy Trading, S.A.	---	---	175,828	---
Total for Group companies	**--**	**47,713**	**175,828**	**---**

NOTE 17. ENVIRONMENTAL INFORMATION

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

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

No subsidies of an environmental nature have been received.

NOTE 18. PROVISIONS AND CONTINGENCIES

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

			Euro	
Issue	**Maturity**	**F.C.**	**31.12.23**	**31.12.22**
08/07/2021	20/09/2026	USD (*)	33,133	33,133
15/03/2023	30/07/2024	USD	16,290	
04/01/2022	indefinite	USD	9,050	9,375
11/02/2022	25/08/2024	USD	23,119	23,951
12/04/2023	01/04/2024	USD	101,357	142,415
		Totals	**182,949**	**258,739**

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

NOTE 19 SUNDRY INFORMATION

a) Auditing fees

In its meeting on 30 July 2023 the Board of Directors resolved to appoint Ernst & Young S.L. as the Company's auditors for the financial years ending on 31 December 2023, 2024 and 2025.

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

	Euro	
	2023	**2022**
Audit services:		
• Audit of individual annual financial statements	37,000	24,650
• Audit of the 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	---	6,600
Total professional services	**76,000**	**56,440**

As at 31 December 2023 no fees have been accrued by other companies of the E&Y group for tax consultancy, special reports, other verification services or other services of any nature whatsoever. Nor were any such services required by the previous auditors as at 31 December 2022.

b) Off-balance sheet agreements

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

NOTE 20 EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 3 January 2024, Nice & Green notified the Company of the third conversion of the 500,000 euros (50 bonds at 10,000 euros par value each) still pending from the issue of 1,900,000 euros (Note 11.1.a)) related to the financing agreement by convertible bonds in accordance with the following conditions:

Notification date	Amount	Conversion (shares)	Exercise price	Par value	Issue premium	Capital	Issue premium
01/01/2024	500,000	264,368	1.8913	0.04	1.8513	10,575	489.3424

The aforesaid conversion was notarised on 11 January 2024 and registered in the Companies Registry on the same date.

Said financing by convertible bonds contract entered into on 27 April 2023 with Nice & Green, S.A. was for a maximum amount of 20 million euros as set forth in Note 11.1.a. This agreement has been contractually amended in a new addendum on 17 January 2024 with the following features:

- the maximum amount the investor may invest is reduced from the initially agreed 20 million euros to 11.1 million euros. The amount that was pending investment at the signature date of the addendum was 4.2 million euros (420 bonds);
- with respect to this amount, it has been agreed that Facephi would issue up to seven tranches of 60 convertible bonds (600,000 euros) at intervals of one month;
- reach an agreement to extend the maturity of the loan contract between the Company and Nice & Green, S.A. for the sum of € 700,000 due on 31 December 2023 (note 12.4) and set a repayment schedule of € 100,000 per month over the same period as issuance of the seven tranches set forth in the previous paragraph.

On 22 January 2024 the Board of Directors adopted a resolution to carry out a third issuance of 60 bonds convertible into the Company's shares with a par value of 600,000 euros (the 1st 2024 Convertible Bond Tranche).

On 19 February 2024 Nice & Green notified the Company and exercised its right to convert 60 bonds (1st 2024 Tranche) for a conversion sum of 600,000 euros. The 334,057 new Company shares are offered with an issue premium of € 1.7561 per share with a share issue rate of € 1.7961 per share (par value of € 0.04 plus € 1.7561 share premium).

On 20 February 2024 the Board of Directors, in exercise of the aforesaid power of attorney, adopted a resolution to carry out a fourth issuance of 60 bonds convertible into the Company's shares with a par value of 600,000 euros (the 2nd 2024 Convertible Bond Tranche).

On 18 March 2024 the Board of Directors, in exercise of the aforesaid power of attorney, adopted a resolution to carry out a fifth issuance of 60 bonds convertible into the Company's shares with a par value of 600,000 euros (the 3rd 2024 Convertible Bond Tranche).

Furthermore, on 21 March 2024 the Company entered into a binding Memorandum of Agreement (MOA) with Hancom Inc. (hereinafter "HANCOM"). This MOA envisages signature of a final investment and mutual collaboration agreement within the 90 days following signature of same. Said agreement will include the following milestones:

- Investment of the sum of five million euros (€ 5,000,000) by HANCOM Inc. to be articulated by means of a convertible loan. The loan will accrue interest at a rate of between 0 and 1% to be determined by parties, and will be converted by means of a capital increase by offset of receivables, a price of 2.95 euros per share having been agreed. This capital increase for offset of receivables is subject to approval by the Company's General Meeting, which will be called once the convertible loan has matured, the required directors' reports have been drawn up and the Company's auditors have issued their report on its financial statements for the purposes of the loan to be converted into equity.
- Exclusive Collaboration Agreement: HANCOM will act as the exclusive distributor of Facephi's products, services and technology in the APAC (Asia-Pacific) region. The licencing model will be based on a revenue sharing system. The agreement will have an initial term of three years, renewable on agreement of the parties.

These two contracts will be executed simultaneously to put the aforesaid agreements into effect. At the drafting date of these Annual Financial Statements the agreement is in the review phase by both parties and signature of the final contract is expected within the foreseen deadline.

The Company's governing bodies consider that no other significant subsequent events in addition to those set forth above have occurred that could affect the information contained in these annual financial statements.

Alicante, 31 March 2023

Consolidated Annual Financial Statements and Consolidated Management Report
31 December 2023

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Consolidated Management Report

Consolidated balance sheet as at 31 December 2023 (In euros)			
ASSETS	**NOTES TO THE REPORT**	**31/12/2023**	**31/12/2022**
A) NON-CURRENT ASSETS		**26,605,685**	**16,373,886**
I. Intangible fixed assets	**4**	**11,845,693**	**7,606,650**
9. Other intangible fixed assets		11,845,693	7,606,650
II. Tangible fixed assets	**5**	**2,650,151**	**1,813,748**
1. Land and buildings		2,025,031	0
2. Technical facilities and other tangible fixed assets		625,120	866,354
3. Fixed assets in progress and advances			947,394
V. Long-term financial investments	**8**	**140,916**	**170,371**
5. Other financial assets		140,916	170,371
VI. Deferred tax assets	**12.4**	**4,901,032**	**1,558,878**
VII. Non-current trade debtors	**8**	**7,067,893**	**5,224,239**
B) CURRENT ASSETS		**19,105,825**	**15,876,800**
III. Trade debtors and other accounts receivable	**8**	**15,435,428**	**13,100,287**
1. Clients for sales and provision of services		13,563,397	11,200,954
5. Current tax assets	**12.1**	(733)	(733)
6. Other credits with govt. agencies	**12.1**	1,872,765	1,900,066
V. Short-term financial investments	**8**	**169,261**	**155.553**
5. Other financial assets		169,261	155.553
VI. Short-term accruals		**767,896**	**448,792**
VII. Cash and cash equivalents	**9**	**2,733,267**	**2,172,169**
1. Treasury		2,733,267	2,172,169
TOTAL ASSETS (A+B)		**45,711,511**	**32,250,686**

The attached consolidated report forms an inseparable part of the Consolidated Balance Sheet as at 31 December 2023.

Consolidated balance sheet as at 31 December 2023 (In euros)			
NET EQUITY AND LIABILITIES	**NOTES TO THE REPORT**	**31/12/2023**	**31/12/2022**
A) NET EQUITY	**10**	**20,043,048**	**15,213,200**
A-1) Capital and reserves	**10.1**	**19,590,554**	**15,031,548**
I. Capital		**851,585**	**697,311**
1. Authorised capital		851,585	697,311
II. Issue premium		**24,231,301**	**15,560,800**
III. Reserves		**(788,808)**	**(1,879,151)**
2. Other reserves		(788,808)	(1,879,151)
IV. (Treasury stock)		**(393,977)**	**(454,079)**
V. Profit (loss) for fin. year attributed to the parent company		**(4,309,547)**	**1,106,667**
A-2) Restatement for value changes	**10.2**	**(177,349)**	**4,030**
IV. Conversion differences		**(177,349)**	**4,030**
A-3) Grants, donations and bequests	**10.3**	**629,843**	**177,622**
B) NON-CURRENT LIABILITIES		**3,268,122**	**4,283,808**
I. Long-term provisions		**36,904**	**86,661**
II. Long-term debts	**11**	**3,021,270**	**4,133,055**
2. Debts with credit institutions		2,927,486	3,649,671
3. Financial leasing creditors		93,784	176,195
5. Other financial liabilities		0	307,189
IV. Deferred tax liabilities	**12.4**	**209,947**	**64,092**
C) CURRENT LIABILITIES		**22,400,340**	**12,753,678**
II. Short-term provisions		**288,168**	**0**
1. Short-term provisions		288,168	0
III. Short-term debts	**11**	**10,164,052**	**7,312,155**
2. Debts with credit institutions		8,603,348	3,918,990
3. Financial leasing creditors		93,421	88,277
4. Derivatives		0	99,093
5. Other financial liabilities		1,467,282	3,205,796
V. Trade creditors and other accounts payable	**11**	**10,809,252**	**5,096,803**
1. Suppliers		3,775,612	574,252
2. Current tax liabilities		0	87
3. Other creditors		7,033,640	4,522,264
VI. Short-term accruals	**13.a**	**1,138,868**	**344,720**
TOTAL NET EQUITY AND LIABILITIES (A + B + C)		**45,711,511**	**32,250,686**

The attached consolidated report forms an inseparable part of the Consolidated Balance Sheet as at 31 December 2023.

Consolidated income statement for the financial year ended on 31 December 2023 (In euros)			
	NOTES TO THE REPORT	(Debit) Credit	
		31/12/2023	31/12/2022
A) ONGOING OPERATIONS			
1. Net turnover	**13.a**	**25,152,984**	**22,283,088**
b) Provision of services		25,152,984	22,283,088
3. Work performed by the Group for its assets	**13. c**	**4,170,850**	**3,818,608**
4. Supplies	**13.b**	**(3,377,271)**	**(3,185,110)**
c) Works performed by other companies		(3,377,271)	(3,185,110)
5. Other operating revenue		**176,256**	**135,085**
a) Non-core and other current operating revenue		64,874	53,617
b) Operating subsidies entered to outcome of the financial year	**13. e**	111,382	81,468
6. Personnel expenses	**13. e**	**(13,563,693)**	**(11,031,712)**
a) Wages, salaries and accessory expenses		(11,114,651)	(9,353,906)
b) Social Security		(2,447,567)	(1,675,045)
c) Provisions		(1,475)	(2,761)
7. Other operating expenses	**13.f**	**(13,481,401)**	**(8,432,789)**
a) External services		(12,204,208)	(7,712,874)
b) Taxes		(8,545)	0
c) Loss, impairment and variation of provisions for trade transactions		(1,268,650)	(719,915)
8. Amortisation of fixed assets		**(4,780,828)**	**(1,973,629)**
9. Allocation of subsidies for non-financial fixed assets and others		**276,406**	**119,638**
11. Impairment and outcome for disposal of fixed assets		**3,421**	**(1,987)**
a) Impairment and loss		0	0
b) Outcome of disposals and others		3,421	(1,987)
13. Other outcomes		**39,240**	**15,248**
A.1) OPERATING PROFIT (LOSS) (1+2+3+4+5+6+7+8+9+10+11+12+13)		**(5,384,035)**	**1,746,440**
14. Financial revenue		**311,182**	**946**
b) From negotiable securities and other financial instruments		311,182	946
15. Financial expenses		**(1,710,362)**	**(299,972)**
b) Debts with third parties		(1,710,362)	(299,972)
16. Variation in fair value of financial instruments		**(268,802)**	**(677,308)**
a) Negotiation portfolio and others		(268,802)	(677,308)
17. Exchange differences	**13.g**	**(3,050)**	**380,493**
18. Impairment and outcome of disposal of financial instruments		**0**	**(124,938)**
b) Outcome of disposals and others		0	(124,938)
A.2) FINANCIAL PROFIT (LOSS) (14+15+16+17+18+19)		**(1,671,032)**	**(720,778)**
A.3) PROFIT (LOSS) BEFORE TAXES (A.1 + A.2)		**(7,055,066)**	**1,025,663**
20. Corporation tax	**12.3**	**2,745,520**	**81,004**
A.4) PROFIT (LOSS) FOR FIN. YR. FROM ONGOING OPERATIONS (A.3 +20)		**(4,309,547)**	**1,106,667**
B) DISCONTINUED OPERATIONS		0	0
A.5) CONSOLIDATED PROFIT (LOSS) FOR FIN. YR. (A.4 +21)		**(4,309,547)**	**1,106,667**

The attached Consolidated Report forms an inseparable part of the Income Statement as at 31 December 2023.

Consolidated statement of changes in net equity for the financial year ended on 31 December 2023

(In euros)

A) Statement of recognised income and expenses	Notes to the report	31/12/2023	31/12/2022
A) CONSOLIDATED PROFIT (LOSS) FOR FIN. YEAR.		**(4,309,547)**	**1,106,667**
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	10.3	878,367	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	9,820
VII. Tax effect	12.4	(218,842)	(49,079)
B) TOTAL INCOME AND EXPENDITURE CHARGED DIRECTLY TO CONSOLIDATED NET EQUITY (I +II + III + IV + V + VI + VII)		**659,525**	**147,236**
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	10.3	(276,406)	(119,639)
XI. Non-current assets and related liabilities held for sale		0	0
XII. Conversion differences		0	0
XIII. Tax effect	12.4	69,102	29,910
C) TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT (VIII + IX +X + XI +XII + XIII)		**(207,305)**	**(89,729**
TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENDITURE (A + B + C)		**(3,857,326)**	**1,164,174**

The attached consolidated report forms an inseparable part of the Consolidated Statement of Changes in Net Equity as at 31 December 2023.

B) Statement of total changes in net equity for the financial year ended on 31 December 2023

(In euros)

			Parent Company's Reserves				Reserves in cons. comps.			
	Capital	Issue premium	Reserves	(Treasury stock)	P/L previous financial years	By full consolidation	P/L of financial year attributed	RVC-Conversion difference	Grants, donations and bequests	TOTAL
Initial balance as of 01.01.2022	**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
4. Net transactions with Parent Company's treasury stock			(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 fin. yr. 2021										
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							(4,309,547)		452,221	(3,857,326)
II. Transactions with partners or proprietors										
1. Capital increases	154,274	7,745,721	(61,200)							7,838,795
3. Conversion of financial liabilities to net equity (Note 10.1)		924,780								924,780
5. Net transactions with Parent Company's treasury stock			(50,206)	60,102						9,896
V. Other changes in Net Equity			292,488		1,841,328	(932,066)	(1,106,667)	(181,379)		(86,269)
Final balance as of 31.12.2023	**851,585**	**24,231,301**	**289,461**	**(393,977)**		**(1,078,269)**	**(4,309,547)**	**(177,349)**	**629,843**	**20,043,048**

The attached consolidated report forms an inseparable part of the Consolidated Statement of Changes in Net Equity as at 31 December 2023.

	Consolidated cash flow statement for the financial year ended on 31 December 2023 (In euros)		
	Notes to the report	31/12/2023	31/12/2022
A) Operating Cash Flows			
1. Profit (loss) for the financial year before tax		**(7,055,066)**	**1,025,663**
2. Restatements of outcome		**7,679,094**	**235,840**
a) Amortisation of fixed assets (+)	4-5	4,780,828	1,973,629
b) Value restatements for impairment (+/-)	8	1,268,650	719,915
c) Variation in provisions (+/-)		238,411	20,001
d) Recognition of subsidies (-)	10.2	(276,406)	(201,107)
e) Outcome of deregistration and disposal of fixed assets (+/-)		(3,421)	1,987
f) Outcome of deregistration and disposal of financial instruments (+/-)		0	124,938
g) Financial revenues (-)		(311,182)	(946)
h) Financial expenses (+)		1,710,362	299,856
i) Exchange rate differences (+/-)		3,050	438,857
j) Variation in fair value of financial instruments (+/-)	10.1	268,802	677,318
k) Other income and expenditure (-/+)		0	(3,818,608)
3. Changes in current capital		**726,366**	**(6,797,377)**
b) Debtors and other accounts receivable (+/-)		(5,447,446)	(8,958,150)
c) Other current assets (+/-)		(332,785)	(151,004)
d) Creditors and other accounts payable (+/-)		5,712,449	2,529,982
e) Other current liabilities (+/-)		794,148	(218,205)
4. Other operating cash flows		**(497,180)**	**(282,840)**
a) Interest paid (-)		(808,362)	(283,634)
c) Interest collected (+)		311,182	946
d) Collection (payment) of corporation tax (+/-)		0	(340)
e) Other payments (collections) (-/+)		0	188
5. Operating cash flow (+/-1 +/-2 +/-3 +/-4)		**853,214**	**(5,818,715)**
B) Cash flows from investments			
6. Investment outlays (-)		**(9,861,823)**	**(2,237,064)**
b) Intangible fixed assets	4	(8,343,976)	(495,764)
c) Tangible fixed assets	5	(1,517,847)	(1,569,307)
e) Other financial assets		0	(171,993)
7. Collection for divestment (+)		**29,455**	**36,956**
c) Tangible fixed assets		0	27,430
e) Other financial assets		29,455	9,526
8. Cash flows from investments (7-6)		**(9,832,368)**	**(2,200,108)**
C) Cash flows from financing activity			
9. Collection and payments for equity instruments		**7,960,102**	**4,708,743**
a) Issuance of equity instruments	10.1	7,900,000	4,760,487
c) Acquisition of treasury stock	10.1	(450,744)	(338,101)
d) Disposal of treasury stock	10.1	510,846	259,348
10. Collection and payments for financial liability instruments		**1,583,201**	**3,894,130**
a) Issuance.			
2. Debts with credit institutions (+)	11	5,235,888	1,604,229
4. Others (+)	11	500,000	2,300,429
b) Repayment and amortisation of			
2. debts with credit institutions (-)		(1,273,715)	(10,528)
4. Others (-)		(2,878,972)	0
11. Outlays for dividends and remuneration of other equity instruments		**0**	**0**
12. Financing cash flows (+/-9+/-10-11)		**9,543,303**	**8,602,873**
D) Effect of exchange rate variations		**(3,050)**	**(109,326)**
E) Increase/decrease in cash and cash equivalents (+/-A+/-B+/-C)		**561,099**	**474,722**
Cash and cash equivalents at start of fin. year		2,172,169	1,697,327
Cash and cash equivalents at end of fin. year		2,733,268	2,172,049

The attached consolidated management report forms an integral part of the Consolidated Cash Flow Statement as at 31 December 2023.

REPORT ON THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2023

NOTE 1: NATURE AND MAIN ACTIVITIES OF THE GROUP

a) Parent Company

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

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

- Research, development and marketing of all kinds of information technology material: hardware, software and electrical appliances.

- Online sales by the Internet and/or similar distribution channels, import, export, representation, marketing, distribution, dealership, wholesale and retail sale, assembly, handling, manufacture and provision of related hardware, software services on physical support and through the sale of licenses for use, electronic products and components, electrical home appliances and telecommunications.

- Performance of Internet-based activities and provision of information and training services.

- Development, construction, acquisition, conveyancing, representation, leasing (except financial leasing), subleasing, installation or direct or indirect operation of consultancy services, urban land management, administration, custody and management of all kinds of real property, plots classified in any zoning category, buildings, single-family dwellings, apartments, condominiums, sports fields, residential buildings, premises and industrial or business facilities, hospitality establishments. All the above furnished or unfurnished, acting on its own behalf or that of third parties and with property of public and private ownership.

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

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

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

b) Subsidiary and associated companies

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

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

Corporate Group Company (Art. 42 Com. Code)	% holding	Reg. 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 31 December 2023 and 31 December 2022 (as required):

	FacePhi APAC, Ltd (*)		Celmuy Trading, S.A (*)		Facephi Beyond Biometrics Ltd (*)	
	31.12.23	31.12.22	31.12.23	31.12.22	31.12.23	31.12.22
Called capital	516,390	516,390	187	187	116	116
Issue premium	---	---	--	---	--	---
Reserves	(212,630)	(227,466)	43,450	---	(909,089)	---
Outcome of the financial year	16,409	(66,428)	111,087	43,450	(2,109,845)	(909,089)
Conversion differences	79,445	(8,086)	(9,491)	(4,708)	(893)	--
Subsidies	---	---	--	---	--	---
Net equity	**240,724**	**214,410**	**145,233**	**41,098**	**(3,019,711)**	**(894,435)**
% holding	100%	100%	100%	100%	100%	100%
Theoretical value of holding	**240,724**	**214,410**	**145,233**	**41,098**	**(3,019,711)**	**(894,435)**

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

c) Changes to the consolidation perimeter

Celmuy Trading S.A. was incorporated under the laws of Uruguay on 11 August 2020 and registered in the Single Tax Registry of said country with number 218731960012. The Parent Company acquired 100% of its equity on 25 April 2021 and remained inactive from its incorporation date until February 2022, which is why it did not form part of the consolidated group on 31 December 2021 but was included within the consolidation perimeter for the 2022 financial year.

On 26 May 2022 Facephi Beyond Biometrics Ltd was registered in the Companies Registry of England and Wales under number 14135809. It was registered with a capital of 100 pounds sterling (GBP), fully paid up in the 2023 financial year. It was included in the consolidation perimeter on its incorporation date in the 2022 financial year.

There were no changes to the consolidation perimeter during the financial year ended on 31 December 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 boosting the digital on-boarding service in its commercial portfolio and consolidating its leadership in the field of identification and authentication at both the domestic and the international levels. The transaction was settled by cash for the sum of 1,159,999 euros and provision of 164,706 of the Parent Company's treasury shares for 840,001 euros, the fair value of the transferred shares.

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

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

Therefore, the agreed acquisition price entails the existence of an implicit goodwill fund amounting to 1,627,194 euros attributed to the technology provided by said company for development of the digital on-boarding solutions that the Group currently markets and is recognised, with its associated amortisation, on the Consolidated Balance Sheet under the head of "Information Technology Applications" in the intangible assets account.

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

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

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

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

	Euro	
Heads	**Debit**	**Credit**
Intangible fixed assets	1,267,704	
Tangible fixed assets	8,367	
Trade debtors and other accounts receivable	15,815	
Group trade accounts	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) Joint ventures

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

The estimated value of the contract is 711,490 euros and the execution period, starting in December 2021 is 38 months. Since the activity had not commenced as of the drafting date of these annual financial statements, the entity lacks both assets and liabilities and has generated neither income nor expenditure. Accordingly, the status of the contract is not considered to constitute a material contingency.

NOTE 2. FINANCIAL STATEMENTS REPORTING CRITERIA

a) *Regulatory framework of financial reporting applicable to the Parent Company*

The Consolidated Annual Financial Statements have been drawn up on the basis of the accounting records and individual annual financial statements of the Parent Company and the consolidated subsidiaries. They include the restatements and reallocations required for temporal and valuation homogenisation with the accounting criteria under which the Group reports its fiscal information.

These Consolidated Annual Financial Statements are presented in accordance with the currently applicable commercial legislation included in the following regulations:

- the Commercial Code amended in accordance with Act 16/2007 of 4 July on the reform and adaptation of Spanish accounting-related commercial legislation for international harmonisation based on European Union regulations;
- Royal Decree 1514/2007 of 16 November that adopts the General Accounting Plan and its subsequent modifications incorporated by Royal Decrees 1159/2010 of 17 September, 602/2016 of 17 December and 1/2021 of 12 January;
- Royal Decree 1159/2010 of 17 September that approves the rules for drafting consolidated annual financial statements in all aspects that do not contradict other provisions of the applicable financial information regulatory framework;
- other provisions of the applicable regulatory financial reporting framework.

b) *True and fair image*

These Consolidated Annual Financial Statements have been drawn up on the basis of the Group's accounting records in accordance with the regulatory financial reporting framework set forth above and with the accounting principles and criteria contained in the same, in such a way that they provide a true image of the Group's consolidated equity, financial position, accounting outcomes and the accuracy of the flows contained in the Consolidated Cash Flow Statement for the financial year in question.

The Consolidated Annual Financial Statements are presented in euros – the Group's functional and reporting currency – rounded up or down to the nearest whole number.

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

These Consolidated Annual Financial Statements, drawn up by the Parent Company's Board of Directors, will be submitted to the Ordinary General Meeting for approval and are expected to be approved without reservations or amendments. The Consolidated Annual Financial Statements for the 2022 fiscal year were approved by the General Meeting held on 30 June 2023.

c) *Non-mandatory accounting principles*

No non-mandatory accounting principles have been applied. The Parent Company's Board of Directors has also drawn up these Consolidated Annual Financial Statements taking all the mandatory accounting principles and standards that have a significant effect on said the same into consideration. No mandatory accounting criterion has been ignored.

d) Critical aspects of the assessment and estimates of uncertainty

The Parent Company's directors are responsible for the information set forth in these Financial Statements.

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

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

- *Impairment of non-current assets*: valuation of non-current assets other than financial assets requires making estimations to determine their recoverable value for the purposes of assessing their potential impairment. To determine this recoverable value, the Parent Company's directors estimate the expected future cash flows of the assets or the cash-generating units of which they form part and use an appropriate discount rate to calculate the present value of said cash flows. The cash flows depend on fulfilment of the projections included in the business plan for the next five financial years while the discount rates depend on the interest rate plus the risk premium (see note 3.5).

- *Deferred tax assets* are recognised for all deductible temporary differences, negative tax bases pending compensation and deductions pending application for which it is probable that the Group will have future taxable earnings that enable application of these assets. Taking the amounts and dates on which future taxable profits will be obtained and the reversal period of taxable temporary differences into account, the Group's directors must make significant estimates to determine the amount of deferred tax assets that can be recognised. As at 31 December 2023, the Group has recognised deferred tax assets for a total amount of 4,901,032 euros for temporary differences, (1,555,336 euros at the end of the previous financial year) for temporary tax differences, taxable bases pending compensation and rebates pending application (see note 12.4).

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

e) The Group as a going concern

The Group reported a loss before taxes amounting to 7,055,000 euros at the end of the financial year (1,026,000 euros of pre-tax profit in 2022) and an operating loss of 5,384,000 euros (1,746,000 euros operating profit in 2022). As at 31 December 2023 the Group's net equity amounts to 20,043,000 euros (15,213,000 in 2022) and the negative working capital of -3,294,000 euros at the end of the 2023 financial year (+3,123,000 euros in 2022).

Based on its strategic plan and budget for the 2024 financial year, the Parent Company's directors have drawn up a cash projection for the next 18 months. This forecast shows that the Group may need additional funds to finance its business activity in the short term.

On the drafting date of these Consolidated Annual Financial Statements there are various mitigating factors in connection with the financial situation indicated in the previous paragraphs, although some of them have a component of uncertainty:

- A positive treasury outlook with anticipated inflows based on collections from current customers estimated for the 2024 financial year that would cover a significant proportion of the required total.

- On 21 March 2024 the Parent Company entered into a binding Memorandum of Agreement (MOA) with the South Korean software developer Hancom. Said Agreement envisages two commercial and investment tranches for a total amount of five million euros within a maximum of 90 days from the signature date of the MOA. Failure to meet the aforesaid timeframe would entail termination of the Agreement. The directors, based on communications with Hancom, expect that the agreements will be signed within the stated period and that as a result, the cash inflow will occur in the coming months.

- On 14 December 2020 the Parent Company entered into a syndicated financing contract with various financial institutions for the sum of 13 million euros which, as at 31 December 2023, has a total outstanding short-term balance of 7,564,000 euros and 1,532,000 euros in the long term (note 12.2). As at the drafting date of these Financial Statements the syndicated financing contract currently in effect is being renegotiated. The directors, however, expect that it will be signed in the near future. Based on the conversations with the financial entities involved, signature of said refinancing would result in the Parent Company obtaining additional financing of up to eight million euros.

- The Parent Company is the beneficiary of a convertible bond financing line with the Nice & Green investment fund (N&G) executed on 27 April 2023. This fund has supported the Parent Company since 2019 with other investment contracts and is currently its largest shareholder (roughly 18%). The aforesaid contract established an investment of twenty million euros by N&G in convertible bonds. A new addendum to the contract was signed on 17 January 2024, under which the 20-million-euro maximum investment initially planned was reduced to 11.1 million, of which 6.9 million have been issued in 2023 and converted into bonds, leaving a net positive flow pending drawdown of 3.5 million euros once the loan of 700 thousand euros has been discounted (notes 12.4 and 20). As of today, we are also in the process of obtaining a signed commitment from the aforesaid investment fund to finance the Parent Company over the next 12 months for an additional amount of up to six million euros.

- The Parent Company has several financing alternatives to those mentioned in the above paragraphs, none of which has yet been formally granted. However, in the event that the Company needed them, the directors consider they would be readily available and that they would be sufficient to enable payment of all the Company's short-term obligations.

- Improvement of the Group's profitability in the 2024 financial year due to development of the Parent Company's internal products that will improve the Group's operating margins.

- According to management forecasts, the Group has the option of reducing its costs in order to improve the Parent Company's EBITDA at the end of the 2024 financial year.

- Taking the fact that the Parent Company it is a scaleup into account – which means that it is undergoing rapid growth with significant increases in the workforce and costs to drive growth in products, markets and so forth – the Group's liquidity risk management is based on the criteria of prudence, although it continuously needs strong cash flows to meet short-term payments.

- It should also be noted that the Group is fully paid up with respect to all payments arising from its obligations with banking entities and the tax agencies.

- Group management continues to develop new commercial possibilities in order to internally develop products that will increase our operating margins, opening new markets to ensure that the Group has greater prospective expansion potential. Accordingly, Group management continues to apply cost control policies and to enhance its sales channels to improve profitability levels in the medium/long term.

In conclusion, the Parent Company's directors consider that there are sufficient mitigating factors with respect to the book losses, which is why these Consolidated Annual Financial Statements have been drawn up on the going concern principle.

f) Comparison of information

In addition to the figures for the 2023 financial year, for comparative purposes these Consolidated Annual Financial Statements present, with each item on the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Changes in Net Equity, the Consolidated Cash Flow Statement and the quantitative information required in the notes to the Consolidated Financial Statements for the 2022 financial year approved by the Parent Company's Annual General Meeting.

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

g) Changes in accounting criteria and correction of errors

The Group has not made any restatement for changes of accounting criteria during the financial year ended 31 December 2023 and nor has it been necessary to rectify any error from said financial year or from previous periods.

h) Grouping of sections

In order to facilitate understanding of the Consolidated Income Statement, the Consolidated Statement of Changes in Net Equity and the Consolidated Cash Flow Statement, certain accounting heads are grouped together in this document. The analyses required are provided in the notes to the Consolidated Management Report.

i) Items entered to various sections

The Consolidated Report identifies and provides the amount of the equity items that are recognised in more than one entries on the Consolidated Balance Sheet.

j) Relative importance

The Parent Company, in accordance with the Conceptual Framework of the General Accounting Plan, has taken the relative importance of the items in the Financial Statements or other matters in relation to the Consolidated Annual Financial Statements for the 2023 financial year into account when deciding which information shall be broken down in the Consolidated Report.

NOTE 3. RECOGNITION AND VALUATION RULES

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

3.1 Consolidation principles

The following are the main criteria used in consolidation.

Acquisition of control

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

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

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

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

Since there effective control, the assets, liabilities, income, expenditure, cash flows and other items in the Group's Annual Financial Statements are included in the Group's Consolidated 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 in excess of 50% that entails control of the majority of the voting rights in the associated governing bodies.

This method requires the following:

Temporal homogenisation

The subsidiaries' individual annual financial statements shall be drawn up as on the same date and for the same period as the annual financial statements of the Parent Company required to consolidate.

Valuation homogenisation

Assets, liabilities, income, expenditure and other items in the Group companies' annual financial statements shall be valued by applying identical methods. The valuation of any asset, liability, income or expenditure assessed according to criteria different from those applied for consolidation must be valued again and the required restatements shall be made for the sole purpose of consolidation.

Aggregation

Items of the previously-harmonised individual annual financial statements may be aggregated according to their nature.

Elimination of investment-net equity

The book values representing the subsidiary's equity instruments directly or indirectly owned by the Parent Company are offset with the proportional part of the equity items of the aforesaid subsidiary attributable to these holdings. In general, this compensation will be made on the basis of the values resulting from applying the acquisition method as set forth above. In consolidations subsequent to the financial year in which control was acquired, the excess or shortfall of the equity generated by the subsidiary from the acquisition date shall be reported in the Consolidated Balance Sheet under the head of *Reserves* or *Restatements due to value changes* in accordance with their nature. The part of the excess or shortfall attributable to the external partners must be entered in the "External partners" item.

Holdings by external partners

There were no external partners as at 31 December 2023 or 2022.

Elimination of intragroup items

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

Conversion of the annual financial statements of the foreign subsidiaries

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

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

The difference between the amount of equity of foreign companies including the balance of the Income Statement calculated in accordance with the previous section, converted at the historical exchange rate and the net equity resulting from conversion of assets and liabilities in accordance with paragraph one, is entered with a positive or negative sign, as required, in the net equity of the Consolidated Balance Sheet under the head of Conversion Differences.

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

3.2 Business combinations and joint ventures

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

The merger, spin-off and non-monetary contribution transactions of a business between Group companies are recognised by valuing the equity instrument acquired at their book values in the consolidated annual financial statements of the last Spanish parent company on the date on which the transaction was performed. Any differences that may arise are entered against reserves. The effective accounting date is the start date of the financial year in which the transaction is approved.

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

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

3.3 Intangible fixed assets

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

Intangible fixed assets are assets with a defined useful life and therefore must be written off over their 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.

At all events, they must be analysed at least once a year to detect any indication of value impairment in order to restate their carrying value as required.

a) <u>Software development expenses</u>

The *development expenses* of the information technology applications that are subsequently marketed are capitalised at the time 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;
- 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 complete the projects in question is reasonably well assured; in addition to the availability of suitable technical or other resources to complete the project and to use or sell the intangible fixed asset, financing to enable completion of the projects is reasonably assured;
- the Group intends to finish the intangible fixed asset in question in order to use or sell it.

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

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

Other development expenses are recognised as expenses when they are incurred. Development costs previously recognised as expenses are not restated as assets in subsequent years. In accordance with the conditions indicated above in this section, capitalised development costs are amortised on a straight-line basis during their estimated useful life – which shall not exceed five (5) years – for each project.

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

As at 31 December 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 on the basis of their forecasts, all the intangible assets and tax credits will be fully recovered in the coming years.

b) Software

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

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

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

c) Intellectual property

Intellectual property is 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 are posted to the inventory of the acquiring company. Intellectual property includes but is not limited to: patents for inventions, utility model protection certificates, industrial design and other modalities consistent with the applicable legislation.

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

3.4 Tangible fixed assets

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

The costs of the extension, modernisation or improvement of tangible fixed assets are incorporated within the asset as an increase in its value only if they represent an increase in its capacity, productivity or an extension to its useful life, and wherever it is possible to calculate or estimate the book value of the elements cancelled from the inventory having been replaced.

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

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

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

	Annual	Years of useful life	Method
Buildings (*)	10%	10	Straight-line
Other facilities	10%	10	Straight-line
FURNISHINGS	5% - 10%	10 / 20	Straight-line
I.T. equipment	25%	4	Straight-line
OTHER TANGIBLE FIXED ASSETS	10% - 20%	5 / 10	Straight-line
	Annual	**Years of useful life**	**Method**
Buildings (*)	10%	10	Straight-line
Other facilities	10%	10	Straight-line
FURNISHINGS	5% - 10%	10 / 20	Straight-line
I.T. equipment	25%	4	Straight-line
OTHER TANGIBLE FIXED ASSETS	10% - 20%	5 / 10	Straight-line

(*) 10 years taking the leasing period of the property into account.

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.

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

3.5 Impairment of non-financial assets

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

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

Valuation restatements for impairment and reversal of the same are recognised in the 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.

3.6 Financial assets

Classification of financial instruments

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

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

Compensation criteria

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

Assets at amortised cost

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

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

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

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

Initial valuation

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

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

Subsequent valuation

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

Nevertheless, credits with a maturity of no more than one year which – in accordance with the provisions of the above section are initially recognised at par – 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 Annual Financial Statements shall be used for financial assets with variable interest rates in accordance with the contractual conditions. Models based on statistical formulas or methods may be used to calculate impairment losses on a group of financial assets.

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

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

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

Financial assets carried at cost

The following securities shall be included in this category:

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

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

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

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

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

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

<u>Initial valuation</u>

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

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

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

<u>Subsequent valuation</u>

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

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

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

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

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

Value impairment

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

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

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

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

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

Recognition of value impairment restatements and their reversal, if any, will be entered respectively as an expense or as revenue in the Income Statement. 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 if valuation restatements have been made directly attributable to the equity resulting from said investment prior to the aforesaid classification, these restatements shall be maintained after the classification until the investment is disposed of or written off – at which time they shall be recognised in the Income Statement – or until the following circumstances occur:

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

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

Interest and dividends

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

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

Deregistration of financial assets

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

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

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

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

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

3.7 Financial liabilities

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

Financial liabilities measured at amortised cost

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

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

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

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

Initial valuation

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

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

Subsequent valuation

These financial liabilities are subsequently 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 the consideration paid including directly-attributable transaction costs that also include any assigned asset different from the cash or liability assumed, is recognised in the Consolidated Income Statement for the financial year in which it occurs.

3.8 Net equity

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

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

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

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

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

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

Since the financial derivative created is not considered to constitute a hedging instrument, it is recognised at its fair value in the 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 (that is, from the date of signature to exercise of the option), are recognised in the consolidated financial statements as a financial cost/revenue. The derivative is written off the Balance Sheet on the conversion date of the options into shares and the cash received for the conversion – plus/minus the accumulated fair value of the derivative until that moment – is charged to capital and reserves (plus issue premium).

3.9 Cash and cash equivalents

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

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

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

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

- Assets are classified as current when they are expected to be capitalised, are held for sale or consumption in the course of the normal operating cycle, are held fundamentally for trading purposes, are expected to be capitalised within the twelve months following the accounting closure 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 closure date.

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

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

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

3.11 Subsidies, donations and bequests

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

For these purposes, a grant is considered non-refundable when there is an 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 amortisation of the associated assets or, as appropriate, when they are disposed of, their value is restated due to impairment or they are written off the Balance Sheet. Non-refundable grants related to specific expenses and those granted to compensate for the operating deficit in the financial year in which they are granted are recognised in the Income Statement in the same year in which the associated expenses are accrued, except when they are used to compensate for operating deficits in future financial years, in which case they are allocated in said years.

3.12 Corporation tax

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

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

Corporation tax is recognised in the Consolidated Income Statement except when it refers to transactions recognised directly in 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 tax effect of temporary differences is posted under the heads of "deferred tax assets" and "deferred tax liabilities" on the Balance Sheet.

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

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

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

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

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

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

3.13 Employee benefits

a) Severance payments

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

b) Payments based on equity instruments

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

Recognition

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

If the Group can choose between making the payment with equity instruments or in cash, it shall recognise a liability to the extent to which it has incurred a present obligation to settle in cash or with other assets. Otherwise, it will recognise an entry in net equity. If it 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 of to demand payment in cash, and a net equity component, due to the holder's right to receive remuneration with equity instruments.

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

Valuation

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

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

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

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

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

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

As at 31 December 2023 and 2022 the Plan has not met any of its goals and therefore no provision has been recognised on the Balance Sheet at said date.

c) Exclusivity clause

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

3.14 Provisions and contingencies

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

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

Provisions with maturities of less than or equal to one year, with an insignificant financial effect, are not discounted.

When it is expected that part of the disbursement required to settle the provision will be reimbursed by a third party, the reimbursement is recognised as an independent asset, provided collection is practically ensured.

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

Said contingent liabilities are not subject to accounting records and details concerning them are set forth in the consolidated management report.

3.15 Recognition of revenue from the provision of services

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

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

- Identification of the contract with the customer.

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

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

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

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

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

3.15.1 Contract balances

a) Contract assets

Unconditional right to collect the consideration

Regardless of when transfer of control of the assets occurs, a collection right is recognised (*Clients for sales and provision of services* sub-head) under the head of *Trade debtors and other accounts payable* in current assets or *Non-current trade debts* in non-current assets, as appropriate, due to their maturity in accordance with their normal operating cycle when the Group has an unconditional right to the consideration.

Right to the consideration due to transfer of control

When control of a contract asset is transferred without having an unconditional right to invoice, the Group recognises a right to the consideration due to transfer of control. This right to the consideration due to transfer of control without having an unconditional right to invoice is cancelled when an unconditional right to receive the consideration arises. Notwithstanding, the asset will be tested for impairment at the end of the financial year in the same way as for other unconditional rights.

Like the unconditional rights, these balances are recognised in Trade debtors under the head of Clients. They are classified as current or non-current depending on their maturity The balance as of 31 December 2023 was 11,045,514 euros and 7,067,893 euros respectively (7,725,586 euros and 5,224,239 euros respectively as at 31 December 2022) (Note 8.1).

a) Contract liabilities

Contract liabilities

If the client pays the consideration or the Group has an unconditional right to receive it, the Group recognizes a contract liability before transferring the good or service to the client when payment has been made or is due.

These contract liabilities are presented under the head of Trade creditors and other accounts payable or provisions are made for trade operations (in Current Liabilities).

3.16) Leases

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

Leases in which the lessor retains a significant proportion of the risks and benefits derived from ownership are classified as operating leases. When the lessee is a Group company, the leasing expenses are charged to the Income Statement on a straight-line basis during the term of the contract regardless of the contractual form of payment.

3.17 Transactions in foreign currency

Transactions in foreign currency are converted to the functional currency using the current exchange rates at the transaction date. 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.

3.18 Equity items of an environmental nature

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

The directors consider that as at 31 December 2023 there are no contingencies of an environmental nature that could significantly affect the Group's equity, financial situation or consolidated outcomes and therefore no provisions or contingencies have been recognised under this head.

3.19 Balances and transactions with Group companies and other related parties

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

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

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

NOTE 4. INTANGIBLE FIXED ASSETS

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

Cost:

	Euro								
Item	**Cost at 31.12.21**	**Additions for bus. comb.**	**Additions**	**Transfers**	**Cost at 31.12.22**	**Additions**	**Disposals**	**Transfers**	**Cost at 31.12.23**
Research	56,958	---	---	---	56,958	---	(56,958)	---	---
Development	47,026	---	4,242,399	(3,571,563)	717,861	4,558,153	---	(4,450,877)	825,136
Intellectual property	65,992	---	19,006	---	84,998	38,112	(8,648)	---	114,462
Software	8,508,148	---	78,108	3,571,563	12,157,820	3,747,712	(3,336,958)	4,496,987	17,065,561
Total cost	**8,678,124**	**---**	**4,339,513**	**---**	**13,017,637**	**8,343,976**	**(3,402,565)**	**46,110**	**18,005,159**

Amortisation:

	Euro								
Item	**Balance as at 31.12.21**	**Additions for bus. comb.**	**Provision fin. year**	**Transfers**	**Balance as at 31.12.22**	**Provision Fin. year**	**Disposals**	**Transfers**	**Balance as at 31.12.23**
Research	56,958	---	---	---	56,958	---	(56,958)	---	---
Development	2,070	---	376,269	---	378,339	2,161,519	---	(2,390,564)	149,294
Intellectual property	13,604	---	11,376	---	24,980	24,511	(8,648)	--	40,843
Software	3,510,460	2,600	1,437,650	---	4,950,709	1,965,013	(3,336,958)	2,390,564	5,969,328
Total amortisation	**3,583,092**	**2,600**	**1,825,295**	**---**	**5,410,987**	**4,151,043**	**(3,402,565)**	**---**	**6,159,465**

Net book value:

Item	Euro	
	Balance as at 31.12.22	**Balance as at 31.12.23**
Research	---	---
Development	339,522	675,842
Intellectual property	60,018	73,619
Software	7,207,110	11,096,232
Net book value	**7,606,650**	**11,845,693**

a) Development

The Group continues to implement its investment policy and to improve its current facial biometric applications. The capitalised expenses during the financial year ended 31 December 2023 and 31 December 2022 are associated with the following milestones:

	Euro	
Description:	**31.12.2023**	**31.12.2022**
Improvements to Software Development Kit (SDK)	3,676,988	3,423,366
Platform as a Service (PAAS)	--	395,241
Identity Platform	493,862	
Total internal development	**4,170,850**	**3,818,608**
Development acquired from third parties	387,303	423,791
Total	**4,558,153**	**4,242,399**

Said expenses are recognised under the head of Development since there are good reasons to foresee commercial success on completion, at which time they are reclassified under the head of Intangible assets in accordance with their nature. If there were well-substantiated reasons to consider that the project will not be successful, the Group would write off these expenses and recognise them as losses in intangible fixed assets. Almost all the activity involved in development of new applications or improvements to current ones has been performed internally (except for the sum of 387,303 euros) and recognised by capitalisation of production costs under the head of Works performed by the Group for its own Assets in the Income Statement.

Developments activated as at 31 December 2023 and 31 December 2022 consisted mainly of anti-fraud security improvements, interactive user guides during registration and tools for integrating technology into multi-platform applications.

As at 31 December 2023 the sum of 4,450,877 euros (3,571,563 euros in 2022) was transferred to the *Software* account as a consequence of the start of marketing of the facial biometric improvements and new products.

b) Intellectual property

FacePhi Biometría S.A. is the holder of the *Selphi* and *FacePhi Beyond Biometrics* trademarks (MUE 015106354 and MUE 015114853 respectively) that are thus protected in both the European Union and in the United States of America pursuant to trademarks registered with the USPTO (United States Patent and Trademark Office) by certificates no. 79190080 and 79190126.

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

The Group currently holds the following registered trademarks:

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

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

The Group still protects the aforesaid registered trademarks in spite of the fact that the Group is currently undergoing a rebranding process.

Pursuant to this rebranding, the following updated trademarks have been registered in the European Union and with the World Intellectual Property Organization (WIPO).

The new registered trademarks are:

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

Intellectual property rights

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

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

The Group holds the following technical certifications:

- Legal compliance and data protection:

- **Data protection and criminal compliance:** We comply with the following regulations: The Group's Criminal Risk Prevention Plan (CRP), the General Data Protection Regulation (GDPR), Organic Law on the Protection of Personal Data and Guarantee of Digital Rights (Spanish acronym LOPDGDD) backed by information security certifications.

- Governance, risk and corporate compliance

- **ISO/IEC 27001** (ISMS). A standard for information security management systems (ISMS) to ensure the confidentiality, integrity and availability of the information and the systems that process it.
- **ISO 22301** Business continuity management system.
- **ISO 27017** Controls and guidance for cloud service providers and users.
- **ENS** Certification by the Spanish National Security Scheme (intermediate level)
- **Pinakes certification** (framework designed to manage and monitor the cybersecurity controls of technology suppliers supporting Spanish financial entities).

Product and technology certification

- **ISO 30107-3 iBeta Level 1** Both Facephi's facial recognition algorithm (matcher) and its PAD algorithm with passive liveness comply with this level of the ISO 30107 standard.
- **ISO 30107-3 iBeta Level 2** Certification at this level represents compliance with the highest standard in of presentation attack detection (PAD) using facial biometric technologies that any company in the sector has achieved to date.
- **KISA K-NBTC certification:** Certification that validates the performance of the Group's identity verification algorithm issued by the National Biometric Testing Centre (K-NBTC) of the Korea Internet Security Agency (KISA).
- **UK Digital Identity and Attributes Trust Framework (UK DIATF)** Facephi is certified as an identity service provider (IDSP) within the UK Digital Identity framework for provision of secure, reliable digital identity services by means of its products and services.
- **SEPBLAC video-identification circulars** Facephi is a certified supplier of onboarding and remote digital identity services within the compliance framework established by the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (Sepblac).

- Biometric information interchange:

- **ANSI/NIST-ITL 1-2011**. Data format for storage and interchange of biometric information for system interoperability.
- **ISO/IEC 19794-5** Specifies a format for storing, recording, and transmitting information of facial images, scene constraints, photographic properties and digital image attributes of the facial images and provides best practices.

c) Software

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

Additions made during the 2023 financial year are mainly licensing contracts purchased from a biometric provider that the Group integrates into the products it distributes and which are amortised on a straight-line basis over the term of the contract in question.

The Group has deregistered certain I.T. applications that were fully amortise during the 2023 financial year

d) Fully-amortised intangible fixed assets

The Group held the following fully-amortised tangible fixed assets as of 31 December 2023 and 31 December 2022:

	Euro	
	31.12.2023	**31.12.2022**
Research	-	56,958
Software	11,326	1,717,155
Total cost	**11,326**	**1,774,113**

e) Sundry information

As set forth in note 10.3, during the 2022 financial year the Group received subsidies related to intangible assets for capitalised development expenses, some of which were applied in 2023.

As at 31 December 2023 and 31 December 2022 the Group has no firm intangible fixed asset investment or sale commitments to third parties.

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

f) Non-current asset impairment test

The recoverable value of non-current assets has been assessed by considering all the Group companies as a single cash-generating unit (CGU) by estimating their value in use by means of cash-flow projections based on the business plan and estimates made by management for the next 5 years. The discount rate applied to the cash flow projections was 8.71% and the cash flows after the five-year period are extrapolated using a growth rate of 2%. No impairment has been detected in the value of the assets.

Key assumptions for calculating value in use

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

- Based on its forecasts, the Group expects to boost its growth by 62% in 2024 and maintain a growth rate of 30-35% for the financial projection period (2025-2028) and of 2% per annum as of 2028. The Group continues to invest in human resources aimed at the sales and marketing activity, developing the business in countries where it already operates and by opening new offices and developing sales channels that will enable it to increase its turnover.

- EBITDA: the Group estimates that its EBITDA will undergo a progressive increase obtaining new contracts and optimising its human resource structure.
- Discount rate: as noted above, a WACC of 8.71% has been used in accordance with that calculated by analysts who follow the Group.
- CapEx: the Group estimates that its investments in intangible assets, mainly for development of and improvements to its technology will continue to grow in line with the growth in turnover and the human resource structure.

Sensitivity to changes in hypotheses

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

NOTE 5. TANGIBLE FIXED ASSETS

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

Cost:

	Euro							
Item	**Cost at 31.12.21**	**Additions**	**Disposals**	**Cost at 31.12.22**	**Additions**	**Disposals**	**Transfers**	**Cost at 31.12.23**
Land and buildings	--	---	---	---	372,325	---	1,773,343	2,145,668
Technical facilities	1,347	---	---	1,347	---	(1,347)	---	---
Machinery	---	698	---	698	---	(698)	---	---
Other facilities	32,167	---	---	32,167	2,364	---	24,176	58,706
Furnishings	83,080	13,711	(3,599)	93,192	11,035	(4,486)	28,903	128,644
Information processing equip.	438,081	581,231	---	1,019,312	218,021	(325,343)	---	900,955
Transport vehicles	---	26,273	(26,273)	---	---	---	---	---
Other tangible fixed assets	9,213	---	---	9,213	---	(4,433)	---	4,780
Fixed assets under construction and advances	---	947,394	---	947,394	925,137	---	(1,872,532)	---
Total cost	**563,887**	**1,569,307**	**(29,871)**	**2,103,322**	**1,517,847**	**(336,307)**	**(46,110)**	**3,238,753**

Amortisation:

		Euro							
Item	**Balance as at 31.12.21**	**Provision Fin. year**	**Disposal s**	**Transfers**	**Balance as at 31.12.22**	**Provision Fin. year**	**Disposals**	**Transfers**	**Balance as at 31.12.23**
Land and buildings	---	---	---	---	---	120,637	---	---	120,637
Machinery	---	59	---	---	59		(59)	---	---
Other facilities	6,845	3,217	---	---	10,062	6,142	---	---	16,204
FURNISHINGS	28,784	7,169	(455)	5.	35,494	13,419	(3,781)	---	45,132
Information processing equip.	101,606	137,178	----	(123)	238,661	487,470	(322,484)	---	403,647
Other tangible fixed assets	4,587	712	---	---	5,299	2,116	(4,432)	---	2,983
Total amortisation	**141,823**	**(148,334)**	**(455)**	**(128)**	**289.57 4**	**629,784**	**(330,756)**	**---**	**588,610**

Net book value:

	Euro	
Item	**Balance as at 31.12.23**	**Balance as at 31.12.22**
Land and buildings	2,025,031	---
Technical facilities	---	1,347
Machinery	---	639
Other facilities	42,502	22,105
Furnishings	83,512	57,698
Information processing equip.	497,308	780,651
Other tangible fixed assets	1,797	3,913
Fixed assets under construction and advances	---	947,394
Net book value	**2,650,151**	**1,813,748**

Additions for investments in tangible fixed assets during the 2022 and 2023 financial years mainly involve the works for the new business centre in the city of Alicante that the Parent Company has leased to carry out its activity and which were finished by early June 2023. Apart from said works, additions during the financial year under study mainly involve information technology equipment for newly-recruited personnel.

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

a) Fully written-off assets

The following is a breakdown of the Group’s fully-amortised tangible fixed assets still in use at the end of the 2023 and 2022 financial years:

	Euro	
Item	**2023**	**2022**
Furnishings	---	4,235
I.T. equipment	9,661	28,715
Other tangible fixed assets	---	4,036
Total	**9,961**	**36,986**

b) Insurance

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

c) Sundry information

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

NOTE 6. LEASES AND OTHER TRANSACTIONS OF A SIMILAR NATURE

a) Operating leases

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

	Euro			
	Facephi		**Rest of Group**	
Minimum future payments	**31.12.23**	**31.12.22**	**31.12.23**	**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	14,195	18,363
More than five years	1,555,840	---	---	---
Total	**3,331,556**	**324,385**	**101,140**	**93,243**

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

Description of the lease	Expense 2023 fin. year	Expense 2022 fin. year	Due date	Renewal	Price update criteria
Offices, garages and storage	171,310	77,886	06/05/2025	N/A	YES (CPI)
Madrid Office	118,896	18,787	30/06/2024	N/A	NO
Branch offices	80,882	76,582	21/05/2024	N/A	NO
I.T. hardware	1,773	1,842	21/05/2024	N/A	NO
I.T. hardware	---	984	18/06/2022	N/A	NO
I.T. hardware	1,009	1,009	18/12/2024	N/A	NO
Furnishings	16,777	---	17/07/2028	N/A	NO
Transport vehicles	70,584	58,015	08/01/2027	N/A	NO
Rentals, software, cloud and others	792,557	389,632	N/A	N/A	N/A
Total	**1,253,788**	**624,736**			

Since 1 October 2017 an operating lease contract has been in force for the offices in which the Parent Company conducted its activity. The term of the 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 Group has placed the sum of 5,600 euros as a rental bond and an additional guarantee of 2,800 euros.

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

In order to extend the Parent Company's head office and the corporate headquarters, a new lease agreement was signed in May 2020 for a period of five years and a monthly rent of 2,493 euros. This contract can be terminated with two months' prior notice after the first three years of the contract have elapsed and three months' rent as compensation for withdrawal. The Group has placed a rental bond of 4,986 euros.

Moreover, due to the fact that the Parent Company is taking measures to modernise its work model, on 4 March 2022 it entered into a new lease contract in a business centre in the city of Alicante for a period of 10 years counting from the end of the conditioning works or from 31 December 2022, whichever occurs first, including a 3-year mandatory permanence period. The lessor grants a 12-month grace period counting from the end of the conditioning works or from 31 December 2022. The Parent Company has placed a rental bond of 34,000 euros, the equivalent of two monthly rent payments. The works finished in June 2023 and the monthly rent payment is 24,752 euros.

b) Financial leasing

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

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

Object of the contract	Start	Term (months)	Euro					
			Cost Asset	Instalments paid as at 31.12.23	Amount pending payment as at 31.12.23			Purchase option
					Capital		Interest pending payment	
					S/T	L/T		
Information processing equip.	15/11/2023	36	275,000	110,818	92,287	83,908	7,773	---
Total			**275,000**	**110,818**	**92,287**	**83,908**	**7,773**	**---**

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

During the financial year ended 31 December 2023, the Group paid the sums of 88,276 euros and 9,985 euros in principal and interest respectively under said contract (10,528 euros and 2,027 euros in 2022).

The financial lease transaction in effect as of 31 December 2023 accrued interest at an average rate of 4.54%.

Furthermore, the following is the breakdown of the book value of the asset acquired under the financial lease contract as at 31 December 2023:

	Euro					
	31.12.23			31.12.22		
Item	Cost	Accumulated amortisation	Net book value	Cost	Accumulated amortisation	Net book value
Information processing equip.	275,000	103,125	171,875	275,000	11,458	263,542
Total	**275,000**	**103,125**	**171,875**	**275,000**	**11,458**	**263,542**

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

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

Credit risk

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

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

	Euro	
	31.12.23	**31.12.22**
Long-term debts not due	7,067,893	5,224,239
Short-term debts not due	11,635,695	10,943,108
Past due but not doubtful	1,927,702	204,150
Doubtful	2,769,079	1,897,511
Total	**23,400,369**	**18,269,008**
Restatements due to impairment (note 8.3)	(2,769,079)	(1,897,511)
Total	**20,631,290**	**16,371,497**

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 11), the convertible debt issuance financing agreements entered into with the investment fund Nice & Green, S.A. (hereinafter “Nice & Green”) (see note 10) and the other mitigating factors mentioned in Note 2.e).

Market-related financial risks

a. Interest rate risk on cash flows and fair value

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

The interest rate risk arises from long-term borrowings. Borrowing issued at variable rates exposes the Group to the cash flow interest rate risk. Borrowing at fixed interest rates exposes the Group to fair value interest rate risk. The Group's policy consists in diversifying its long-term borrowings between variable interest rate instruments and fixed interest rate instruments (see Note 11).

b. Exchange rate risk

The Group operates internationally and is therefore exposed to exchange rate risks due to its foreign currency transactions. The exchange rate risk arises from recognised assets and liabilities. The breakdown of financial assets and liabilities and transactions denominated in foreign currency is reported in Note 13.g.

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

c. Price risks

There are no significant price risks.

Fair value estimate

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

(NOTE 8) FINANCIAL ASSETS

8.1 Analysis by categories

The following is the book value of the categories of financial instruments established in the registration and valuation rules of the Spanish General Accounting Plan (PGC) in accordance with the information contained in Note 3.6 except for cash and cash equivalents (see Note 9):

	Euro			
	Credits, derivatives and others			
	Short-term		Long-term	
	2023	2022	2023	2022
Assets at amortised cost				
• Trade debtors and other accounts receivable (*)	13,563,397	11,283,754	7,067,893	5,224,239
• Loans to personnel	2,050	---	1,700	1,700
• Other financial assets	167,211	155,553	139,216	168,671
Total	**13,732,658**	**11,439,306**	**7,208,809**	**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.

8.2 Analysis by maturity

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as at 31 December 2023:

	Financial Assets					
	2024	**2025**	**2026**	**2027**	**Subsequent years**	**Total**
Financial asset						
• Debtors and other accounts receivable (*)	13,563,397	4,356,334	1,814,362	646,166	251,031	20,631,290
• Other financial assets	169,261	79,315	---	---	61,601	295,296
Total	**13,732,658**	**4,435,649**	**1,814,362**	**646,166**	**312,632**	**20,941,467**

(*) Does not include balances with government agencies.

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

	Financial Assets					
	2023	**2024**	**2025**	**2026**	**Subsequent years**	**Total**
Financial asset						
• Debtors and other accounts receivable (*)	11,283,754	2,247,575	1,401,640	677,828	897,197	16,507,992
• Other financial assets	155,553	42,714	79,315	---	48,342	325,924
Total	**11,439,306**	**2,290,289**	**1,480,955**	**677,828**	**945,539**	**16,833,916**

(*) Does not include balances with government agencies.

8.3. Loans and accounts receivable

	Euro	
	2023	**2022**
Loans and accounts receivable a length deadline		
• Loans to personnel	1,700	1,700
• Other financial assets	139,216	168,671
• Trade credits	7,067,893	5,224,239
Total	**7,208,809**	**5,394,610**

	Euro	
	2023	2022
Loans and accounts receivable and other accounts payable:		
• Loans to personnel	2,050	2,150
• Other financial assets	167,211	153,403
Subtotal	**169,261**	**155,553**
• Trade debtors and other accounts receivable a c/p		
➢ Customers for provision of services	2,517,883	3,475,367
➢ Logs due for sending	11,045,514	7,725,586
➢ Doubtful trade receivables	2,769,079	1,897,511
➢ Impairment of trade credits	(2,769,079)	(1,897,511)
➢ Sundry debtors	---	82,725
➢ Personnel	---	75
➢ Current tax assets (note 13.1)	(733)	(733)
➢ Others credits with govt. agencies (note 13.1)	1,872,765	1,817,267
Total	**15,435,428**	**13,100,287**

The Group's collection conditions allow its customers up to one year to pay for goods and services. This is normal business practice in the sector in which it operates and particularly in technology assignment and licensing agreements. The Group recognises the consideration at amortised cost under the head of *Non-current trade debts* in Assets on the Balance Sheet in cases where the invoicing period is longer than one year.

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).

Impairment of trade credits

The following are the movements of provisions for impairment:

	Euro	
	2023	2022
Initial balance	**1,897,511**	**1,177,596**
Provision for impairment of accounts receivable	1,004,393	719,915
Reversal of unused amounts	(132,825)	---
Final balance	**2,769,079**	**1,897,511**

Recognition and reversal of valuation restatements for impairment of accounts receivable from customers has been included under heading A.7.c) "Losses, impairment and variation in provisions for trade transactions" in the Consolidated Income Statement.

The Group recognised losses due to bad debts for the sum of 397,082 euros (0 euros in fiscal year 2022) directly under the same head in the Consolidated Income Statement in the 2023 financial year.

Other short and long-term financial assets

As at 31 December 2023 the *Other long-term financial assets* account includes the rental bonds for the offices for the sum of 65,987 euros (94,342 euros as of 31 December 2022), 74,329 euros (same amount as of 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 Parent Company's net equity.

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

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

(NOTE 9) CASH AND CASH EQUIVALENTS

The following breakdown shows the movements in the cash and cash equivalents account as at 31 December of the financial years under study:

	Euro	
	2023	**2022**
Cash, euros	1,324	1,549
Cash, foreign currency (note 14.g)	714	117
Banks and credit inst. demand c/c, euros	1,201,446	1,083,361
Banks and credit inst. demand c/c, f.c. (note 14.g)	1,529,783	1,087,142
Total	**2,733,267**	**2,172,169**

The treasury item under the head of *Banks and financial institutions* includes an entry of 285,677 euros (277,758 euros at 31 December 2022) for financial deposits in the trading and settlement entities of Euronext and BME Growth securities respectively, the funds of which are not freely available to the Parent Company unless the liquidity provider estimates that the cash or shares at its disposal are excessive.

As a result of the financial restructuring agreement entered into on 14 December 2020, the Parent Company had established a pledge right over the current accounts and other available liquid assets for the sum of 2,279,907 euros (1,608,374 euros as at 31 de December 2022) (see Note 11.3).

(NOTE 10) NET EQUITY

The attached Consolidated Statement of Changes in Net Equity shows the breakdown and movement of the various accounts under the head of Net Equity during the financial periods ended on 31 December 2023 and 2022.

10.1 Capital and reserves

a) Share capital and issue premium

The following is the composition of the Parent Company's share capital and issue premium as at 31 December 2023 and 2022:

	Euro			
	2023		2022	
	Capital	Issue premium	Capital	Issue premium
Authorised	851,585	24,231,301	697,311	15,560,800
Total	**851,585**	**24,231,301**	**697,311**	**15,560,800**

The following is a breakdown of movements of share capital and issue premiums recognised as at 31 December 2023 and 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
Capital increase 02.08.2023	1,214,855	0.04	48,594	2,994,884
Capital increase 17.10.2023	1,293,889	0.04	51,756	2,339,549
Capital increase 17.10.2023	470,506	0.04	18,820	850,745
Capital increase 16.11.2023	287,053	0.04	11,482	640,692
Balance at 31 December 2023	**21,289,623**	**0.04**	**851,585**	**24,231,301**

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
Closing balance as at 31 December 2022	**17,432,768**	**0.04**	**697,311**	**15,560,800**

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

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

The funds obtained from this new financing agreement will be used to boost the organic growth the Group is experiencing in areas such as Latin America, the United States and Asia, among others, and to drive its international expansion, reinforce and enlarge the workforce in the search for excellence and commitment to achieving the Group'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.

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	Exercise price	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	Exercise price	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	Exercise price	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 March 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 April 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 11.3.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	Exercise price	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 agreement was formalised on 1 and 22 January 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 February 2023 respectively.

The sum of 1,500,000 euros remained available for conversion at the beginning of 2023. 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	Exercise price	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 agreement was 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 Equity as at 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.

La variation in the fair value of the financial derivative as at 31 December 2022 entails a net loss of 99,903 euros. After conversion of the pending amount of 1,500,000 euros with the aforesaid two capital increases in January 2023, the actual loss at the time of these two conversions amounted to 268,802 euros as increased value of the share premium, a loss was consequently recognised as at 31 December 2023 under head 17, *Variation in the Fair Value of Financial Instruments* in the Consolidated Income Statement.

Variations in the fair value of the derivative during its life (that is, from the signature date to exercise of the option) are recognised under head 17, *Variation in the Fair Value of Financial Instruments* in the Consolidated Financial Statements as a financial cost and reflected in the reciprocal entry in Equity as increased value of the issue premium. The increase in the premium in 2023 reached 368,255 euros (578,215 euros in 2022), the equivalent of the treasury inflow received for the conversion minus the accumulated fair value by the derivative to said date.

The following is the breakdown of the above movements

As at 31 December 2023

	Number of shares	Conversion price	Fair value	Issue 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
Value of the derivative recognised in the previous financial year 12/12/2022				(99,093)
Total recognised under head *17. Variations in the Fair Value of Financial Instruments* in the Income Statement for the financial year (loss).				269,162

As at 31 December 2022

	Number of shares	Conversion price	Fair value	Issue 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
	Number of shares	**Conversion price**	**Fair value**	**Issue premium/cost**
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 bonds

On 27 April 2023 the Parent Company entered into a third financing agreement with similar conditions and features as the previous one with Nice & Green. The financing instruments, however, were different, taking the form of issuance of convertible bonds on this occasion. The Extraordinary General Meeting held on 20 June 2023 agreed, in compliance with article 297.1.b of the Corporate Enterprises Act (LSC) to delegate the power to issue convertible equity warrants (EW) in shares of the Parent Company for a maximum conversion sum of 20 million euros to the Board of Directors and to increase the share capital by the amount required to address conversion of said warrants. In accordance with art 417 of the LSC, the pre-emptive subscription rights were disabled for this transaction since the only recipient of the issue was Nice & Green S.A. Said delegated power was limited by the condition that the total amount of the increases in share capital agreed on one or more occasions may not exceed the equivalent of half of the share capital at the time, i.e. 360,466.40 euros under any circumstances.

The number of new shares to be issued on conversion of each convertible bond shall be determined by application of the following formula:

N = Vn /P
Where:

"N" represents the number of new shares to be issued
"Vn" is the call price of the convertible bonds.
"P": is (i) the issue price rounded to 4 decimal places; or (ii) the nominal share price, whichever is the higher.

The "issue price" shall be calculated as follows:

Issue price = Reference VWAP * 92%
"Reference VWAP" means (i) the VWAP published on the trading day preceding the conversion date or (ii) the VWAP of the last three (3) trading days immediately preceding a conversion date, whichever is the lower. For the purposes of calculating the reference VWAP, the VWAP of trading days on which the bond-holder has sold more than 15% of the daily trading volume of the shares shall not be taken into account.

Issuances and conversions under the convertible bond contract

The Parent Company requested the first issuance for conversion of convertible bonds on 21 July 2023 for the sum of 5,000,000 euros (500 bonds with a par value of 10,000 euros each). The transaction was notarised on 24 July 2023.

On 27 July and 5 October 2023, Nice & Green notified conversion of 2,800,000 euros (280 bonds at 10,000 euros par value each) and 2,200,000 euros (220 bonds of 10,000 euros par value each) respectively in accordance with the following conditions:

Notification date	Amount	Conversion (shares)	Exercise price	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
5/10/2023	2,200,000	1,214,855	1.7003	0.04	1.6603	51,756	2,148,244

The first of the aforesaid conversions was notarised on 2 August 2023 and registered in the Companies Registry on 12 September 2023. The second conversion was notarised on 17 October 2023 and registered in the Companies Registry on 6 November 2023.

The Parent Company requested the second issuance for conversion of convertible bonds on 6 October 2023 for the sum of 1,900,000 euros (190 bonds with a par value of 10,000 euros each). The transaction was notarised on 24 July 2023.

On 6 October and 8 November 2023, Nice & Green notified conversion of 800.000 euros (80 bonds at 10,000 euros par value each) and 600.000 euros (60 bonds of 10,000 euros par value each) respectively in accordance with the following conditions:

Notification date	Amount	Conversion (shares)	Exercise price	Par value	Issue premium	Capital	Issue premium
6/10/2023	800,000	470,506	1.7003	0.04	1.6603	18,820	781,181
8/11/2023	600,000	287,053	2.0902	0.04	2.0502	11,482	588,516

The first of the aforesaid conversions was notarised on 17 October 2023 and registered in the Companies Registry on 11 November 2023. The second conversion was notarised on 16 November 2023 and registered in the Companies Registry on 20 December 2023.

The differences between the par value of the amounts converted into shares and the value of said debt at amortised cost gave rise to a financial expense under head *15. Financial Expenses* in the Consolidated Income Statement for the sum of 556,525 euros, resulting in an increase in the premium by the same amount.

With respect to the cash drawn down to date (note 11), as at 31 December 2023 the sum of 500,000 euros remained pending to be converted. This amount was converted by means of a capital increase on 11 January 2024 (note 18).

a.1) Share capital and issue premium notarised in previous financial years

The conditions of the share capital issues executed and formally executed 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 on Net Equity in the 2022 and 2023 financial years.

A.2) Significant holdings

Pursuant to Article 228 of the Consolidated Text of the Securities Market Act adopted by Royal Legislative Decree 4/2015 of 23 October and to Circular 3/2020 of BME Growth, as at 31 December 2023 the following shareholders held a percentage of the Parent Company's share capital equal to or greater than 5%:

	% 12:2023	% 12:2022
Banque Cantonale Vaudoise (Nice & Green)	18.67	11.06
Salvador Martí Varó	--	7.40
Javier Mira Miró (*)	2.07	6.02
Juan Alfonso Ortiz Company (**)	0.51	6.45
José Cristóbal Callado Solana	--	5.31

	% 12:2023	% 12:2022
Banque Cantonale Vaudoise (Nice & Green)	18.67	11.06
Salvador Martí Varó	--	7.40
Javier Mira Miró (*)	2.07	6.02
Juan Alfonso Ortiz Company (**)	0.51	6.45
José Cristóbal Callado Solana	--	5.31

(*) 5.85% taking into account 141,470, 35,196, 33,000, 235,001 and 350,000 shares deposited with Nice & Green as collateral pursuant to the material fact published on 18 September 2019, propriety information published on 15 December 2020, another material information published on 1 July 2022, propriety information published on 5 May 2023 and another propriety information published on 4 Account 2023 respectively.

(*) 5.58% taking into account 150,586, 26,080, 43,666, 235,001 and 610,000 shares deposited with Nice & Green as collateral pursuant to the material fact published on 18 September 2019, propriety information published on 15 December 2020, another material information published on 1 July 2022, propriety information published on 5 May 2023 and another propriety information published on 4 August 2023 respectively.

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

b) Treasury stock

The total amount of treasury stock held as at 31 December 2023 is 393,977 euros (454,079 euros at 31 December 2022) represented by 158,449 shares (155,144 shares at the end of the previous financial year), the equivalent of 0.75% (0.89% in 2022) of the Parent Company's share capital. This is well below the maximum limit of 10% provided for in article 509 of the Corporate Enterprises Act.

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

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

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

The following are the share movements during the 2023 financial year:

	2022	Purchases	Sales	2023
Cost of treasury shares	454,079	450,744	510,846	393,976

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

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

The Parent Company sold treasury shares during the 2023 financial year for a loss of 50,206 euros (a loss of 181,184 euros as at 31 December 2022) recognised against Voluntary Reserves.

c) Parent Company's Reserves

The following is a breakdown of reserves at the end of the 2022 and 2023 financial years:

	Euro	
	2023	**2022**
Legal reserve	139,462	108,553
Voluntary Reserve	742,984	592,811
Ecertic merger reserves (Note 1.d)	(592,985)	(592,985)
Total	**289,461**	**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, as of 31 December 2023 and 2022, include profits from previous years that were neither distributed nor assigned to mandatory reserves.

These reserves are freely available.

As set forth in the attached Consolidated Statement of Changes in Net Equity, during the 2023 financial year the sum of 61,200 euros (179,625 euros in previous years) net of taxes has been recognised against these reserves for the cost of issuance and expenses incurred as a result of the capital increases carried out during the year. A loss of 50,206 euros (181,184 euros during the 2021 financial year) was also recognised for the outcome of the treasury stock sale-purchase transactions (see Note 11.1.b).

Restrictions on allocation of dividends

Once the legal provisions and those of the articles of association have been met, only dividends charged to profit for the financial year and voluntary reserves may be allocated:

- if the value of Net Equity is not less than that of shareholder's equity or will not become so as a result of the allocation. Profits assigned directly to Net Equity may not be directly or indirectly allocated. If losses from previous years cause the value of the Company's Net Equity of to fall below that of shareholders' equity, the profits shall be assigned to compensation for said losses;

- if the Parent Company's assets include Intangible assets derived from capitalisation of R&D and/goodwill. In this case, profits may only be allocated if the sum of voluntary reserves is at least equal to the net value 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 31 December 2023 and 2022

	Euro	
	2023	**2022**
By full consolidation:		
FacePhi APAC	(212,630)	(146,202)
Celmuy (*)	43,450	---
Facephi Beyond UK – Subsidiary	(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	**2023**	**2022**
Facephi – Parent Company	(2,327,198)	2,052,553
Facephi APAC – Subsidiary	16,409	(66,428)
Celmuy – Subsidiary	111,087	43,450
Facephi Beyond UK – Subsidiary	(2,109,845)	(909,089)
Consolidation restatements	---	13,819
Total	**(4,309,547)**	**1,106,667**

10.2 Restatements 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 177,349 euros net of the associated tax effect (4,030 euros in the 2022 financial year). 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 variation in conversion differences during the half year ended on 31 December 2023 and during the 2022 financial year:

	Euro	
	2023	**2022**
Balance at start of financial year	**4,030**	**(3,335)**
Variation in equity for conversion differences	(181,379)	(4,750)
Conversion diff. addition to consolidation perimeter	---	12,116
Balance at end of financial year	**(177,349)**	**4,030**

10.3. Subsidies

The following are the amounts and features of the subsidies that appear on the Balance Sheet as at 31 December 2023 and 2022 under the head of *Subsidies, donations and bequests* and movements during this and the previous financial year:

Fin. yr. ended 31 December 2023

Granting body	Year granted	Amount granted	Balance as at 31.12.22	Additions for year	Transferred to Profit (Loss) 31.12.23	Tax effect	Balance as at 31.12.23
Europe (H2020)	2016	1,692,600	15,699	---	(20,932)	5,233	---
CDTI	2018	180,390	34,141	---	(36,456)	9,114	6,799
IMIDCA	2021	110,884	74,847	---	(22,177)	5,544	58,214
IMINOD	2021	25,154	15,092	---	(5,031)	1,258	11,319
Red.es	2022	1,270,090	37,843	878,367	(191,810)	(170,889)	553,510
		3,279,118	**177,622**	**878,367**	**(276,406)**	**(149,740)**	**629,843**

Granting body	Year granted	Amount granted	Balance as at 31.12.22	Additions for year	Transferred to Profit (Loss) 31.12.23	Tax effect	Balance as at 31.12.23
Europe (H2020)	2016	1,692,600	15,699	---	(20,932)	5,233	---
CDTI	2018	180,390	34,141	---	(36,456)	9,114	6,799
IMIDCA	2021	110,884	74,847	---	(22,177)	5,544	58,214
IMINOD	2021	25,154	15,092	---	(5,031)	1,258	11,319
Red.es	2022	1,270,090	37,843	878,367	(191,810)	(170,889)	553,510
		3,279,118	**177,622**	**878,367**	**(276,406)**	**(149,740)**	**629,843**

Fin. yr. ended 31 December 2022

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

H2020 is the largest European funding program for research and innovation projects. It had a total budget of roughly 80,000 million euros for the 2014 to 2020 period. The SME Instrument program was specifically designed to promote highly innovative SMEs with a great ambition for growth and international projection, in order to boost their success in the market.

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

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

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

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

- On 30 November 2021 the Valencian Institute of Business Competitiveness (IVACE) approved a subsidy for SME Innovation Projects: Innovation in EICTs (INOVATEiC-CV) 2021 for an eligible cost of 162,500 euros and a subsidy of 70,663 euros. The eligible expenses period was from 1 January 2021 to June 30 2022: Subsequently, on 25 February 2022, the Valencian Institute of Business Competitiveness (IVACE) notified the Company that the execution date had been extended until 31 Dec ember 2022.
- On 23 December 2021, IVACE approved a subsidy for “R&D Projects in Cooperation (PIDCOP-CV) 2021” for eligible costs totalling 235,615 euros and a grant of 141,369 euros. The eligible expenses period was from 11 March 2021 to 30 June 2022: Subsequently, on 25 February 2022, the Valencian Institute of Business Competitiveness (IVACE) notified the Company that the execution date had been extended until 31 Dec ember 2022.

Moreover, during the 2022 financial year the Group has benefitted from a RED.ES, M.P subsidy under the 2021 call for aid aimed at design engineering for research and development in artificial intelligence and other digital technologies and their integration into value chains for the sum of 1,270,090 euros for investment in personnel costs and a collaboration grant amounting to 1,587,519 euros. As at 31 December 2023 the Group holds 222,807 euros of its short-term liabilities as debt convertible to subsidies (905,233 euros in short term and 307,189 euros in long term as at 31 December 2022). In 2023, the Group transferred the costs incurred in the financial year that were capitalised for the gross sum of 878,367 euros to a capital subsidy and transferred directly under the head of “Operating Subsidies Added to Profit for the Year” and subsidised costs totalling 111,382 euros allocated directly as an expense for the year to the Consolidated Income Statement (note 13.d).

(NOTE 11) FINANCIAL LIABILITIES

11.1 Analysis by category

The following is the classification of financial liabilities by category and class as at 31 December 2023 and 2022:

	Euro			
	Debt with credit institutions		Derivatives and others	
	2023	2022	2023	2022
Long-term financial liabilities:				
Valued at amortised cost:				
- Bank loans and credit lines	2,927,486	3,649,671	---	---
- Financial leasing creditors (note 6)	93,784	176,195	---	---
- Other liabilities revenues	---	---	---	307,189
Total long-term	**3,021,270**	**3,825,866**	**---**	**307,189**
Financial liabilities and other accounts payable				
Valued at amortised cost:				
- Bank loans and credit lines	8,603,348	3,918,990	---	---
- Financial leasing creditors (note 6)	93,421	88,277	---	---
- Trade creditors and other accounts payable (*)	---	---	10,125,197	4,574,990
- Other liabilities revenues	---	---	1,467,282	3,205,796
Entered at fair value with restatement in the IS:				
- Derivatives (note 10.1.a.3)	---	---	---	99,093
Total short-term	**8,353,482**	**4,007,267**	**11,592,479**	**7,879,879**

(*) Does not include balances with government agencies.

11.2 Analysis by maturity

The following are the amounts of the financial liability instruments with a specific or determinable maturity classified by year of maturity as at 31 December 2023:

	Non-current financial liabilities				
	2025	2026	2027	Subsequent years	Total
Debt with credit institutions	2,022,187	518,315	327,511	59,473	2,927,486
Creditors for fin. leasing	93,784	---	---	---	93,784
Other financial liabilities	---	---	---	---	---
Total	**2,115,971**	**518,315**	**327,511**	**59,473**	**3,021,270**

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

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

11.3. Debits and accounts payable

	Euro	
	2023	2022
Long-term debts	**3,021,270**	**4,133,055**
• Debt with credit institutions	2,927,486	3,649,671
• Creditors for financial leases	93,784	176,195
• Other financial liabilities	---	307,189
Short-term debts	**10,164,052**	**7,312,155**
• Debt with credit institutions	8,603,348	3,918,990
• Creditors for financial leases	93,421	88,277
• Other financial liabilities	1,467,282	3,304,888
Trade creditors y others accounts payable:	**10,809,252**	**5,096,803**
• Suppliers	3,775,612	574,252
• Sundry creditors	5,541,761	2,468,018
• Trade advances	5,692	26,091
• Personnel (remunerations pending payment)	802,132	1,506,629
• Liabilities for current tax		87
• Other debts with government agencies (Note 12.1)	684,055	521,726
Debits and accounts payable	**23,994,574**	**16,542,013**

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

	Euro			
	2023		2022	
	Short-term	Long-term	Short-term	Long-term
Bank loans	8,403,264	2,927,486	3,837,170	3,649,671
Credit cards	60,999	---	50,268	---
Uncollected accrued interest	139,085	---	31,551	---
Total	**8,603,348**	**2,927,486**	**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 at 31 December 2023 and 2022:

			Euro			
			31.12.23		31.12.22	
Type of transaction	**Maturity**	**Limit**	**Short-term**	**Long-term**	**Short-term**	**Long-term**
Loan [(1)]	03.04.28	1,000,000	163,256	573,000	159,502	736,255
Syndicated loan A	12.12.25	6,000,000	1,380,073	1,532,034	1,231,169	2,913,416
Syndicated loan B	12.12.24	5,000,000	5,000,000	---	1,999,999	---
Syndicated loan C	12.12.24	2,000,000	1,182,387	---	446,500	---
COFIDES loan	21.07.26	500,000	500,000	---	---	---
Loan [(2)]	08.05.26	1,000,000	177,548	822,452	---	---
		Total	**8,403,263**	**2,927,486**	**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 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.

The interest rate for debts with credit institutions is the Euribor plus a margin considered to be consistent with market costs. As at 31 December 2023, the Group has recognised the sum of 139,085 euros as accrued interest pending collection (31,551 euros as at 31 December 2022).

The average interest rate on long-term debts with credit institutions as at 31 December 2023 is 5.92% (4.40% in the previous year).

Syndicated financial restructuring agreement

On 14 December 2020 the Parent Company reached a syndicated credit line agreement with a limit of 13 million euros with the Banco Santander, CaixaBank, Banco Sabadell and Deutsche Bank structured in three tranches:

- TRANCHE A, nominal sum of € 6 million for 5 years with half-yearly amortisation.

- TRANCHE B, Ordinary revolving credit. Nominal sum of € 5 million for three years plus two potential 1-year renewals. Since it is subject to annual renewal, the drawn-down balance of this tranche is classified as short-term debt.

- TRANCHE C, Revolving credit (bilateral contracts). Nominal sum of € 2 million over 3 years with two annual renewals up to 5 years. Since it is subject to annual renewal, the drawn-down balance of this tranche to date is classified as short-term debt.

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.

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

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 2023, the Parent Company had not met the ratio established in the aforesaid financing agreement and therefore requested a waiver from the financial entity on 21 November 2023, which was granted on 22 December of the same year.

<u>COFIDES Loan</u>

On 26 June 2023 the Parent Company entered into a financing agreement with Compañía Española de Financiación del Desarrollo, COFIDES, S.A. for development of an investment project in the U.K. consisting of commercial establishment in said country by means of its subsidiary Facephi Beyond Biometrics, Ltd (the *Project Company*), an entity included in the Group's consolidation perimeter. The contract set up a financing facility in the form of a three-year loan of a maximum of 500,000 euros. On 5 July 2023 the Parent Company requested withdrawal of the total amount, which was received on the following 21 July. The loan will be amortised in six identical payments per half year.

The interest rate applicable to each settlement period will be Euribor + a margin. This margin consists of a fixed rate of 2.5% + a variable rate of +/- 5% depending on the net turnover of the Project Company.

The conditions related to the COFIDES 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 2023 the Parent Company had not met the aforesaid ratios, which means that the entire principal loan amount of 500,000 euros was classified as short-term debt on the same date.

b) Other short- and long-term financial liabilities

The following is a breakdown of other financial liabilities as at the end of the 2022 and 2023 financial years:

	Euro			
	Short-term		Long-term	
Type of transaction	2023	2022	2023	2022
Debts convertible to subsidies	222,807	905,366	---	307,189
Nice & Green loans	1,243,482	2,300,002	---	---
Others	993	99,520	---	---
Total	**1,467,282**	**3,304,888**	**---**	**307,189**

Since the investment had not yet been made at the drafting date of the consolidated annual financial statements, the Group has recognised the amount considered to be repayable of the capital subsidies granted to the Parent Company under the head of Debts convertible to short- and long-term subsidies (see Note 11.3).

At the end of the 2023 financial year the amount of the subsidies granted and deemed to be refundable and pending substantiation amounted to 222,807 euros (1,212,555 euros at the end of the 2022 financial year) recognised in the short term.

As at 31 December 2023, the Parent Company has entered into two financial transactions with Nice & Green for a total of 1.2 million euros as shown in the following breakdown:

- 500,000 euros awaiting conversion from revenues received by the investor on 19 June 2023 for a total value of 1,900,000 euros. Only this remaining balance is yet to be converted (note 10.1). In view of the fact that this is a financial instrument carried at amortised cost, since the date of conversion by the investor is not known on issuance, the Company recognises an implicit financial expenses taking the twelve months from each treasury draw-down into account. As at 31 December 2023 the implicit interest pending conversion amounted to 43,479 euros. Conversion to capital took place in January 2024 (Note 18).

- An interest-free financing loan granted on 23 June 2022 for € 700,000 (same amount as in the previous year) with an initial 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. This loan has once again been extended as set forth in Note 18.

€ 1.5 million from the previous financing agreement with Nice & Green, which has now matured, had been recognised as at 31 December 2022. This amount was converted into capital in two conversions carried out during January 2023 (note 10.1).

c) *Information on the average period of payment to suppliers. Additional provision three "Duty of Information" of Act 15/2010 dated 05 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:

	2023	**2022**
Item	**Days**	**Days**
Average period of payment to suppliers	47	24.58
Ratio of paid transactions	43	23.76
Ratio of transactions pending payment	61	49.54
	Euro	
Total payments made	13,028,247	12,139,430
Total outstanding payments	4,101,488	1,451,967

	2023	**2022**
Number of invoices		
Total number of invoices paid	2,978	2,474
Number of invoices paid before the legal deadline	2,828	2,376
%	95%	96%
Amount in euros		
Total amount of paid invoices	13,028,247	12,139,430
Value of invoices paid within the legal deadline	10,210,105	11,289,670
%	78%	93%

In view of the fact that the subsidiaries are domiciled in foreign countries and are not subject to the aforesaid law, the Group has included only the payments made by the Parent Company in fiscal year 2023 in the above table. For these purposes only, the Trade Creditors account encompasses items from suppliers and sundry creditors for debts with suppliers of goods or services included within the scope of the regulations on legal payment terms. The Net Purchases and External Services Expense account encompasses the amounts recognised as such in the Spanish General Accounting Plan.

(NOTE 12) POSITION WITH RESPECT TO THE TAX AGENCIES

12.1) Current balances with government agencies

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

	Euro			
	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Deferred tax assets (Note 12.4)	**4,901,032**		**1,558,878**	
Deferred tax asset for:				
• VAT	392,104		336,265	
• Others	143		483	
Other govt. agencies: Subsidies granted	1,480,518		1,480,518	
Others credits with govt. agencies	**1,872,765**		**1,816,267**	
Deferred tax liabilities (note 12.4)		**209,947**		**64,092**
Debts with Social Security bodies		422,363		328,035
Deferred tax liability for:				
• VAT		(70,128)		10,153
• Personal income tax withholdings		331,820		183,538
Other debts with government agencies		**684,055**		**521,726**
Current tax assets/liabilities	**(733)**	**---**	**(733)**	**---**

12.2 Financial years pending verification and inspection

In compliance with the currently applicable legislation, taxes are not considered finally settled until the returns have been inspected by the tax agency within the four-year limitation period. As at 31 December 2023, none of the Group companies' main tax returns since 31 December 2019 have been inspected and are therefore open to examination by the tax agencies.

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

12.3 Reconciliation of the accounting result and current expense for income tax

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

The following is the reconciliation of the accounting result with the corporation income tax base as at 31 December 2023:

	Euro					
	Facephi	**Celmuy Trading**	**FacePhi Beyond Biometrics**	**FacePhi APAC**	**Total 2023**	**Total 2022**
Consolidated profit/(loss) before tax	**(5,072,717)**	**111,087**	**(2,109,845)**	**16,409**	**(7,055,066)**	**1,025,663**
Consolidation offsets and restatements						
Elimination of the margin for sale of software	---	---	---	---	---	---
• Amortisation of the fair value of intangible assets (I.T. applications) attributed to business combinations (Note 1.c)	---	---	---	---	---	---
Individual outcome of the financial year before taxes Profit/(Loss)	**(5,072,717)**	**111,087**	**(2,109,845)**	**16,409**	**(7,055,066)**	**1,025,663**
Permanent differences:						
• Other non-deductible expenses	13,932	---	---	---	---	---
• Changes in the fair value of financial instruments	268,802	---	---	---	---	---
Impairment of holdings and credits with Group companies	---	---	---	---	---	---
Income/ (expenses) attributed to Net Equity						
• Capital increase expenses	(83,200)	---	---	---	---	---
Prior taxable base	**(4,873,183)**	**111,087**	**(2,109,845)**	**16,409**	**6,855,532**	**1,025,663**
• Compens. negative taxable bases in previous years	--	--			--	1,125,150
• Compens. ECERTIC merger negative taxable bases	--	--	--	--	--	(396,985)
• Compens. deduction of expenses at industrial origin of software. (Uruguay).	--	(**111,087**)			(111,087)	(43,450)
Payable tax base	**(4,873,183)**	**--**	**--**	**16,409**	**---**	**---**
Tax rate on the payable base (25%)	(1,218,296)	---	---	---	--	(224,416)
Rebates for cross-border double taxation	--	---	---	---	--	224,416
Amount payable/(refundable)	**---**	**---**	**---**	**---**	**---**	**---**

As at the end of the 2023 and 2022 financial years the permanent differences are confined to consideration of fiscally non-deductible penalties and surcharges and variation in the fair value of financial instruments (derivatives) related to the various capital increases in accordance with the information set forth in Note 10.1.

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

	Euro	
	2023	2022
Recognition of deductions for withholdings at source	579,375	(97,648)
Application/(activation) of deductions for the current financial year	(579,375)	322,064
Tax rate on the taxable base - current expense / (income)	(1,218,296)	---
Application of tax credit for FacePhi negative taxable bases	---	281,287
Recognition of rebates	1,657,744	998.
Current tax expense / (income)	**(2,876,040)**	**504,705**
Tax credit for capital increase expenses	20,800	59,875
Deferred tax expense / (income)	**20,800**	**59,875**
Recognition of restatement of estimated R&D rebates (Note 12.4)	**109,720**	**(645,585)**
Total corporation tax expense / (income)	**(2,745,520)**	**(81,004)**

12.4 Deferred tax assets and liabilities

Deferred tax assets

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

Tax rebates pending application

The following table shows the breakdown of tax rebates pending application in accordance with the Group's corporation tax returns filed and the tax forecast for the current financial year as at 31 December 2023 and 2022:

As at 31 December 2023:

Item	Year of origin	2022	Generated	Applied	Estimate changes	2023
Cross-border double tax.	2018	57,862	---	---	---	57,862
ECERTIC merger R&D	2018	97,364	---	---	---	97,364
Research and development	2019	90,089	---	---	---	90,089
Cross-border double tax.	2020	205,158	---	---	---	205,158
Research and development	2020	260,497	---	---	(52,099)	208,398
Film production	2020	126,632	---	---	---	126,632
Cross-border double tax.	2021	316,078	---	---	---	316,078
Research and development	2021	303,012	---	---	(57,621)	245,391
Cross-border double tax.	2022	97,648	---	---	---	97,648
Rebate for donations (35%)	2022	998	---	---	---	998
Research and development	2022	---	1,657,744	---	---	1,657,744
Cross-border double tax.	2023	---	579,375	---	--	579,375
Rebate for donations (35%) (*)	2023	---	4,480	---	---	4,480
Total		**1,555,337**	**2,241,599**	**--**	(109,720)	**3,687,217**

(*) Rebate not recognised as at 31 December 2023

As at 31 December 2022:

Item	Year of origin	2021	Generated	Applied	Estimate changes	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**

All the above rebates were generated by the Parent Company.

In September 2021 a substantiated report of mandatory compliance (Spanish acronym *IMV*) was received that fiscally qualified the rebates as research and development. This entails a change from a rebate of 12% to one of 42% of the investment associated with the R&D projects. Consequently, the Group recognised the change in the estimate of the amount of these rebates for the sum of 245,208 euros in the 2022 financial year.

Along the same lines, in the 2022 financial year the Group recognised the I.T. deductions generated in the 2021 financial year for the sum of 303,012 euros as a change in accounting estimate and those generated by ECERTIC, a company merged in 2022 for 97,364 euros.

In the 2023 financial year the Group recognised an R&D+i expense rebate for 80% of the value of the IMV and the amount recognised in the corporation tax settlement for the deductions for the 2022 financial year. The Group recognised 80% of the same for the sum of 1,657,744 euros on the Balance Sheet since it expects to request capitalisation of the amount. In application of the same criteria, in the 2023 financial year, the deductions for R&D+i generated in the 2020 and 2021 financial years – initially recognised at 100% – were also reduced by 109,720 euros by including capitalisation of the same in the corporation tax return for the 2022 financial year.

Tax credits for negative taxable bases

The Parent Company has the following negative tax bases to offset with future tax credits:

31 December 2023

	Euro				
Year of origin	**Pending tax bases 2022**	**Generated in 2023**	**Compensated in 2023**	**Pending bases 2023**	**Tax credit**
2023 financial year	---	4,873,183	---	4,873,183	1,218,296
Total	**---**	**4,873,183**	**---**	**4,873,183**	**1,218,296**

31 December 2022

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

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

The directors have not recognised the negative taxable bases of the subsidy FacePhi Beyond Biometrics Ltd on the Consolidated Balance Sheet since the objective conditions for doing have not been met.

Deferred tax liabilities

The temporary differences as at 31 December 2023 and 2022 derived from the subsidies received and transferred to the outcome for the financial year are set forth in this section.

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

	Euro	
	2023	**2022**
Initial balance	**64,092**	**42,493**
Temporary differences created / (reversed) for:		
- Capital subsidies granted	171,889	46,624
- Capital subsidies transferred to profit/(loss)	(21,149)	(29,910)
- Conversion differences	(4,885)	4,885
Final balance	**209,947**	**64,092**

(NOTE 13) INCOME AND EXPENDITURE

a) Net turnover

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

	%	
Market	**2023**	**2022**
Spain	1.91	1.96
Other countries	98.09	98.04
Total	**100.00**	**100.00**

Furthermore, 100% of net turnover is for provision of services to the Group companies.

The Group recognised the sum of 1,138,868 euros as at 31 December 2023 (344,720 euros as at 31 December 2022) under the head of *short-term accruals* in current liabilities on the attached Consolidated Balance Sheet for estimated revenue from support and maintenance activities and provision of SaaS (cloud) services, accrual of which takes place in the following financial year.

b) Inventory

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 3,377,271 euros has been recognised as at 31 December 2023 (3,185,110 euros in 2022).

c) Work performed by the Group for its own assets

	%	
	2023	**2022**
Work performed by the Group for its own assets		
• Facephi	4,170,850	3,818,608
Total	**4,170,850**	**3,818,608**

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

d) Operating grants entered in profit or loss

In accordance with the criteria set forth in note 3.11 as of 31 December 2023, Group management has allocated the sum of 111,382 euros to the Consolidated Income Statement (81,468 as at 31 December 2022) (see Note 10.3).

e) Personnel expenses

	Euro			
	2023		2022	
	Facephi	Rest of Group	Facephi	Rest of Group
Wages, salaries and others	8,814,050	2,089,590	8,167,526	1,066,820
Severance payments	110,318	100,693	88,565	30,995
Company's Social Security contribution	1,778,286	242,437	1,496,722	85,663
Other employee benefits	126,769	301,550	81,714	13,707
Total	**10,829,423**	**2,734,270**	**9,834,527**	**1,197,185**

As at 31 December 2023 the wages, salaries and similar account includes the sum of 624,000 euros for bonuses granted and pending payment to the Parent Company's personnel (1,134,000 euros at the end of the previous financial year).

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

	Euro			
	2023		2022	
	Facephi	Rest of Group	Facephi	Rest of Group
Senior management	2	-	1	1
Scientific, intellectual and support technicians and professionals	141	30	130	7
Clerical workers	27	8	33	3
Sales force and similar	15	22	5	1
Average total employees	**185**	**60**	**169**	**12**

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

	Euro					
	2023			2022		
	Men	Women	Total	Men	Women	Total
Executive directors	2	-	2	2	-	2
Scientific, intellectual and support technicians and professionals	148	37	185	121	29	150
Clerical workers	16	22	38	13	31	44
Sales force and similar	29	10	39	6	3	9
Quality personnel at end of financial year	**195**	**69**	**264**	**142**	**63**	**205**

As at 31 December 2023 and 2022 the Group employs two workers with a disability equal to or greater than 33%.

The average number of employees with a disability equal to or greater than 33% for fiscal year 2023 was 2 people (the same number during the 2022 financial year).

f) Other operating expenses

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

	Euro	
	2023	**2022**
External services:		
Research and development expenses	5,000	---
Leases and royalties	2,345,038	624,736
Repairs and upkeep	47,983	39,055
Freelance professional services	6,731,099	4,721,091
Transport	2,735	3,065
Insurance premiums	205,888	117,767
Banking and similar services	89,653	130,906
Advertising, promotion and public relations	1,223,829	1,023,033
Supplies	31,100	23,176
Other services	1,521,881	1,020,209
Taxes	8,545	9,835
Loss, impairment and variation of provisions for uncollectible trade transactions (note 8)	1,268,650	719,915
Other operating expenses	**13,481,401**	**8,432,789**

g) Foreign currency: Exchange differences

The overall value of assets denominated in foreign currency (f.c.) amounts to 24,610,805 euros (17,279,077 euros in 2022). The following are the most significant items:

		Euro	
Item	**Currency**	**2023**	**2022**
Clients (foreign currency)	USD	22,686,285	16,033,069
Clients (foreign currency)	KRW	161,275	127,406
Treasury (c/c in f.c.)	USD	1,499,237	862,855
Treasury (c/c in f.c.)	KRW	220,098	220,098
Treasury (c/c in f.c.)	GBP	11,888	4,189
Treasury (cash f.c.)	USD	678	117
Fixed-term deposits (f.c.)	USD	31,344	31,344
	Total	**24,610,805**	**17,279,077**

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

Item	Currency	Euro 2023	Euro 2022
Creditors (f.c.)	USD	2,906,714	542,062
Creditors (f.c.)	KRW	31,537	28,120
Creditors (f.c.)	GBP	166,889	132,639
Advance payments customers (f.c.)	KRW	5,692	26,091
	Total	**3,110,832**	**728.912**

The main transactions carried out in currencies other than the euro are detailed below:

	Euro 2023	Euro 2022
Services received (USD)	(5,166,967)	(4,512,139)
Services received (GBP)	(415,918)	(439,318)
Services received (KRW)	--	(150,537)
Rev. from services provided (USD)	23,572,820	21,414,807
Rev. from services provided (GBP)	420,940	---
Rev. from services provided (KRW)	621,381	440,021
Total	**19,032,256**	**16,752,834**

The following table shows the amounts of the exchange differences recognised in the outcome for the financial year. The figures for transactions settled during the period are separated from those pending settlement as at 31 December 2023 and 2022:

Financial instrument	Currency	Exchange differences 2023	Exchange differences 2022
Negative cash differences	USD	162,603	14,238
Positive cash differences	USD	(1,870)	(121,495)
Positive cash differences	KRW	--	(2,069)
Negative differences from trade collections	USD	265,765	105,848
Positive differences from trade collections	USD	(180,402)	(194,064)
Positive differences from trade collections	KRW	--	(2,672)
Negative differences for payments to suppliers	USD	64,840	169,392
Negative differences due to credit balances	KRW	--	646
Positive diffs for financial instr. balances	USD	(143,447)	(267)
Negative differences for financial instr. balances	USD	232,067	---
Positive differences for supplier payments	USD	(55,946)	(30,210)
Total for transactions settled in the financial year (+) -		**343,610**	**(60,653)**

Financial instrument	Currency	Exchange differences 2023	2022
Negative cash differences	USD	162,603	14,238
Positive cash differences	USD	(1,870)	(121,495)
Positive cash differences	KRW	--	(2,069)
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Negative differences due to credit balances	KRW	--	646
Positive diffs for financial instr. balances	USD	(143,447)	(267)
Negative differences for financial instr. balances	USD	232,067	---
Positive differences for supplier payments	USD	(55,946)	(30,210)
Total for transactions settled in the financial year (+) -		**343,610**	**(60,653)**

Financial instrument	Currency	Exchange differences 2023	2022
Negative differences due to trade balances	USD	60,560	45,061
Positive differences due to trade balances	USD	(336,848)	(339,416)
Negative differences due to financial investment balances	USD	---	---
Positive diffs for financial instr. balances	USD	--	(267)
Positive differences for supplier balances	USD	(71,129)	(27,400)
Negative differences for supplier balances	USD	6,857	1,916
Total for transactions pending maturity (+) -		**(340,560)**	**319.839**
Total exchange differences allocated for the year (+) -		**3,050**	**(380,482)**

(NOTE 14) REMUNERATION OF THE PARENT COMPANY'S BOARD OF DIRECTORS AND SENIOR MANAGEMENT

In accordance with the proposal of the Appointments and Remuneration Committee on 15 December 2022, subsequently ratified by the General Meeting held on 30 June 2023, the Governing Bodies and the Board of Directors received the following remuneration for the 2023 financial year:

- For senior management remuneration: a total of 620,000 euros (660,000 euros in 2022) plus a variable payment subject to the variation in certain objective magnitudes. Accordingly, senior management did not receive variable remuneration due to the fact that insufficient milestones were reached.
- Remuneration of the Board of Directors: the sum of 390,000 euros (360,000 euros in 2022) also for remuneration of the Audit Committee and the Remuneration Committee.

Pursuant to these agreements, the remuneration accrued as at 31 December 2023 and 2022 was the following:

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

During the 2023 and 2022 financial years the members of the Board of Directors – some of whom are also senior managers – received the following statutory and salary remuneration including Board expenses and per diem allowances, remuneration in kind and insurance premiums of civil responsibility for managers and directors:

	Euro	
	2023	**2022**
Remuneration:		
Remuneration-Senior Management	660,000	620,000
Variable remuneration-Senior Management	---	350,000
Board and Audit and Remuneration Committee allowances	390,000	360,000
Other remuneration	68,266	29,438
Insurance premiums	16,961	2,492
Total remuneration	**1,135,227**	**1,361,930**

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

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

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

b) Directors in relation to conflicts of interest

In compliance with the duty of avoiding situations that could entail a conflict of interest with the Parent Company all directors who have held offices on the Board of Directors have fulfilled the obligations set forth in article 228 of the consolidated text of the Corporate Enterprises Act during the 2023 financial year. Furthermore, both the Directors and persons related to the same have refrained from incurring in the cases of conflict of interest which may be authorised by the governing body provided for in article 229 of said Act.

(NOTE 15) ENVIRONMENTAL INFORMATION

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

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

No subsidies of an environmental nature have been received.

NOTE 16. PROVISIONS AND CONTINGENCIES

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

			Euro	
Issue	**Maturity**	**F.C.**	**31.12.23**	**31.12.22**
08/07/2021	20/09/2026	USD (*)	33,133	33,133
15/03/2023	30/07/2024	USD (*)	16,290	---
04/01/2022	Indefinite	USD	9,055	9,375
11/01/2022	25/08/2024	USD	23,119	23,951
12/04/2023	01/04/2024	USD	101,357	142,415
		Totals	**182,949**	**258,739**

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

NOTE 17. SUNDRY INFORMATION

a) Auditing fees

On 30 July 2023 the Parent Company's General Meeting agreed to renew the appointment of Ernst & Young S.L. as auditors for the financial years ending on 31 December 2023, 2024 and 2025.

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

	Euro	
	2023	**2022**
Audit services:		
• Audit of individual annual financial statements	37,000	24,650
• Audit of the 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 professional services	**78,400**	**56,440**

As at 31 December 2023 no fees have been accrued by other companies of the E&Y group for tax consultancy, special reports, other verification services or other services of any nature whatsoever. Nor were any such services required by the previous auditors as at 31 December 2022.

b) Off-Balance Sheet agreements

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

NOTE 18. EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 3 January 2024, Nice & Green notified the Parent Company of the third conversion of the 500,000 euros (50 bonds at 10,000 euros par value each) still pending from the issue of 1,900,000 euros (Note 11.1.a) related to the financing by convertible bonds with the following data:

Notification date	Amount	Conversion (shares)	Exercise price	Par value	Issue premium	Capital	Issue premium
01/01/2024	500,000	264,368	1.8913	0.04	1.8513	10,575	489,3424

The aforesaid conversion was notarised on 11 January 2024 and registered in the Companies Registry on the same date.

Said financing by convertible bonds contract entered into on 27 April 2023 with Nice & Green, S.A. was for a maximum amount of 20 million euros as set forth in Note 11.1.a. This agreement has been contractually amended in a new addendum on 17 January 2024 with the following features:

- the maximum amount the investor may invest is reduced from the initially agreed 20 million euros to 11.1 million euros. The amount that was pending investment at the signature date the addendum was 4.2 million euros (420 bonds).
- With respect to this amount, it has been agreed that Facephi would issue up to seven tranches of 60 convertible bonds (600,000 euros) at intervals of one month.

- Reach an agreement to extend the maturity of the loan contract between the Parent Company and Nice & Green, S.A. for the sum of € 700,000 due on 31 December 2023 (note 12.4). Set a repayment schedule of € 100,000 per month over the same period as issuance of the seven tranches set forth in the previous paragraph.

On 22 January 2024 the Board of Directors adopted a resolution to carry out a third issuance of 60 bonds convertible into the Parent Company's shares with a par value of 600,000 euros (the *1st 2024 Convertible Bond Tranche*).

On 19 February 2024 Nice & Green notified the Parent Company and exercised its right to convert 60 bonds (1st 2024 Tranche) for a conversion sum of 600,000 euros. The 334,057 new Parent Company shares are offered with an issue premium of € 1.7561 per share with a share issue rate of € 1.7961 per share (par value of € 0.04 plus € 1.7561 share premium).

On 20 February 2024 the Board of Directors, in exercise of the aforesaid power of attorney, adopted a resolution to carry out a fourth issuance of 60 bonds convertible into the Parent Company's shares with a par value of 600,000 euros (the 2nd 2024 Convertible Bond Tranche).

On 18 March 2024 the Board of Directors, in exercise of the aforesaid power of attorney, adopted a resolution to carry out a fifth issuance of 60 bonds convertible into the Parent Company's shares with a par value of 600,000 euros (the 3rd 2024 Convertible Bond Tranche).

Furthermore, on 21 March 2024 the Parent Company entered into a binding Memorandum of Agreement (MOA) with Hancom Inc. (hereinafter "HANCOM"). This MOA envisages signature of a final investment and mutual collaboration agreement within the 90 days following signature of same. Said agreement will include the following milestones:

- Investment of the sum of five million euros (€ 5,000,000) by Hancom Inc. to be articulated by means of a convertible loan. The loan will accrue interest at a rate of between 0 and 1%to be determined by parties, and will be converted by means of a capital increase by offset of receivables, a price of 2.95 euros per share having been agreed. This capital increase for offset of receivables is subject to approval by the Parent Company's General Meeting, which will be called once the convertible loan has matured and the required directors' reports have been drawn up and the Company's auditors have issued their report on its financial statements for the purposes of the loan to be converted into equity.

- Exclusive Collaboration Agreement: HANCOM will act as the exclusive distributor of Facephi's products, services and technology in the APAC (Asia-Pacific) region. The licencing model will be based on a revenue sharing system. The agreement will have an initial term of three years, renewable on agreement of the parties.

These two contracts will be executed simultaneously to put the aforesaid agreements into effect. The agreement is in the review phase by both parties and signature of the final contract is expected within the foreseen deadline.

Moreover, it should be noted that on 12 January 2024 the Group restructured its U.K. subsidiary, FacePhi Beyond Biometrics Ltd, changing its scope of action from that of a subsidiary with a full business organisation to a sales and marketing operation, with the consequent reduction in its cost structure.

The Parent Company's governing bodies consider that no other significant subsequent events in addition to those set forth above have occurred that could affect the information contained in these annual financial statements.

Alicante, 31 March 2023

Annual Report 2023

Consolidated Audited Accounts

2024

facephi

Letter from the **CEO**

Javier Mira

As Facephi's CEO, I have a duty to ensure that the information we share with the marketplace is accurate, reliable and transparent. We would like to report that, after a thorough audit process, we have identified certain discrepancies regarding a **turnover adjustment** with our auditing firm. This adjustment amounts to **€25.15M compared to the €30M announced in our February 2024 earnings preview** for the last financial year.

This variance relates to the recognition of revenue related to the delivery of licences, where their delivery and subsequent availability took place in 2023, although the formalisation of the agreements took place at the beginning of 2024.

The auditing firm's recommendation is that this revenue should be recognised in the current financial year. Such a change in the measurement approach to standardise the income statement is a practice that had not been applied in previous reviews, where the availability of products to customers had been considered as a benchmark for revenue recognition.

I would like to stress that these differences do not compromise Facephi's financial strength or strategic orientation. **Over the past year, we have seen unprecedented growth,** which can be illustrated by the positive evolution of the figures in this document. Equally, significant investments have supported this growth, both in technology and human talent, as well as our commitment to international expansion. This has a direct impact on the current year's turnover.

During 2023, **we have achieved a turnover of €25.15M, compared to the €22.24M recorded in the same period in 2022, which represents an increase of 12.88%.**

By adopting our financial auditors' recommendations and accounting criteria, we took steps to change our revenue recognition model, aligned with our new product profiles and consistent with our growth and consolidation plan. We firmly believe that this measure will not only allow us to address the variables identified but will also strengthen our ability to adapt and thrive in a constantly evolving business environment.

Once again, I would like to express my confidence in the strength of our company, as well as in our team's commitment and dedication. Together, we can learn from this experience to become stronger, focusing on further establishing our position in the marketplace.

We are grateful for your continued support and understanding during this period. Facephi is committed to open and transparent communication that builds trust and ensures a promising future together.

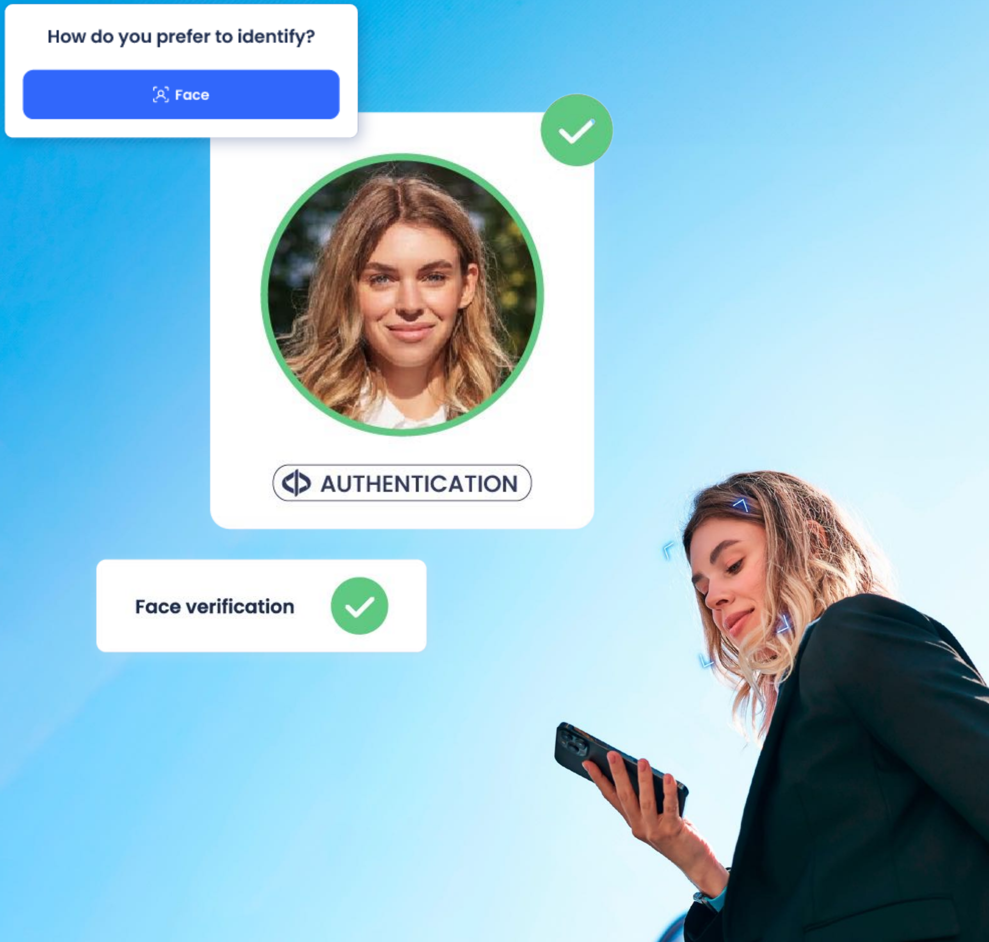
Contents

01

Business development

Experts in user digital identity verification,

specialising in digital onboarding and biometric authentication solutions.



Moving towards **end-to-end** **Digital Identity Management**

ONBOARDING

- Passive liveness
- Blacklist validation
- Governmental Databases
- Video onboarding
- OCR Scanning
- Document validation
- Video recording
- NFC Verification

AUTHENTICATION

- Fingerprint
- Facial
- Behaviour
- Voice

WALLET

- Interoperable
- Hybrid
- User-centered

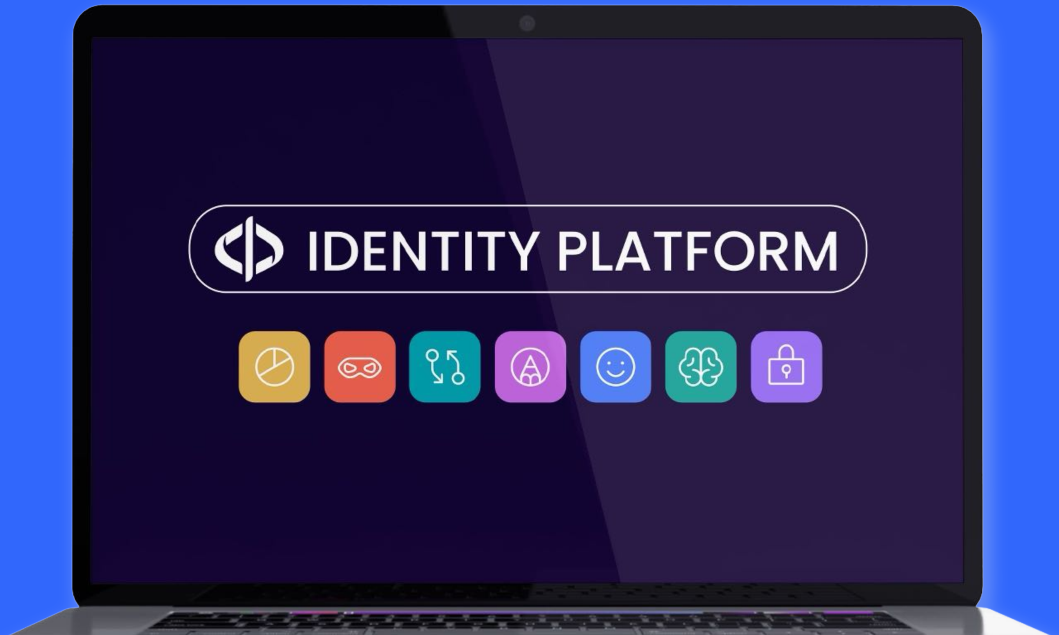
IDENTITY PLATFORM

- Operations
- Antifraud
- Design Studio
- UX | UI
- Privacy
- AI
- Behaviour

Our products

Our solutions are designed to be more effective, faster and more autonomous for the customer, which gives us a competitive edge.

- Effectiveness
- Speed
- Autonomy
- Security
- User experience



Over a decade of **major milestones**

2012

facephi
Founded in Alicante, Spain

13-14

Grupo Mutual
First customer acquired

BME Growth
Public listing in Spain

15-16

Bi
First major bank on board

The team begins to grow

2017

HORIZON 2020
€1.7m granted

2018

Team growth

AUTHENTICATION
Facephi's main product

2019

ONBOARDING
Became our main product

facephi
Opened **APAC** office

2020

ecertic
Procured electronic signature company

EURONEXT
Dual listing in Paris

2021

Launched
IDENTITY PLATFORM

Doubled our customer base

Major increase in staff

2022

facephi
Opened **LATAM** office

facephi
Opened **EMEA** office

2023

Launched **Facephi Identity Wallet**

Partner Channel opening and consolidation

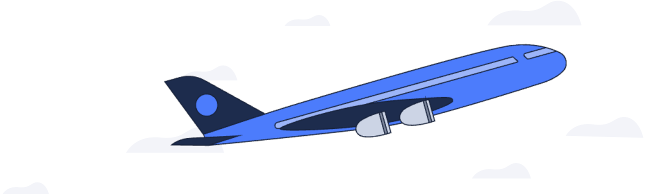
2024

International partnership and growth commitment with the Korean Hancom Group

Our technology adapts to the needs of the market and industries that demand it.

- Financial Services
- Insurance
- Health
- Airlines
- Telecommunication
- Travel and Transport
- Public Administration
- Hospitality
- Fintech
- E-Commerce
- Sports Events
- Shared Mobility
- Crypto
- Investment
- Security
- E-Learning
- Pensions
- Legal Services
- Online Gaming

Digital identity, a global trend on all agendas



Financial institutions

- Emerging banking models such as Open Banking or Open Fintech depend on generating ecosystems based on trust.
- New regulatory developments will impact the sector and less regulated environments such as crypto.
- Fraud control and risk minimisation

Transport and borders

- Many initiatives are underway to standardise how digital identities are used in airports, including IATA's One ID.
- Facephi already supports projects that securely enhance the traveller experience, based on identity verification technology.

Public institutions

- ID Wallet in EU expected to be available by 2030
- UN and World Bank promoting Digital Identity with ID4D project
- NIST promotes Digital ID standardisation project

e-services

- Digital first customers operating exclusively online need secure environments, bound by regulatory frameworks such as GDPR.
- KYC and qualified identity building is set to become the cornerstone of the entire ecosystem on which CX is built.

Dual-listing

BME Growth

EURONEXT

Organisational changes

The appointment of **Jorge Sanz** as **Managing Director** was a **crucial change** for us.

This strategic shake-up represents an important milestone for Facephi, marking an important shift in direction that matches the organisational evolutionary demands ahead of us in 2024.

+300
Customers

worldwide
already trust us

300M
Transactions

+25
Countries

We have the **most financial institutions** in the world

A few of our customers:

- Santander
- wible
- ICBC
- HSBC
- INBURSA Grupo Financiero
- Bi Banco Industrial
- aena
- Supervielle
- Interbank
- Samsung 강북삼성병원
- cencosud Scotiabank
- Banco Unión S.A. El Banco de los Bolivianos
- Banco Pichincha
- IUDÚ
- Banco del Sol
- Banco Guayaquil
- BAC Credomatic
- LATAM
- Actinver
- bdigital BD Finance
- PRIMA AFP
- Banco Comafi Si te va bien, nos va bien.
- banco bia
- Banco de Corrientes
- BANPAIS
- Banco Fie
- BCP
- TuSueldoYa!
- MultiBank
- NaranjaX
- nubi
- Scotiabank
- Tarjetas Peruanas Prepago
- CPN Cooperativa Policía Nacional
- mibanco
- creditel
- Visión Banco
- Banco General
- BALANZ
- Grupo MOK Más valor para tus clientes
- Caja Municipal Ica
- Caja Piura
- BANISI Siempre fácil
- Efectivo Sí
- St. Georges Bank Grupo Promerica
- Banco Promerica
- bantotal
- Caja Huancayo
- caja arequipa

Our technology was successfully evaluated again by NIST in 2023

Facephi named as a Representative Vendor in the Gartner Market Guide for Identity Verification 2023

Organisms and programmes

WORLD COMPLIANCE ASSOCIATION

European Association for Biometrics eab

denae

Pacto Mundial Red Española

Certificates

Awards

Business Innovation Award
Chamber of Commerce

IV PREMIO 2020 PYME DEL AÑO

Finnovating

TECH ROCKETSHIP AWARDS 2022-23

02

Management report

Our Strategy

Consolidation and expansion

Facephi maintained a robust strategy during 2023 that **focused on innovation and adapting to change.**

In 2023, international expansion was noteworthy.

Investment in disruptive technologies, development of partner channels and strategic collaboration with Gartner have strengthened our leadership position, opening new strategic markets and launching new projects into production.

To achieve our objectives, several actions have been implemented:

Partners Community

It will boost our business model's scalability by increasing our presence in more countries and productive sectors.

International certifications

International certifications enable us to explore **new scenarios** where we can apply our technology and meet the highest **quality standards**.

Funding agreement with Nice & Green

Resources are obtained to boost expected expansion and to guarantee the achievement of our objectives.

Strengthening our sales network

New team members were recruited to reinforce the commercial infrastructure and drive our expansion in LATAM and EMEA.

R&D investment

Increasing our investment in R&D is imperative to continue developing innovative processes focused on adapting our solutions to the needs of new industries and use cases.

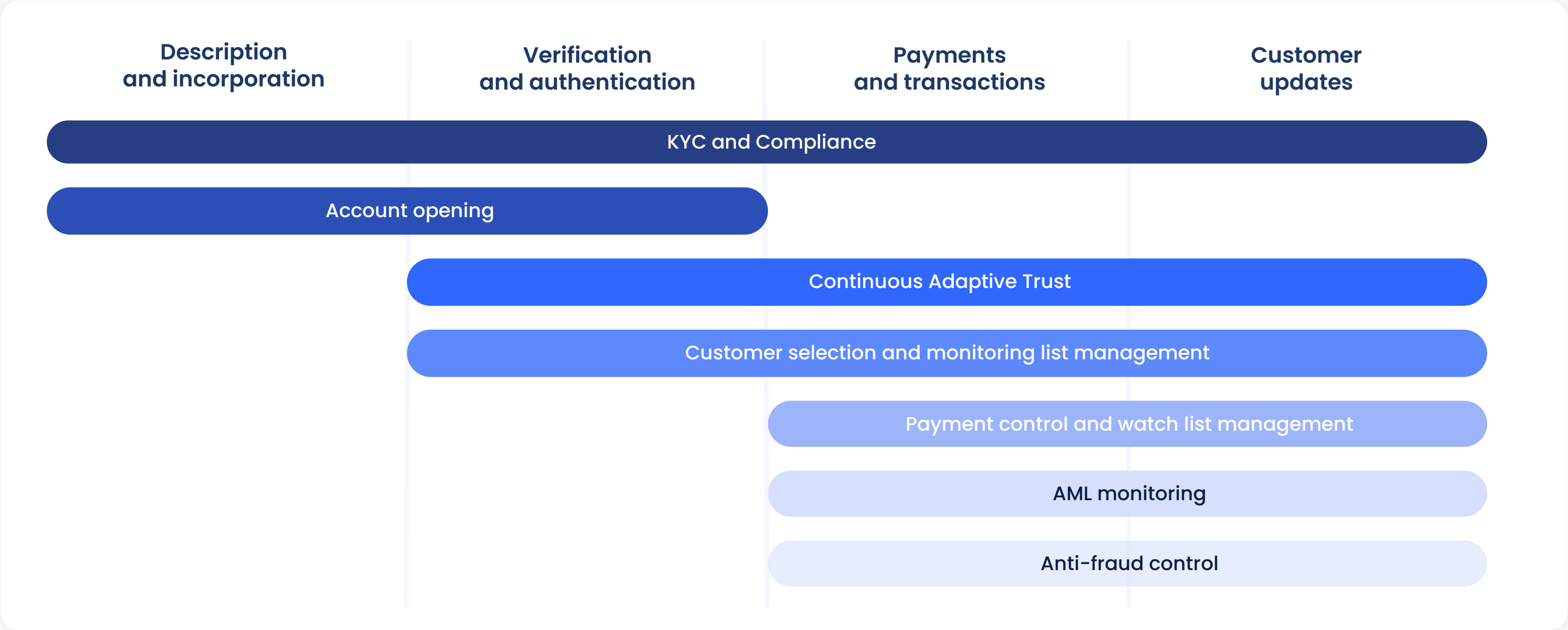
Technology

Innovating for the future

We have expanded our technology portfolio throughout 2023 with significant breakthroughs, including new functionalities such as behavioural biometrics, identity wallet and UX consulting.

These accomplishments put us at the forefront of digital security and **consolidate our global presence with recognitions from NIST** and other international bodies.

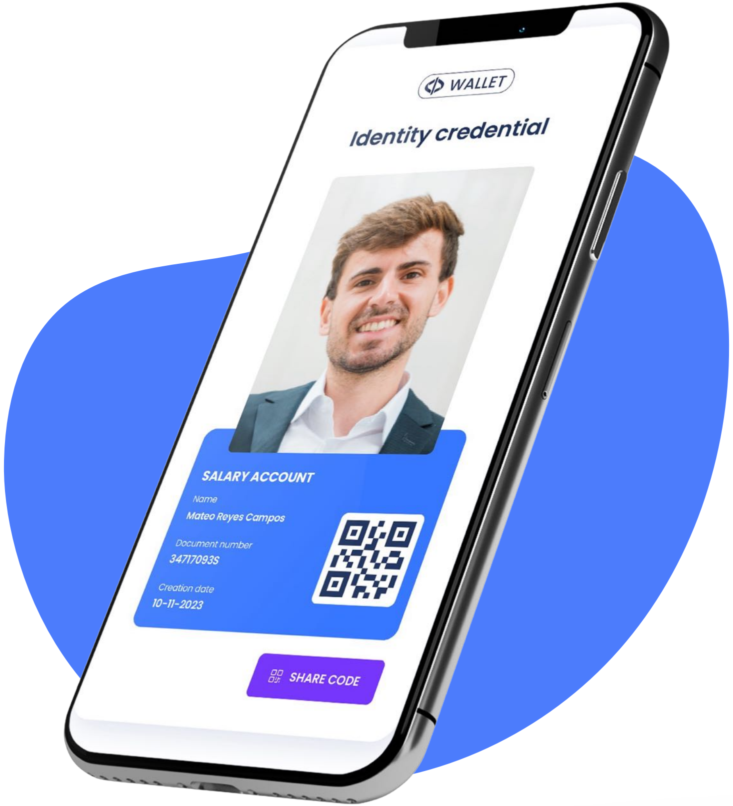
Protecting the **customer journey** every step of the way



The future of Digital Identity

Facephi has established a new product in 2023 that undoubtedly represents a decisive step into the future.

Digital Identity Wallet, based on new technological paradigms.



The entire customer session is secured using behavioural biometrics

Business

Strengthening and transparency

We adjusted our turnover to **€25.15M**.

The figures continue to reflect financial strength while maintaining the current strategic orientation towards market leadership.

New strategic alliances were established, and our customer base expanded by adding important accounts in all regions, notably by **consolidating our presence in the Middle East**.

We actively participate as exhibitors at the 24 most important events in our business areas all over the world, some of which we would like to mention.

ICE | London

International **gambling and gaming** trade show where we had the opportunity to meet with solution providers and professionals from the iGaming industry.

Seamless Middle East 2023 | Dubai Seamless Africa Johannesburg

A benchmark event in the **Middle East and Africa, one of the most important events on the continent**, where the latest developments in the **business, commerce and e-commerce sectors are showcased.**

Meetings were held to present our digital identity protection solutions to companies from countries in the region.

FEBRABAN TECH 2023 | Brazil

Largest **LATAM financial sector technology and innovation event**, bringing together **leaders** from the financial, technology and sustainability sectors.

Our commercial team **met** with the main **regional stakeholders** in the financial sector to work on **new opportunities**.

MONEY 20/20 | USA

Money20/20 is the largest and most influential global financial ecosystem meeting, including banks, technology, financial services and more.

Our team leveraged the space to make connections with potential customers and present our solutions.

SIGMA EUROPE | Malta

One of the largest European exhibitions dedicated to online gaming, at the cutting edge of iGaming developments.

USA

Orokii, a fintech company, chose **digital onboarding and authentication** solutions to offer its customers a secure and seamless user experience for their online money transfer and payment transactions.

United Arab Emirates

Our **identity verification and onboarding** solutions have streamlined corporate card issuance and authorisation processes for use by Qashio's corporate customers.

South Korea

Korea's leading financial investment company selected our **identity verification** solution, providing its customers with an easy and secure experience to access and manage their accounts.

United Arab Emirates

Al Maryah Community Bank is the country's first digital and community bank. It can now provide its customers with secure and seamless digital banking with our **onboarding and facial authentication** solutions.

Organisation and people

Corporate culture

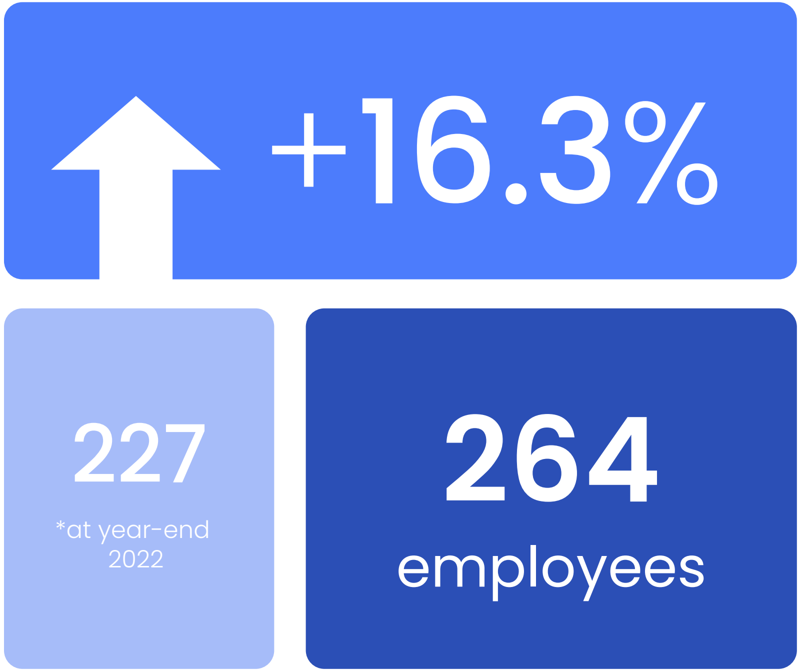
Our team has continued to invest in professional development and growth, attracting diverse and highly skilled talent to fuel our vision and business strategy.

As part of that development, we have moved to a new location at our seafront **offices** in Alicante. A new future-oriented workspace, reflecting our commitment to excellence and sustainable growth.

The new premises create an inspiring environment for our team and reflect our vision for innovation and progress.

True to our commitment to growth and expansion, we are pleased to report a **16.3% increase in our total staff over the past year, reaching a total of 264 employees** at year-end.

Ongoing momentum and dedication to the development of our team in all areas of the company is behind this expansion. The growth in **our technical team, which makes up almost 70% of our workforce** and is at the core of our company, is especially important.



Partner Strategy

Our **sales channel** has been strengthened with the hiring of our new Senior Vice President Partners Channel, Alejandro Gómez de Cuenca. His inclusion in the team proved to be strategic, given his extensive experience in multinational companies within the field of digital identification and protection. Under his leadership, we have devised a strategy focused on building a **robust partner network** across all continents, which further supports our growth ambitions.

We aim to turn this channel into Facephi's **business driving force** with a view to boosting our expansion in different regions and scaling into more productive sectors, which will **accelerate our growth** in the coming years.

Commercial Team

We continue to strengthen our **commercial network** to multiply actions that boost opportunities in each region.

Our already strong position in LATAM is being **strengthened** with new sales representatives. In EMEA we continue to drive our expansion, while in APAC our team consolidated in the region continues to make interesting prospective investments.

We have stepped up our commitment to corporate social responsibility (CSR) in 2023, including close collaborations with associations such as **ASPANION and the University of Alicante**.

Our focus on concrete actions, aligned with the UN Sustainable Development Goals, is evident in our activities.

We have demonstrated our commitment to building a more inclusive, democratic and free society. These collaborative partnerships reflect our commitment to core values that guide our efforts to create a positive impact on the world around us.

03

Financial report

Turnover and EBITDA

Turnover

€25.15M

Growth
vs. 2022

12.88%

EBITDA

€0.67M

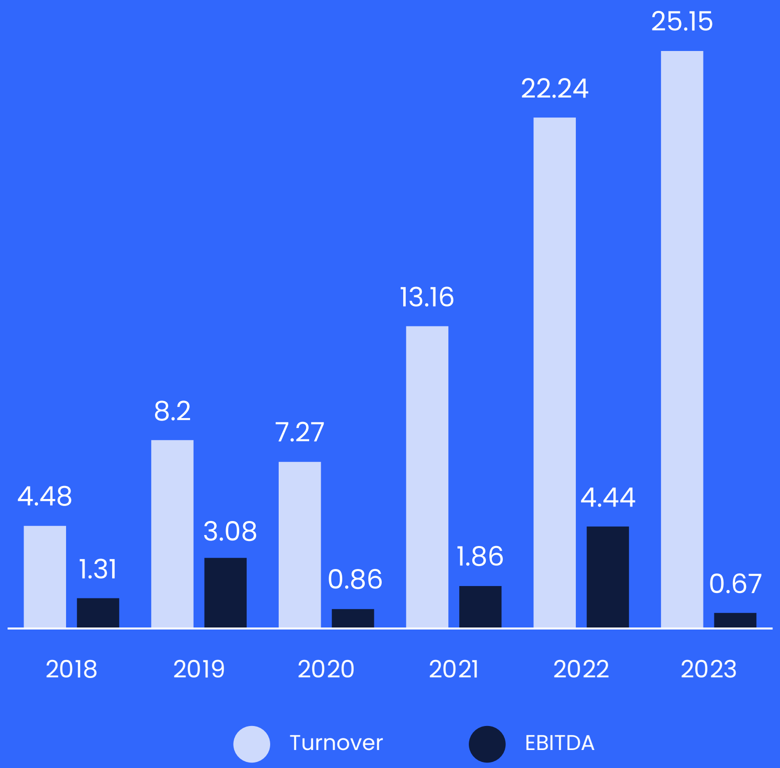
Growth
in R&D&I

9.22%

Turnover and EBITDA

At year-end 2023, turnover was positive, maintaining an upward trend to €25.15M, with year-end EBITDA of €0.67M.

The deferral of these earnings to 2024, as a result of a new accounting criterion as part of our adaptation to best practices, will mean a notable result for the current financial year and will allow the company not only to achieve, but to surpass the targets described in its Business Plan.

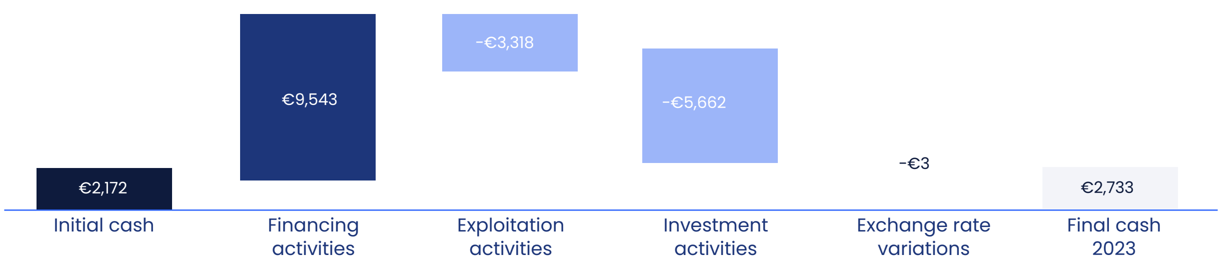


Source: Facephi
*Facephi Group consolidated graphs
*Annual audited figures

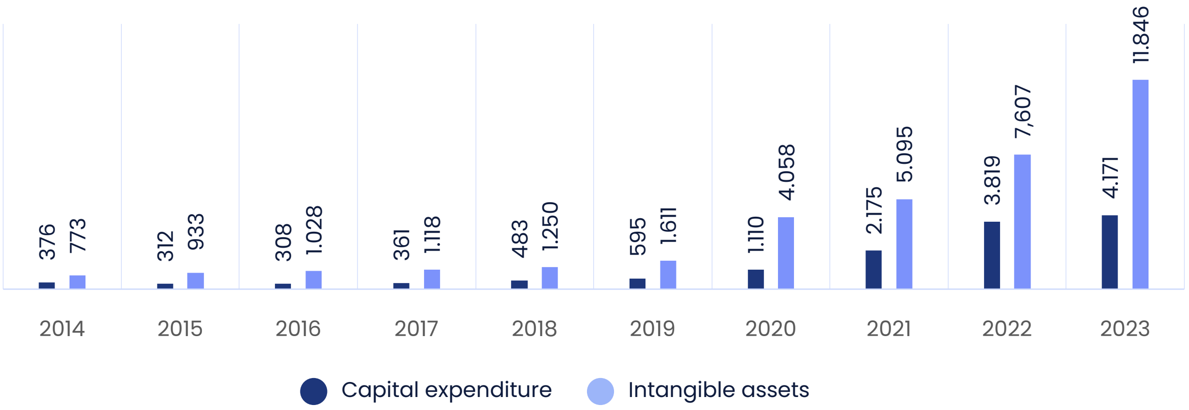
Cash flow(000)

Cash at year-end 2023 reflects a stable and growing cash position, partly thanks the Nice & Green deal. Addressing investments in global expansion and people development with more equipment and new workspace.

Cash flow 2023 in (000)



We continue with the exponential trend of investment in R&D&I that makes us a leading company at the forefront of technological innovation.



Balance sheet
(in thousands of EUR)

The balance sheet shows an increase in total assets compared to the year-end figures of 2022.

This growth is primarily underpinned by an increase in the customer portfolio and improved cash flow at year-end.

Meanwhile, non-current assets also grew this year due to investment in the company's intangible assets through product development, the investment in new offices and the recognition and activation of tax credits and deductions arising from the strong investment in R&D&I, which Facephi always spearheads.

Balance sheet (`000)	31 December 2023	31 December 2022
NON-CURRENT ASSETS	€26,606	€16,374
% NCA/TA	58.20%	50.77%
CURRENT ASSETS	€19,106	€15,877
% CA/TA	41.80%	49.23%
TOTAL ASSETS	€45,711	€32,251

Source: Facephi
*Facephi Group consolidated graphs
*Annual audited figures

Balance sheet
(in thousands of EUR)

Total liabilities have grown as a result of the syndicated debt drawdown and borrowings from the expansionary UK operation and the ICO granted backed by the Red.es grant, of which FacePhi is a beneficiary.

Current liabilities rose sharply due to the full recognition of contracts with biometric suppliers, which had a negative impact on the operating margin figure.

Equity, on the other hand, increased due to capital increases which absorbed the negative impact of the financial year's profit.

BALANCE SHEET (`000)	31 December 2023	31 December 2022
NET WORTH	€20,043	€15,213
NW/(TOTAL LIABILITIES+NW)	43.85%	47.17%
TOTAL LIABILITIES	€25,668	€17,038
TL/(TOTAL LIABILITIES+NW)	56.15%	52.83%
NON-CURRENT LIABILITIES	€3,268	€4,284
NCL/(TOTAL LIABILITIES+NW)	7.15%	13.28%
CURRENT LIABILITIES	€22,400	€12,754
CL/(TOTAL LIABILITIES+NW)	49.00%	39.55%
TOTAL NET WORTH AND LIABILITIES	€45,711	€32,251

Source: Facephi
*Facephi Group consolidated graphs
*Annual audited figures

Fuente: Facephi

Profit and loss ('000)

	2023 | CONSOLIDATED AUDITED	2022 | CONSOLIDATED AUDITED	Var. %
Total Revenue	**€29,324**	**€26,102**	**12.3%**
Net turnover	€25,153	€22,283	12.9%
Work carried out by the company on its assets	€4,171	€3,819	9.22%
Total Expenditure	**-€28,658**	**€21,662**	**32.3%**
Procurements (Cost of sales)	**-€7,469**	**-€5.546**	**34.7%**
Operating Expenses	**-€21,190**	**-€16.115**	**31.5%**
Staff Costs	-€13,564	-€11,032	23.0%
Other operating expenses	-€8,121	-€5,352	51.8%
Other income/expenses	€495	€268	84.8%
EBITDA	**€665**	**€4,440**	**-85.0%**
Amortisation of fixed assets	-€4,781	-€1.974	142.2%
Impairment losses and changes in provisions	-€1,269	-€720	76.2%
EBIT	**-€5,384**	**€1,746**	**-408.3%**
Financial income	€311	€1	34475.8%
Financial expenses	-€1,710	-€300	470.1%
Fair value changes in financial instruments	-€269	-€677	-60.3%
Foreign exchange differences	-€3	€380	-100.8%
Impairment and gains/losses on sales of financial instruments	€0	-€125	-100.0%
FINANCIAL RESULT	**-€1,671**	**-€721**	**131.7%**
Profit before tax	-€7,055	€1,026	-787.6%
Income tax	€2,746	€81	3289.5%
CONSOLIDATED RESULT FOR THE FINANCIAL YEAR	**-€4,310**	**€1,107**	**-489.3%**

Source: Facephi
*Facephi Group consolidated graphs
*Annual audited figures

Steady growth between 2022 and 2023 highlights Facephi's capacity to adapt and thrive in an ever-evolving business environment. The maximum turnover milestone was reached in 2023, bearing the first fruits of our strong investment in costs to cover the projects that lie ahead.

We should also highlight the growth in our investment in R&D&I, which stands at 14.6% of the company's actual expenditure.

The procurement account shows the direct costs related to sales, such as commissions associated with sales and purchases of biometric products incorporated in our technology.

We made strategic investments during the period to strengthen our global presence, consolidating a base that will drive next-stage growth. As a result, we are committed to growing our workforce, mainly in our subsidiaries.

Foreign currency impairment losses increased, mainly due to the currency risk of some customers, which the company has decided to provision for prudence.

The financial result was affected once again by the capital increases via Equity Warrants, which do not entail a cash outflow, and by the increase in the cost of debt due to the rise in interest rates.

04

Conclusion

In the last financial year, Facephi saw a **period of growth**, reaching a turnover of **€25.15M**, once again a record figure in keeping with the upward trend seen in recent years, maintaining our financial strength and strategic direction, with a new revenue recognition model that is proving effective in 2024.

Ongoing investment in technology and talent amounted to 9.22%. However, developments such as the Facephi Identity Platform, which has been confirmed as an important growth driver, emerged as a versatile and in-demand proposition. **This figure was offset by high revenues**, which enabled us to achieve **a positive EBITDA at year-end of €0.67M.**

International growth continues to play a key role in our expansion strategy, with emerging markets such as APAC continuing to drive global growth.

As part of our commitment to transparency, our financial statements are subject to rigorous external audit processes to ensure both accuracy and reliability.

Our 2023 turnover, now set at **€25.15M,** has been adjusted as part of these processes as evidenced in this report.

This adjustment, prompted by a change in the accounting approach recommended by our auditors, reflects our commitment to industry best practice and consistency when presenting our financial statements.

This change not only reaffirms the strength of our financial position, but also anticipates significant growth in 2024. We are forecasting a positive impact on our pipeline for the first months, **with an expected turnover of €6.49M**, over three times higher than the previous year. This growth is a testament to Facephi's continued success and strength in the digital identity solutions market.

We wholeheartedly thank you for your continued support and confidence in our business. Building on a solid financial foundation and a dedicated team, we are confident that we are well positioned to achieve new milestones and exceed expectations in 2024.

	April 2023	*April 2024
Turnover	€1.85 M	€6.49 M

Source: Facephi
*Quarterly figures as of 31 March, unaudited and pending review

facephi