

# H1 2022 FINANCIAL REPORT



Safetech Innovations S.A.,  
company listed on MTS-AeRO  
market of the Bucharest Stock  
Exchange



**SAFETECH**  
INNOVATIONS

**BVB: SAFE**

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

# ISSUER INFORMATION

## INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Half-year report – H1 2022
For financial period	01.01.2022 – 30.06.2022
Report publishing date	05.09.2022
According to	Annex 14 of ASF Regulation 5/2018

## ISSUER INFORMATION

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

## INFORMATION ABOUT FINANCIAL INSTRUMENTS

Subscribed and paid-up share capital	13,300,000 lei
Market on which the securities are traded	SMT- AeRO Premium
Total number of shares	66,500,000 shares
Symbol	SAFE

## CONTACT DETAILS FOR INVESTORS

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The interim financial results as of June 30<sup>th</sup>, 2022, presented on the following pages **are not audited**.

## MESSAGE FROM THE CEO

Dear shareholders,

We ended the first half of 2022 with results in line with our expectations, recording a total operating income of 15.3 million lei, an increase of 16% compared to the same period last year, and a net profit of 2.6 million lei, more than double compared to the same period of 2021. The turnover amounted to 10.7 million lei in the first six months of this year, an increase of 15%, mainly due to the upsurge in the cybersecurity service contracts.

In the IT sector, the first half of the year is always weaker, with most of the revenue and profit being generated in the second semester of the year when most budgets for the current year are still available. Therefore, considering the results recorded in H1 2022, we keep the targets set in the 2022 revenue and expenditure budget, which foresee total operating income of 43.9 million lei, turnover of 40 million lei, and net profit of 10.1 million lei.

This year we have already managed to tilt the balance of our activity towards requests for cybersecurity services, our main line of business. Thus, in the first six months of 2022, cybersecurity services contributed with 5.8 million lei, the implementation of cybersecurity solutions contributed with 3 million lei, while sales of equipment brought revenues of 2 million lei.

The increase in the sales of cybersecurity services is extremely important as they have a higher profit rate compared to the revenues generated by the sale of cybersecurity solutions. During H1 2022, we experienced an increase in the number of recurring contracts, but also at the level of new clients, managing to gain eight new clients in H1 2022. Safetech Innovations' clients turned to cybersecurity services to increase the level of protection and identify vulnerabilities and risks, carrying out compliance assessments, with investments to be made after the development of action plans resulting from these activities. More and more customers invest in cybersecurity solutions based on a detailed action plan, which is a positive sign.

Cyberattacks have increased in frequency, representing one of the components of the hybrid war being carried out between various regional and global states. Recently, key institutions in countries such as Norway, Israel, Albania, and Lithuania were victims of cyberattacks, their activity being affected for up to several days, with the real negative impact on public administration and even the economy being difficult to estimate. Also, companies in most countries are exposed to the risk of cyber-attacks, which can bring direct financial losses, including insolvency, but also indirect, through the decrease of reputation and the loss of trust of customers and partners. Last but not least, we see such threats growing in the case of companies listed on the stock exchange, including those listed on the Bucharest Stock Exchange, as local issuers are also starting to report on the cyberattacks they had to face.

In 2021, local businesses' perception of this phenomenon was still extremely low compared to other European countries. In a study published by ESET in 2021 regarding 24 European countries that have implemented the best cybersecurity practices (European Cybersecurity Index), Romania was in the last place, having many things to improve in this direction. On the other hand, Portugal, Lithuania, and Slovakia were placed in the first three positions.



Therefore, we expect the demand for cybersecurity services to continue its upward trend, which will significantly contribute the increase in turnover and profitability.

Regarding our team, in the Q1 2022 report, we mentioned that we are facing difficulties mainly caused by the fact that the job market in the field of cybersecurity has become highly dynamic and competitive, a situation which persisted at the end of H1 2022. Entrepreneurial companies are in a position where they must compete on the same level as large corporations when it comes to hiring and retaining key personnel. The latter offers employees stock option plans in addition to highly motivating financial packages.

Considering the above context, at the end of 2021, we have initiated formal steps with the Financial Supervisory Authority to harmonize the capital market legislation with that applicable to unlisted companies so that it allows the donation of shares by the founders to the company, also in the case of listed companies. This allows to implement *stock option plans* and to ensure equal treatment of public and private companies. Paul Rusu and I want to implement such a program based on shares donated by the two of us to Safetech Innovations. Until now, we do not have an official response from ASF regarding our request. Still, we are confident in our approach, which we consider to be fundamentally different from the other methods through which such programs can be implemented, considering that a certain percentage of the shares owned by us will reach the company's employees, those who contribute day by day to its growth.

Until we receive an official response from ASF regarding our request, we started a rewarding stock option plan, which will be implemented between 2022-2024. We will grant rights to receive, free of charge, shares representing a maximum of 10% of the total share capital of Safetech Innovations to employees, directors, and managers of the company, to motivate and retain them. To implement this program, we initiated the buy-back of shares from the market. The buy-back extends over a maximum period of 18 months, allowing for a maximum purchase of 6,650,000 shares, at a price between 0.2 and 6 lei. Both operations, the stock option plan and the buy-back operation, were approved during the Extraordinary General Meeting of Shareholders held on July 21<sup>st</sup>, 2022.

Regarding the international expansion process, in the first semester of 2022, we established the UK entity, which on August 22<sup>nd</sup> became operational following the completion of all the necessary formalities. Safetech UK (official name: Safetech Innovations Global Services Limited) is owned in proportion of 67% by Safetech Innovations. The activity of Safetech UK is coordinated by Anca Stancu, who will hold the position of General Director, having over 23 years of experience in implementing business development strategies and sales management. In the following period, the activity of the UK entity will focus on building a local team, which will consist of three people by the end of 2022. Also, the management of Safetech UK estimates revenues of approximately 170,000 pounds by the end of the year.

Moreover, we are in the advanced incorporation process of the US office, and we hope to complete the procedures in the coming weeks. For the entity in Abu Dhabi, United Arab Emirates, we are still waiting for the company incorporation procedures to be completed. Still, we have already started working with the first customer from UAE through Safetech Innovations S.A.

Last but not least, I would like to mention that we are on the right track with the process of preparing the company for the transfer to the Main Market of the Bucharest Stock Exchange by the end of this year / the beginning of next year. We have already completed the accounting transposition for the last three years from the Romanian statutory accounting rules (RAS) to the international financial reporting standards (IFRS), and at the time of writing this report, we are in the full audit process.

We estimate that by the end of this month, we will also complete the audit process, including for the first six months of this year. After we have the audited results, we will publish them on our and the stock exchange's websites and we will start the formal procedures with the local institutions. The first step will be the selection of the broker for this transfer, as well as the

preparation of the listing prospectus, which we have already started working on. We will inform the market of the steps in this process as we progress.

I invite you to read in the following pages more details about Safetech's performance in the first six months of 2022, a great new semester for our company. In case of any questions, whether it is about the business or the company's activity on the capital market, please do not hesitate to contact us at [investors@safetech.ro](mailto:investors@safetech.ro).

**Victor Gânsac**

## ABOUT SAFETECH INNOVATIONS

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

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

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

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

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

Safetech Innovations had 48 full-time employees as of 30.06.2022, an increase of 9% compared to the same period last year.

### DIRECTORS AND EXECUTIVE TEAM

The company is managed by a Board of Directors, consisting of three members elected with a two-year mandate, starting on 18.04.2022. At the time of preparing this report, the Board of Directors of Safetech Innovations consists of the following members:

- **Victor Gansac** – President of the Board of Directors
- **Alexandru Mihailciuc** – Independent and non-executive member
- **Mircea Varga** – Independent and non-executive member

The executive team consists of:

- **Victor Gânsac** – CEO
- **Paul Rusu** – CFO

## SAFE SHARES ON THE BUCHAREST STOCK EXCHANGE

Safetech Innovations (SAFE) shares were admitted to trading on the SMT segment of the Bucharest Stock Exchange on 29.01.2021. On 30.06.2022, the company's shareholding structure was as follows:

Shareholder	Shares	%
Victor Gânsac	24,447,128	36.7626%
Paul Rusu	24,432,200	36.7402%
free float	17,620,672	26.4973%
<b>TOTAL</b>	<b>66,500,000</b>	<b>100%</b>



# KEY EVENTS IN Q2 2022 AND AFTER CLOSING OF THE REPORTING PERIOD

## PARTNERSHIP WITH FIDELIS CYBERSECURITY

On April 6<sup>th</sup>, Safetech Innovations S.A. announced the conclusion of a contract with Fidelis Cybersecurity, an American cybersecurity company focused on the detection and rapid response against cyber threats and data breaches, for the implementation in Romania of their cybersecurity solutions. By concluding the contract, the Company expands its portfolio of cybersecurity solutions and strengthens the Company's ability to provide SOC services through STI-CERT.

## EGMS AND OGMS dated 18.04.2022

On March 15<sup>th</sup>, Safetech's Sole Director convened the Extraordinary and Ordinary General Meetings of the Company's Shareholders for April 18<sup>th</sup>, 2022. The legal and statutory quorum related to the meeting was constituted at the first convocation.

The key points approved during the two meetings were:

- (i) The distribution of 4,156,250 lei, from the net profit related to the financial year 2021, for the distribution of dividends to the Company's shareholders;
- (ii) The establishment of a Board of Directors of the Company and the appointment of Mr. Victor Gansac, Alexandru Mihailciuc and Mircea Varga as members of the Board of Directors, for a 2-year term;
- (iii) Approval of the revenue and expenditure budget for the 2022 financial year;
- (iv) Appointment as auditor of the Company of the audit firm Baker Tilly Klitou and Partners S.R.L.;
- (v) Increase of the Company's share capital with the amount of 9,975,000 lei through the issuance of 49,875,000 new shares with a nominal value of 0.2 lei / share for the benefit of all shareholders registered in the Shareholders' Register held by the Central Depository on the registration date established by EGMS. The distribution of the newly issued shares was carried out according to the formula: 3 newly issued shares for each share held. The increase of the share capital was carried out by partial capitalization of the issue premiums in the amount of 9,975,000 lei. Following the capital increase, the share capital of the Company is 13,300,000 lei divided into 66,500,000 shares;
- (vi) Approval of the admission of the Company's shares to trading on the regulated market of the Bucharest Stock Exchange S.A.

## INCREASE IN SHARE CAPITAL AND DISTRIBUTION OF BONUS SHARES

On May 12<sup>th</sup>, Safetech received the Financial Instruments Registration Certificate (CIIF) from the Romanian Supervisory Authority, which certifies the registration of the increase of the share capital with 49,875,000 new shares that were issued following the EGMS Decision dated 18.04.2022. After registration with the Central Depository, on June 10<sup>th</sup>, shareholders received bonus shares in their trading accounts, in the proportion of three (3) newly issued shares for every (1) share held. Following the increase of the share capital, the share capital of Safetech Innovations S.A. of 13,300,000 lei is divided into 66,500,000 registered shares with a nominal value of 0.2 lei per share.

## DIVIDEND DISTRIBUTION

On May 20<sup>th</sup>, Safetech informed the market about the approval during the Ordinary General Meeting of Shareholders (OGMS) of the distribution of the net profits from 2021. From the total net profit of 6,156,770.65 lei, 4,156,250 lei was distributed to shareholders in the form of cash dividends and 370,001 lei was used for legal reserves. The sum of 1,630,519.65 lei remained undistributed. The record date for the cash dividend operation as agreed under the OGMS was 09.06.2022, the ex-date was 08.06.2022 and the payment date was 16.06.2022. The gross dividend was 0.25 lei per share.

## GENERAL MEETING OF SHAREHOLDERS DATED 21.07.2022

On June 17<sup>th</sup>, the Board of Directors of Safetech Innovations convened the Extraordinary and Ordinary General Meetings of the Company's Shareholders for July 21<sup>st</sup>, 2022. The legal and statutory quorum related to the meeting was constituted at the first convocation.

The key points approved during the two meetings were:

- (i) Approval of the method of distribution of the remaining undistributed net profit related to the financial year 2021, in the amount of 1,630,519.65 lei, as follows:
  - the use of the amount of 1,600,000 lei in order for the Company to start a program to buy back its own shares, necessary in order to fulfill the Company's obligations resulting from the start of the Stock Option Plan program;
  - undistributed profit in the amount of 30,519.65 lei;
- (ii) Approving the implementation of a reward and motivation plan for the Company's key personnel;
- (iii) Approving the buy-back by the Company of its own shares through acquisitions from the market or through a public offers.

## STARTING THE BUY-BACK PROGRAM

On August 8<sup>th</sup>, 2022, Safetech s informed the market about the start of its share buyback program that will take place between August 9<sup>th</sup>, 2022 and February 5<sup>th</sup>, 2024. In accordance with the EGMS Decision of 21.07.2022, published in the Official Gazette, part IV no. 3317 / 04.08.2022, the program refers to the buy-back by the Company of a maximum number of 6,650,000 shares, at a minimum price of 0.2 lei per share and a maximum price of 6 lei per share, and the shares will be used to implement a Stock Option Plan program.

The company can buy back a daily volume of shares of up to 25% of the average daily amount of shares that are traded on the market on which the purchase is made, calculated according to the applicable legislation, according to art. 3 paragraph (3) of Delegated Regulation no. 1052/2016. The purchase price is calculated in accordance with the provisions of the regulation mentioned above.

## UK ENTITY OPERATIONALIZATION

On August 22<sup>nd</sup>, Safetech Innovations informed the market that, following the completion of all necessary formalities in respect to SAFETECH INNOVATIONS GLOBAL SERVICES LIMITED ("Safetech UK"), a 67% owned entity by the Company, based in the UK, Safetech UK became operational. The activity of Safetech UK is coordinated by Anca Stancu, as General Director, with a cumulative experience of over 23 years in implementing business development strategies and sales management.

In the next period, the UK entity will focus on building a local team, which will consist of 3 people by the end of 2022. Also, the management of Safetech UK estimates revenues of approximately 170,000 pounds by the end of the year.

# ANALYSIS OF THE FINANCIAL RESULTS

**NOTE:** Safetech Innovations is currently operationalizing entity in the UK, a company where it holds a majority stake. Safetech Innovations also holds a minority stake in an entity to be set up in the United Arab Emirates. In the future, the results generated by these entities will be included in the company's consolidated results. In H1 2022, the UK and UAE entities were not yet operational. Therefore, all results presented in this report are on an individual level, as generated by the listed entity, Safetech Innovations SA.

## P&L ANALYSIS

In the first half of 2022, Safetech Innovations recorded total revenues of 15.3 million lei, a 16% increase compared to the same period of last year. Out of that amount, 5.2 million lei were generated in the first quarter, and 10.1 million lei were revenues generated in the second quarter.

The turnover amounted to 10.7 million lei in the first six months of 2022, a 15% increase compared to the same period of last year, and it was split between 3.4 million lei in the first quarter and 7.3 in the second quarter. In the first six months of 2022, cybersecurity services contributed 54% to the total revenue, up from 44% in H1 2021. The growth in sales of cybersecurity services is extremely important, as these sales have a higher profit compared to cybersecurity solutions. During the analyzed period, the company registered an increase in the number of recurring contracts, but also at the level of new customers, winning eight new customers in H1 2022.

The implementation of cybersecurity solutions contributed 28% to the total revenue in H1 2022, compared to 55% in H1 2021. Sales of goods contributed 18% to the revenue generated in the first half of the year, as some equipment was sold without implementation services and was accounted for as a sale of goods according to the company's accounting policies.

Revenue from the production of intangible and tangible assets increased 20% in H1 2022 compared to H1 2021, reaching 4.4 million lei, representing the equivalent of the cost of developing these assets in-house. This position represents investments in intangible assets made with European funds and the company's own funds - the development of Safetech's own product, which will be put into operation upon the completion of the project, respectively June 2023, and the cost of developing them being shown in the expenditure section. The variation of these revenues is given by the execution of the approved technical project and has no connection with the company's current activity. Safetech Innovations requested the modification of the technical project in the sense that the savings made in the framework of investments in tangible and intangible assets (IT infrastructure and security for organizational development) will be allocated for the development of additional functionalities within the SafePIC platform.

Other operating income decreased by 11%, reaching 174K lei. The significant share of these revenues represents investment subsidies transferred to income and corresponding to the depreciation recorded for the own solution (non-reimbursable funds project, completed in 2019).

Operating expenses increased 6% and reached 12.2 million lei. The largest contribution in terms of costs is represented by personnel expenses, which increased 19%, reaching 4.4 million lei. This increase is driven by the expansion of the team with four new professionals and the increase in salaries. As part of its standard policy to remain a competitive employer, the company continues to increase wages throughout the year to retain top talent, impacting personnel expenses throughout the year.

The second largest contribution to costs concerns material expenses, which registered a 44% decrease, down to 2.7 million lei, and cost of goods, which recorded an increase of 2,496%, up to 1.8 million lei. The decrease in material expenses and the increase in cost of goods are closely related because some equipment was sold without implementation services and was accounted for as a sale of goods. Other operating expenses increased 8% to 1.8 million lei; the increase being

mainly determined by the expenses incurred with the accounting transposition of the last three years according to IFRS standards to prepare the company for the transfer to the Main Market of the Bucharest Stock Exchange. The company carried out the transposition of accounting with a company specialized in the field.

Depreciation and amortization increased 10%, reaching 1.5 million lei in the first six months of 2022. This increase is also directly related to the EU research and development project, which includes a development component of the acquisition of fixed assets necessary to carry out the activity to increase the company's competitiveness (servers, laptops, furniture, monitors, as well as a process automation solution). These fixed assets were purchased and put into operation in 2021, generating monthly amortization expenses using the straight-line amortization method.

Safetech closed the first half of 2022 with an operating result of 3.1 million lei, an increase of 88% compared to the same period of 2021. The financial income reached 64K lei, an increase of 981% determined by establishing a deposit with the cash surplus, while the financial expenses were kept at the same level, 43K lei. As the financial result improved, from a loss of 37K lei to a gain of 20K lei, the gross result reached 3.1 million lei, an increase of 93% compared to the same period of last year.

Income tax increased 48%, up to 458K lei. The income tax increase was slower than the net result because the company sponsors a rehabilitation center for disabled children. The value of the sponsorship is deducted from the income tax, according to the legislation in force (in 2021, the sponsorship was deducted at the end of the year, and starting with 2022, the deduction is quarterly). Therefore, Safetech Innovations ended H1 2022 with a net profit of 2.6 million lei, more than double compared to H1 2021.

<b>PROFIT AND LOSS ACCOUNT STATEMENT (LEI)</b>	<b>H1 2021</b>	<b>H1 2022</b>	<b>Δ %</b>
Operating income	13,167,628	15,303,701	16%
Operating expenses	11,537,578	12,245,538	6%
Operational result	1,630,050	3,058,163	88%
Financial result	(37,125)	20,391	282%
Gross result	1,592,925	3,078,554	93%
<b>Net result</b>	<b>1,283,749</b>	<b>2,620,475</b>	<b>104%</b>

## **BALANCE SHEET ANALYSIS**

Total assets reached 39.8 million lei, an increase of 9% since the beginning of the year, driven by a 25% increase in intangible assets and a 31% increase in the cash position, up to 8.1 million lei.

Fixed assets increased in H1 2022 by 20%, reaching 20 million lei, determined by the 25% increase, up to 19 million lei, of intangible assets in operation and those in progress, representing the investments that are made implementing European-funded product, SafePIC. Tangible assets decreased 33%, down to 1 million lei, due to the amortization of the fixed assets in operation, while the fixed financial assets remained at the same level since the beginning of the year.

Current assets decreased in 2022 by 1%, reaching 19.8 million lei, from 19.9 million lei registered at the end of 2021. This category consists, first of all, of receivables which decreased by 15% since the beginning of the year. Trade receivables, amounting to 7.1 million lei, remained at the same level despite a growing turnover and represent invoices that have not yet been collected as of June 30<sup>th</sup>, 2022. Other assets decreased 32%, down to 4.3 million lei, representing the remaining subsidy to be collected by the company. Cash and cash equivalents have grown 31% since the beginning of the year due to the capital raised from investors in the share capital increase operation completed in January 2022. The increase in the cash position is due to the growing size of the business, good management of capital, and the high level of collection of invoices from customers.

Also, since the beginning of the year, the company has paid off bank loans, made advance payments for specific equipment, and secured the cash flow needed to run European projects, which will be recovered after the reimbursement request is approved.

Inventories increased 21%, reaching 228K lei, as at the end of H1 2022, the company purchased solutions that were to be delivered to clients in the following period and also bought equipment that was needed internally but not yet commissioned. Prepaid expenses increased 27%, reaching 93K lei.

Total liabilities decreased 14% since the beginning of the year, reaching 18.9 million lei. Current liabilities decreased 39%, reaching 4.7 million lei. This position mainly consists in other short-term liabilities, which amounted to 2 million lei, a 2% increase. These amounts mainly represent taxes and salaries owed to employees as of June 30<sup>th</sup>, 2022. Expenses to third-party suppliers have decreased 42% since the beginning of the year, down to 2.8 million lei, as the company paid its bills faster due to solid cash position, thereby building an even better commercial relationship with its suppliers and business partners. Short-term bank debt was extinguished given the company's excellent cash position, while short-term financial leasing decreased 69%, down to 13K lei. In parallel, non-current liabilities, which consist only of financial leasing, increased 18%, up to 49K lei. The company had no long-term bank debt as of June 30<sup>th</sup>, 2022.

The income in advance decreased by 1%, reaching 14.1 million lei. The income in advance is primarily from subsidies - reflecting the receipt of the EU grant received in June 2020.

Equity increased 43% since the beginning of the year, following a 326% increase in subscribed and paid-up share capital. This increase is primarily due to the share capital increase operation with a cash contribution, which ended in January 2022, as well as the partial capitalization of the share premium in the amount of 9,975,000 lei and the distribution of bonus shares to shareholders in the proportion of 3 bonus shares for each share held, transaction completed in June 2022.

<b>BALANCE SHEET (LEI)</b>	<b>31/12/2021</b>	<b>30/06/2022</b>	<b>Δ %</b>
Fixed assets	16,686,680	19,973,495	20%
Current assets	19,881,251	19,753,981	-1%
Prepaid expenses	73,409	93,030	27%
<b>Total assets</b>	<b>36,641,340</b>	<b>39,820,506</b>	<b>9%</b>
Current liabilities	7,696,189	4,719,506	-39%
Non-current liabilities	41,273	48,635	18%
Income in advance	14,258,896	14,089,797	-1%
Equity	14,644,982	20,962,568	43%
<b>Total equity and liabilities</b>	<b>36,641,340</b>	<b>39,820,506</b>	<b>9%</b>

## FINANCIAL STATEMENTS

PROFIT AND LOSS ACCOUNT (LEI)	30/06/2021	30/06/2022	Δ %
<b>Operating income, of which:</b>	<b>13,167,628</b>	<b>15,303,701</b>	<b>16%</b>
Turnover	9,290,326	10,711,016	15%
Income from the production of intangible and tangible assets	3,682,338	4,418,783	20%
Other operating income	194,964	173,902	-11%
<b>Operating expenses, of which:</b>	<b>11,537,578</b>	<b>12,245,538</b>	<b>6%</b>
Material expenses	4,728,079	2,670,679	-44%
Other material expenses	26,318	25,509	-3%
Costs of water and energy	29,166	51,335	76%
Cost of goods	71,073	1,845,220	2,496%
Personnel expenses	3,678,513	4,375,293	19%
Depreciation and amortization	1,337,316	1,475,862	10%
Other operating expenses	1,667,113	1,801,640	8%
<b>Operating result</b>	<b>1,630,050</b>	<b>3,058,163</b>	<b>88%</b>
Financial income	5,876	63,515	981%
Financial expenses	43,001	43,124	0%
<b>Financial result</b>	<b>(37,125)</b>	<b>20,391</b>	<b>282%</b>
Total revenues	13,173,504	15,367,216	17%
Total expenses	11,580,579	12,288,662	6%
<b>Gross result</b>	<b>1,592,925</b>	<b>3,078,554</b>	<b>93%</b>
Income tax/other taxes	309,176	458,079	48%
<b>Net result</b>	<b>1,283,749</b>	<b>2,620,475</b>	<b>104%</b>

## BALANCE SHEET

BALANCE SHEET INDICATORS (LEI)	31/12/2021	30/06/2022	Δ %
<b>Fixed assets, of which:</b>	<b>16,686,680</b>	<b>19,973,495</b>	<b>20%</b>
Intangible assets	15,166,466	18,952,108	25%
Tangible assets	1,517,664	1,018,837	-33%
Financial assets	2,550	2,550	0%
<b>Current assets, of which:</b>	<b>19,881,251</b>	<b>19,753,981</b>	<b>-1%</b>
<i>Inventories</i>	<b>187,953</b>	<b>228,330</b>	<b>21%</b>
<i>Receivables</i>	<b>13,478,544</b>	<b>11,403,192</b>	<b>-15%</b>
Trade receivables	7,158,463	7,135,066	0%
Other receivables	6,320,081	4,268,126	-32%
<i>Cash and cash equivalents</i>	<b>6,214,754</b>	<b>8,122,459</b>	<b>31%</b>
<i>Prepaid expenses</i>	<b>73,409</b>	<b>93,030</b>	<b>27%</b>
<b>Total assets</b>	<b>36,641,340</b>	<b>39,820,506</b>	<b>9%</b>
<b>Current liabilities, of which:</b>	<b>7,696,189</b>	<b>4,719,506</b>	<b>-39%</b>
Payables to suppliers	4,735,899	2,750,502	-42%
Bank debt	995,248	0	-100%
Debt to shareholders	0	1,415	-
Financial leasing	40,378	12,605	-69%
Other short-term liabilities	1,924,664	1,954,984	2%
<b>Non-current liabilities, of which:</b>	<b>41,273</b>	<b>48,635</b>	<b>18%</b>
Financial leasing	41,273	48,635	18%
<b>Income in advance</b>	<b>14,258,896</b>	<b>14,089,797</b>	<b>-1%</b>
Income from subsidies	14,258,896	14,089,797	-1%
<b>Total liabilities</b>	<b>21,996,358</b>	<b>18,857,938</b>	<b>-14%</b>
<b>Equity, of which:</b>	<b>14,644,982</b>	<b>20,962,568</b>	<b>43%</b>
Subscribed and paid-up share capital	3,125,000	13,300,000	326%
Subscribed and unpaid share capital	2,803,231	0	-100%
<i>Share premium</i>	2,375,000	2,865,991	21%
Legal reserves	495,001	495,001	0%
Other reserves	29,782	29,782	0%
Losses related to equity instruments	0	(9,399)	-
Profit/(loss) carried forward	30,198	1,660,718	5,399%
Profit/(loss) for the period	6,156,771	2,620,475	-57%
Distributed profit	(370,001)	0	-100%
<b>Total equity and debt</b>	<b>36,641,340</b>	<b>39,820,506</b>	<b>9%</b>

## KEY FINANCIAL RATIOS

### Current ratio as of 30.06.2022

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{19,753,981}{4,719,506} = 4.2$$

### Debt to equity ratio as of 30.06.2022

$$\frac{\text{Borrowed capital}}{\text{Equity}} \times 100 = \frac{0}{20,962,568} \times 100 = 0\%$$

$$\frac{\text{Borrowed capital}}{\text{Employed capital}} \times 100 = \frac{0}{20,962,568} \times 100 = 0\%$$

*Borrowed capital = Credits over 1 year*

*Employed capital = Borrowed capital + Equity*

### Fixed assets turnover as of 30.06.2022

$$\frac{\text{Turnover}}{\text{Fixed assets}} = \frac{10,711,016}{19,973,495} = 0.54$$



## OUTLOOK FOR 2022

On December 29<sup>th</sup>, 2021, Safetech Innovations informed the market about the availability of the 2022 Revenue & Expense Budget. The annual Ordinary General Meeting of Shareholders, which took place on April 18<sup>th</sup>, 2022, subsequently approved the 2022 budget

The budget includes the results expected to be generated by Safetech Innovations SA at the individual level, excluding any revenues generated by subsidiary companies or companies in which Safetech Innovations may hold a minority stake as of December 31st, 2022.

2022 REVENUE AND EXPENSE BUDGET	AMOUNT (RON)
<b>Total revenue</b>	<b>43,919,000</b>
Turnover	40,000,000
Intangible assets income	3,500,000
Other operating income	400,000
Financial income	19,000
<b>Total expenses</b>	<b>31,719,000</b>
<b>Gross profit</b>	<b>12,200,000</b>
Income tax	2,100,000
<b>Net profit</b>	<b>10,100,000</b>

**In the context of the positive evolution of the business in H1 2022, the management maintains the budget for 2022 as presented above.** Safetech Innovations' management expects the demand for cybersecurity services to continue its upward trend in H2 2022, which will contribute to the growth of the company's turnover, as well as profitability.

## KEY RISKS FOR H2 2022

**RISK RELATED TO BUSINESS PLAN** – Safetech operates in what can be considered niche market, especially in Romania. The company aims for sustainable growth, based primarily on legislative changes in the European Union, which will require companies in important sectors of activity, such as energy, utilities, critical infrastructure, or the financial-banking sector, to implement strict cybersecurity measures. However, in the past, the entry into force of such laws has been postponed in Romania, and the management cannot predict or influence such situations in the future, which may have a direct impact on the realization of forecasts. Currently, in Romania there are two important regulations that impact the cybersecurity market. These are: the law transposing the Directive on network and information security, the first European legislation on cybersecurity that provides legal measures to stimulate the general level of cybersecurity in the EU, which was recently transposed into Romanian law, and the Law on Cybersecurity and Defense.

**RISK RELATED TO KEY EMPLOYEE / STAFF** – the success and ability to deliver projects to clients depends to a large extent on staff skills, motivation, and loyalty. The Romanian IT market is very competitive and there are risks that employees may leave the company. To manage these risks, Safetech has adopted a number of measures: offering a competitive compensation package and promotion opportunities, constant recruitment even if there are no ongoing projects just to always be able to cover the growing demand from customers. In addition, the company actively recruits IT specialists at the beginning of their careers, offering them training and development opportunities. Due to this aspect, the share of salaries in the general costs of carrying out the activity is the most significant, but this helps the company to maintain its competitiveness. However, it is not guaranteed that Safetech will always be able to find the necessary number of qualified staff, especially in the field of ethical hacking, which is extremely niche and requires very specific skills.

**RISK ASSOCIATED WITH POLITICAL AND MILITARY INSTABILITY IN THE REGION** – Political and military instability in the region, such as the invasion of Ukraine by the Russian Federation and the subsequent war in Ukraine, can lead to deeply unfavorable economic conditions, social unrest, or at worst, a military confrontation in the region. The effects are largely unpredictable but may include a decrease in investments, significant currency fluctuations, increases in interest rates, reduce availability of credit, trade, and capital flows, and increases in energy prices. These and other unforeseen adverse effects of the regional crises could have a material adverse effect on the Company's business, prospects, results of operations, and financial position.

**COMPETITION RISK** - the entry of new competitors on the market, especially from outside Romania, will intensify the competition and will put pressure on the activity carried out by the company, with the risk of registering a decrease in profit and even its insolvency.

**RISK OF REPUTATION LOSS** - is a risk inherent in the company's activity, the reputation being particularly important in the business environment, especially in its field of activity, cybersecurity. Reputation risk is inherent in Safetech's business. The ability to retain and attract new customers also depends on the recognition of the Safetech brand and its reputation for the quality of services offered on the market. A negative public opinion about the company could result from real or perceived practices in the cybersecurity market in general, such as negligence during the provision of services or even from the way Safetech operates or is perceived to operate.

**CREDIT RISK** – this is the risk that a third party natural or legal person will not fulfil its obligations under a financial instrument or under a client contract, thus leading to a financial loss. The Company is exposed to credit risk from its operating activities and from its financial activities, including deposits with banks and financial institutions, foreign exchange transactions and other

financial instruments. The company manages this risk by carefully selecting customers and having a strict procedure for documenting orders and providing services or delivering goods.

#### **OTHER RISKS**

The risks presented in this section do not include all those risks associated with the issuer's business. In aggregate, there may be other risk factors and uncertainties not known to the Company at the time of writing which may change the issuer's actual results, financial conditions, performance, and future performance and may cause the Company's share price to decline. Investors should also carry out the necessary due diligence to develop their own assessment of the investment opportunity.

# DECLARATION OF THE MANAGEMENT

Bucharest, September 5<sup>th</sup>, 2022

I confirm to the best of my knowledge that the unaudited individual financial results for the six-month period ended June 30<sup>th</sup>, 2022, give a true and fair view of Safetech Innovations' assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Director's Report gives a true and fair view of important events during the first six months of the 2022 and their impact on the company's financial statements.

**Victor Gânsac**

President of the Board of Directors

Safetech Innovations SA