

In compliance with the requirements set forth in MAB CIRCULAR 3/2020, the Corporations Act and the Commercial Code, on 30 September 2021 the Board of Directors of the trading company FacePhi Biometría, S.A. drew up the consolidated interim financial statements for the period ended 30 June 2021, issued on 49 pages printed on both sides and numbered from 1 to 49, together with the management report for the same period drawn up on 10 pages numbered from 1 to 10.

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

SIGNATORIES

Juan Alfonso Ortiz Company
Chairman-Joint Managing Director

Fernando Orteso de Travesedo
Vice-Chairman

Juan Alfonso Ortiz Company
Board-Member Secretary

Pablo Reig Boronat
Independent Director

David J. Devesa Martínez
Vice-Board-Member Secretary

FACEPHI BIOMETRÍA, S.A. and Subsidiaries

Consolidated Interim Financial Statements and Management Report for the half year
ended on 30 June 2021



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Explanatory notes to the interim financial statements as at 30 June 2021

Consolidated balance sheet as at 30 June 2021			
(In Euros)			
ASSETS	NOTES TO THE REPORT	30/06/2021	31/12/2020
A) NON-CURRENT ASSETS		5,385,376	4,901,555
I. Intangible fixed assets	4	4,295,749	4,058,442
II. Tangible fixed assets	5	377,351	189,325
IV. Long-term investments in group and associated companies		0	50,617
V. Long-term financial investments.	7.1	259,814	150,709
VI. Deferred tax assets	10.4	452,462	452,462
B) CURRENT ASSETS		11,460,359	11,067,195
III. Trade debtors and other accounts receivable	7.3	4,784,532	4,396,624
1. Trade accounts, sales and provision of services		4,609,675	4,153,331
2. Other debtors		174,857	243,293
V. Short-term financial investments	7.3	1,677,081	517,243
VI. Short-term accruals		489,915	173,623
VII. Cash and cash equivalents	7.4	4,508,833	5,979,705
TOTAL ASSETS		16,845,739	15,968,750

Explanatory notes to the interim financial statements as at 30 June 2021

Explanatory notes 1 to 16 form an integral part of these consolidated financial statements as at 30 June 2021.

NET EQUITY AND LIABILITIES	NOTES TO THE REPORT	30/06/2021	31/12/2020
A) NET EQUITY		7,633,339	7,017,023
A-1) Capital and reserves	8.1	7,458,033	6,811,903
I. Capital		605,373	577,141
II. Issue premium		10,074,525	7,222,153
III. Reserves		(990,467)	1,208,969
IV. (Parent Company's shares and holdings)		(546,439)	(341,760)
VI. Profit (loss) of the half year attributable to the Parent Company		(1,684,958)	(1,854,599)
A-2) Restatement for value changes	8.2	9,006	0
II. Conversion differences		9,006	0
A-3 Grants, donations and bequests received	8.3	166,300	205,120
B) NON-CURRENT LIABILITIES		5,738,449	6,149,344
I. Long-term provisions		36,904	26,494
II. Long-term debts	9.3	5,643,109	6,054,477
2. Debts with credit institutions		5,631,581	6,054,477
3. Financial leasing creditors		11,528	0
IV. Deferred tax liabilities	10.4	58,435	68,373
C) CURRENT LIABILITIES		3,473,949	2,802,383
III. Short-term debts		937,445	985,270
2. Debts with credit institutions	12.3	895,768	983,672
3. Financial leasing creditors		22,545	0
4. Other financial liabilities		19,132	1,598
V. Trade creditors and other accounts payable	12.3	1,572,737	1,058,154
1. Suppliers		301,443	238,629
4. Other creditors		1,271,294	819,526
VI. Short-term accruals		963,767	758,958
TOTAL NET EQUITY AND LIABILITIES		16,845,736	15,968,750

Explanatory notes to the interim financial statements as at 30 June 2021

Consolidated Income Statement for the half year ended on 30 June 2021			
(In euros)			
	NOTES TO THE REPORT	(Debit) Credit	
		30/06/2021	31/12/2020
A) ONGOING OPERATIONS			
1. Net turnover		4,149,864	7,266,240
b) Provision of services	11.a	4,149,864	7,266,240
3. Work performed by the Group for its assets	11.c	754,371	1,110,451
4. Supplies	11.b	(851,700)	(1,403,777)
a) Consumables		0	(87,409)
c) Works performed by other companies		(851,700)	(1,316,367)
5. Other operating revenue		3,629	10,004
a) Non-core and other current operating revenue		3,629	10,004
6. Personnel expenses	11.d	(2,465,782)	(3,186,468)
a) Wages, salaries and accessory exp.		(2,106,634)	(2,814,310)
b) Social Security		(359,148)	(372,158)
7. Other operating expenses	11.e	(2,300,693)	(3,424,287)
a) Losses, impairment and variation of provisions for trade transactions	7.3	(107,117)	(383,851)
b) Other current operating expenses		(2,193,576)	(3,040,436)
8. Amortisation of non-financial and other fixed assets	4 and 5	(597,900)	(839,632)
9. Allocation of subsidies for non-financial and other fixed assets	8.2	51,760	103,520
14. Other outcomes		(14,169)	(793)
A.1) OPERATING PROFIT (LOSS)		(1,270,620)	(364,742)
15. Financial revenue		644	173,777
b) From negotiable securities and other financial instruments		644	173,777
16. Financial expenses		(257,490)	(130,097)
17. Variation in the fair value of financial instruments		(380,604)	(943,978)
a) Trading portfolio	8.1a)1	(380,604)	(943,978)
18. Exchange differences		212,811	(454,077)
b) Other exchange differences	11.g	212,811	(454,077)
19. Impairment and outcome of disposal of financial instruments		201,434	(282,697)
a) Impairment and losses	8	201,434	(282,697)
A.2) FINANCIAL OUTCOME		(223,207)	(1,637,072)
A.3) PROFIT (LOSS) BEFORE TAXES		(1,493,826)	(2,001,814)
24. Corporation tax	10,3	(191,132)	147,214
A.4) PROFIT/LOSS FOR FIN. YR FROM ONGOING OPERATIONS		(1,684,958)	(1,854,599)
B) DISCONTINUED OPERATIONS		0,00	0,00
25. Pre-tax profit (loss) from discontinued operations for the half year		0,00	0,00
A.5) CONSOLIDATED PROFIT (LOSS) OF FIN. YR		(1,684,958)	(1,854,599)
Profit (loss) attributable to the Parent Company		(1,684,958)	(1,854,599)
Profit (loss) attributable to external partners		0	0

Explanatory notes 1 to 16 form an integral part of these consolidated financial statements as at 30 June 2021.

Explanatory notes to the interim financial statements as at 30 June 2021

Consolidated Statement of Changes in Net Equity A) Consolidated statement of recognised income and expenditure for the half year ended on 30 June 2021 (In Euros)			
	Notes to the Report	30/06/2021	31/12/2020
A) CONSOLIDATED PROFIT (LOSS) OF FIN. YR		(1,684,958)	(1,854,599)
Income and expenditure charged directly to net equity			
III. Grants, donations and bequests received	8.3		52,890
VI. Conversion differences	8.2	12,007	
VII. Tax effect	10.4	(3,002)	(13,223)
B) TOTAL CONSOLIDATED INCOME AND EXPENDITURE CHARGED DIRECTLY TO NET EQUITY		9,006	39,668
Transfer to the consolidated Income Statement			
X. Grants, donations and bequests received	8.3	(51,760)	(103,520)
XIII. Tax effect	10	12,940	25,880
C) TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT		(38,820)	(77,640)
TOTAL CONSOLIDATED INCOME AND EXPENDITURE RECOGNISED (A + B + C)		(1,714,772)	(1,892,571)
Total income and expenditure attributable to the Parent Company		(1,714,772)	(1,892,571)
Total income and expenditure attributable to external partners			

Explanatory notes 1 to 16 form an integral part of these consolidated financial statements as at 30 June 2021.

Explanatory notes to the interim financial statements as at 30 June 2021

B) Statement of Changes in Net Equity for the half year ended on 30 June 2021												
(in Euros)												
	Capital	Other Parent Company reserves				Profit (loss) from previous financial years	By full consolidation	Profit (loss) of the half year attributable	ACV-Conversion differences	Grants, donations and requests	Reserves in consolidated companies	TOTAL
		Issue premium	Statutory reserves	Other reserves	(Treasury stock)							
Initial balance as of 01.01.2020	642,788	2,812,802	108,663	501,841	-240,354	-788,942				243,992	3,170,253	
I. Total consolidated recognised income and expenditure							-1,854,599		-37,972		-1,892,571	
II. Transactions with partners or proprietors												
1. Capital increases	34,375	3,465,607		-126,682							-3,373,300	
2. (-) Capital reductions												
3. Conversion of financial liabilities to net equity (derived from equity warrants Note 11.1)		943,944									943,944	
4. (-) Allocation of dividends												
5. Net transactions with Parent Company's treasury stock				235,063	-101,405						133,657	
IV. Other changes in Net Equity				490,394		798,042					1,288,436	
Final balance as of 31.12.2020	577,141	7,222,163	108,663	1,100,416	-341,780		-1,854,599		205,120		7,017,023	
I. Restatement for changes of criteria 2019+												
II. Restatement for errors 2019												
Initial balance as of 01.01.2021	577,141	7,222,163	108,663	1,100,416	-341,780		-1,854,599		205,120		7,017,023	
I. Total consolidated recognised income and expenditure							-1,684,958		-38,820		-1,723,778	
II. Transactions with partners or proprietors												
1. Capital increases	28,232	2,471,760		-97,500							2,402,493	
2. (-) Capital reductions												
3. Conversion of financial liabilities to net equity (derived from equity warrants - Note 9.1)		380,611									380,611	
4. (-) Allocation of dividends												
5. Net transactions with Parent Company's treasury stock				-42,738	-204,680						-247,418	
III. Addition of business units to consolidation perimeter (note 1.c)							-204,599		9,006		-195,593	
IV. Other changes in Net Equity						-1,682,335	-172,265	1,854,599				
Final balance as of 30.06.2021	805,373	10,074,626	108,663	880,177	-548,438	-1,832,335	-378,383	-1,834,963	9,006	188,300	7,833,338	

Explanatory notes 1 to 16 form an integral part of these consolidated financial statements as at 30 June 2021.

Explanatory notes to the interim financial statements as at 30 June 2021



Consolidated Cash Flow Statement for the half year ended on 30 June 2021		
(In Euros)		
	30/06/2021	31/12/2020
A) Operating cash flow		
1. Profit (loss) for the half year before tax	-1,483,828	-1,828,548
2. Restatements of outcome:	1,086,813	2,438,821
a) Amortisation of fixed assets (+)	597,900	839,632
b) Value restatements for impairment (+/-)	107,117	635,902
c) Variation in provisions (+/-)	10,410	20,819
d) recognition of subsidies	-51,760	-103,520
g) Financial revenues (-)	-644	-173,466
h) Financial expenses (+)	257,490	129,182
i) Exchange differences (+/-)	-235,212	147,327
j) variation in the fair value of financial instruments (+/-)	380,611	943,944
3. Changes in working capital	-18,465	880,758
b) Debtors and other accounts receivable (+/-)	-396,180	3,163,853
c) Other current assets (+/-)	-316,291	-101,887
d) creditors and other accounts payable (+/-)	489,207	-1,989,335
e) Other current liabilities (+/-)	204,809	-91,874
4. Other operating cash flows	-247,260	-167,877
a) Interest paid (-)	-247,893	-119,746
c) Interest collected (+)	644	167,027
d) Payment (collection) of corporation tax (+/-)		-205,158
5. Operating cash flow (+/-1 +/-2 +/-3 +/-4)	-885,618	1,433,153
B) Investment cash flow		
6. Investment outlays (-)	-2,713,948	-2,664,636
a) In group and associated companies		-157,560
b) Intangible fixed assets	-40,132	-2,130,862
c) Tangible fixed assets	-933,948	-163,283
e) Other financial assets	-1,739,868	-206,431
g) Other assets		-6,500
7. Collection for divestment (+)	497,287	
e) Other financial assets	497,287	
8. Investment cash flow (7-6)	-2,216,661	-2,664,636
C) Financing cash flow		
9. Collection and outlays for equity instruments	2,120,323	2,677,618
a) Issue of equity instruments	2,369,993	3,331,072
c) Acquisition of treasury stock	-412,263	-1,757,521
d) Disposal of treasury stock	163,193	1,051,178
e) Grants, donations and bequests received		52,890
10. Collection and payments for financial liability instruments	-522,240	3,953,523
a) Issue		7,045,534
2. Debts with financial institutions (+)		
b) Repayment and amortisation of		-3,087,833
2. debts with credit institutions(-)	-520,397	
4. Others (-)	-1,843	-4,178
11. Outlays for dividends and remuneration of other equity instruments		
12. Financing cash flows (+/-9 +/-10-11)	1,688,882	6,631,142
D) Effect of exchange rate variations	-159,275	185,890
E) Net increase/decrease in cash and cash equivalents (+/-A +/-B +/-C +/-D)	-1,470,872	5,585,550
Cash and cash equivalents at start of the half year	5,979,705	394,156
Cash and cash equivalents at end of the half year	4,508,833	5,979,705

Explanatory notes 1 to 16 form an integral part of these consolidated financial statements as at 30 June 2021.

Explanatory notes to the interim financial statements as at 30 June 2021
1. Nature and main activities of the Group
a) Controlling interest

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

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

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

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

Therefore, the Group is subject to the control and supervision regime provided for under Regulation (EU) 596/2014 on market abuse, the consolidated text of the 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 undertakings

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 an undertaking 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 within Facephi Group's consolidation perimeter:

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

The following was the equity position of the two companies obtained from the unaudited accounting records as of 30 June 2021 and 31 December 2020:

Explanatory notes to the interim financial statements as at 30 June 2021

	FacePhi APAC Ltd		Ecercic, S.L.	
	6/2021	12/2020	6/2021	12/2020
Called capital	81,264	81,264	8,867	8,867
Issue premium	---	---	703,365	703,365
Reserves	(275,817)	(126,007)	(327,603)	(389,892)
Profit (loss) for the financial year	58,269	(149,819)	(10,543)	62,289
Conversion differences	12,007	(12,625)	---	---
Subsidies	---	---	75,155	88,826
Net equity	(124,277)	(207,178)	449,240	473,454
% holding	100%	100%	100%	100%
Theoretical value of holding	---	---	449,240	473,454

c) Companies excluded from the consolidation perimeter

In accordance with the regulations applicable to drafting of the consolidated annual financial statements, Facephi's Korean subsidiary, Apac Ltd. was excluded from the consolidation perimeter on as of 31 December 2020 in view of the insignificant size and volume of the commercial transactions in favour of the Group's interest. However, all of the losses generated by this company in its first year have been offset in the consolidated balance sheet, consolidated equity and in the consolidated results through the impairment applied by the Group's Directors in relation to various financial assets by 282,697 euros, recognised under the head of "Impairment and outcome of disposals of financial instruments" in the accompanying consolidated income statement (see note 7).

On 30 June 2021 the Parent Company's governing body decided to incorporate the Korean subsidiary into the consolidation perimeter by the full consolidation method effective as of 1 January 2021.

d) Business combinations

Acquisition of Ecercic Digital Solutions, S.L.

On 20 April 2020 FacePhi Biometría, S.A. acquired 100% of the shares of the trading company Ecercic Digital Solutions, S.L. – until then a technology supplier – for the sum of 2 million euros. Management believes that this transaction achieves the strategic objective of fostering the “digital onboarding” service in its commercial portfolio and consolidating its leadership in the field of identification and authentication on both the domestic and international markets. The transaction was settled by a cash payment of 1,159,999 euros and assignment of 164,706 shares of the Company's treasury stock valued at 840,001 euros according to their recognised fair value (note 8.1.b).

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

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

Therefore, the acquisition price as at 31 December 2020 implies the existence of an implicit goodwill fund amounting to 1,627,194 euros that has been attributed to the technology provided by said company for development of the digital “on boarding” solutions that the Group markets at the present time.

2. Reporting criteria

Explanatory notes to the interim financial statements as at 30 June 2021**a) Regulatory framework for financial reporting applicable to the Company**

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

- the following jurisprudence: the 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 and its subsequent amendments that adopts the General Accounting Plan and
- Royal Decree 1159/2010 of 17 September that approves the rules for drafting consolidated annual financial statements in all aspects that do not contradict other provisions of the financial information regulatory framework that
- may be applicable.

b) True and fair view

These consolidated interim financial statements have been drawn up on the basis of the accounting records of the Parent Company and are submitted in accordance with the rules of the Spanish General Accounting Plan adopted by Royal Decree 1514/2007 as amended by R.D. 1159/2010 and R.D. 602/2016 in order to present a true and fair view of the financial position and outcomes of the Group's business activity. The consolidated statement of cash flows has been drawn up in order to accurately report on the origin and use of the Group's monetary assets in the form of cash and cash equivalents.

The attached interim financial statements were drawn up in order to comply with the BME Growth's requirement to submit interim financial information as of 30 June 2021, specifically in Circular 3/2020.

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

c) Non-mandatory accounting criteria

No non-mandatory accounting principles have been applied. Moreover, when drawing up these consolidated interim financial statements the Board of Directors of the Parent Company has taken all the mandatory accounting principles and standards that could have a significant effect on said financial statements into account. No mandatory accounting criterion has been ignored.

d) Critical aspects of assessing and estimating uncertainty

The Company's Directors are responsible for the information contained in the explanatory notes and company management was required to make certain estimates and assumptions 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:

- Impairment of non-current assets other than financial assets requires making estimations to determine their recoverable value in order to assess potential impairment. To determine this recoverable value, the Parent Company's Directors estimate the expected future cash flows of the assets or the cash-generating units of which they are 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 years while the discount rates depend on the interest rate plus the risk premium (see note 3.3).

Explanatory notes to the interim financial statements as at 30 June 2021

- 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 profits that enable application of these assets. Significant estimates must be made to determine the amount of deferred tax assets that can be recognised taking the amounts and dates on which future taxable profits will be obtained and the reversal period of taxable temporary differences into account. As of 30 June 2021 the Group has recognised deferred tax assets for a total of 452,462 euros associated with temporary differences, tax bases pending compensation and deductions pending application (see note 10).

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

e) Going concern

During the period of six months ended 30 June 2021 and during the 2020 financial year the group suffered significant consolidated losses before taxes of 1.7 million and 1.9 million euros respectively. These losses were mainly due to the increment in the Group's workforce and the financial risks deriving from issue of own equity instruments to address our financing needs (see note 8.1).

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

However, as at 30 June 2021 the Group had generated consolidated EBITDA of -565,603 euros (+858,741 euros in 2020).

Consolidated net equity stood at 7.6 euros as at 30 June 2021, an increase mainly derived from the capital increase transactions conducted during the same financial year (see note 8.1).

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

f) Comparison of the information

In addition to the figures for the six-month period ended 30 June 2021, for comparative purposes the Parent Company's Directors present those for the previous year ended 31 December 2020 that form part of the consolidated annual financial statements for the 2020 financial year approved by the General Meeting held on 28 June 2021 with each item on the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows and the quantitative information required in the notes to the consolidated interim financial statements.

g) Changes in accounting criteria and correction of errors

As of 30 June 2021 the Company has not made any restatement for changes of accounting criteria with respect to those applied in the 2020 financial year and nor has it been necessary to rectify any error from said financial year or from previous periods.

3. Recognition and valuation rules

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

Explanatory notes to the interim financial statements as at 30 June 2021**3.1 Consolidation principles**

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

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

Temporary homogenisation.

Consolidated financial statements have been drawn up as at the same date and for the same period as the annual financial statements of the parent company. The inclusion of companies with different financial year's end dates are consolidated on the basis of interim financial statements drawn up as at the consolidated balance sheet date.

Valuation homogenisation

Assets, liabilities, income, expenditure and other items in the annual financial statements of the Group companies have been valued following uniform methods. Asset or liability and income or expenditure items that have been valued by methods other than those used for consolidation have been revalued for the purposes of consolidation by methods identical to those applied in the consolidation perimeter.

Aggregation

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

Investment-equity elimination.

The book values representing the equity instruments of the subsidiary directly or indirectly owned by the parent company are offset with the proportional part of the equity items of the aforesaid subsidiary attributable to these holdings. In general, this compensation will be made on the basis of the values resulting from applying the acquisition method as set forth above. In subsequent consolidations, investment-equity elimination will be capitalised under the same terms as those established for the acquisition date. The excess or shortfall of the equity generated by the dependent company from the acquisition date will be reported in the consolidated balance sheet under the head of reserves or restatements due to value changes in accordance with their nature. The part of the excess or shortfall attributable to the external partners must be entered in the "External partners" item.

Holdings by external partners.

There are no external partners as of 31 December 2020

Elimination of intragroup items

Credits and debts, income and expenditure and cash flows between Group companies are completely 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 whose functional currency 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 are entered with a positive or negative sign, as required, in the net equity of the consolidated balance sheet in the Conversion Differences account, deducting the part that

Explanatory notes to the interim financial statements as at 30 June 2021

corresponds to non-controlling interests that appears in the Non-controlling Interests account under Net Equity on the consolidated balance sheet.

Restatement of goodwill and 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 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.

The accumulated conversion differences since 1 January 2004 (the date of transition to IFRS) recognised in equity are charged to the consolidated income statement as a component of the earning or loss from the disposal at the time of full or partial disposal or return of contributions of an undertaking the functional currency of which is not the euro.

3.2 Business combinations

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

Mergers, spin-offs and non-monetary contribution of a business between Group companies are recognised by valuing the equity components acquired at their book values in the consolidated annual financial statements of the ultimate Spanish parent company on the date on which the transactions took place. If consolidated interim financial statements are not drawn up the business combinations are valued at the amounts applicable before the transaction in the individual annual financial statements of the contributor. Difference that may arising are added to or deducted, as appropriate, from consolidated 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 undertaking or undertakings.

3.3 Intangible assets

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

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

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

a) Computer application development expenses

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

- Existence of a specific and individualized project that enables reliable assessment of the disbursement attributable to completion of the project.
- 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 both for cases in which the project is aimed at direct operation and for sale of the

Explanatory notes to the interim financial statements as at 30 June 2021

resulting product to a third party if there is a market for the same once the project is concluded.

- The financial-commercial profitability of the project is reasonably assured.
- Financing to ensure completion of the projects is reasonably assured in addition to the availability of sufficient and suitable technical or other resources to finish the project and to use or sell the resulting intangible asset.
- The company intends to conclude development of the intangible asset in question and then to use or sell it.

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

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

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

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

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

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

As of 30 June 2021 the Parent Company estimates that there is no indication of impairment of intangible assets since the directors confidently expect the business plan to be fulfilled. This is evidence that, based on their forecasts, the total intangible assets and the tax credits will be fully recovered in coming years.

b) Computer applications

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

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

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

c) Intellectual property

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

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

3.4 Property, plant and equipment

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

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

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

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

The value of an asset is immediately reduced to its recoverable amount whenever its book value is higher than its estimated recoverable amount (Note 3.3).

Gains 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 profit and loss account.

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. If so, their recoverable values are estimated.

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

Valuation restatements for impairment and reversal of the same are recognised in the income statement. Except for those associated with goodwill, valuation restatements for impairment are reverted when the circumstances that gave rise to them cease to exist. 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.

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

3.6 Financial assets**Classification and Valuation****Loans and accounts receivable:**

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

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

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

Impairment of financial assets**a) Debt instruments:**

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

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

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

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

b) Equity instruments

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

Explanatory notes to the interim financial statements as at 30 June 2021

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

Cancellation of financial assets

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

Interest and dividends received from financial assets

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

For these purposes, taking into account the maturity of the financial assets, the sum of the 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 be that obtained by applying the contractual interest rate of the financial instrument.

3.7 Financial liabilities**Classification and Valuation****Debits and payables**

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

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

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

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

Cancellation

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

Provided that they have substantially different conditions, the original financial liability is written off and the new financial liability is recognised in its place when an exchange of debt instruments

Explanatory notes to the interim financial statements as at 30 June 2021

occurs. A substantial amendment of the current conditions of a financial liability is recognised in the same way.

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

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

3.8 Net equity

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

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

Acquisition of equity instruments by the Parent Company is recognised separately at the acquisition cost as a reduction of the equity on the balance sheet. No result is recognised in the income statement for transactions capitalised with treasury stock.

Transaction costs related to own equity instruments 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 options issue. The fixed-for-fixed swap rule is met if the only possible settlement of the instrument is by delivery of a fixed number of treasury shares for a fixed price.

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

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

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

At the end of the year ended 30 June 2021 there were no options issues pending maturity and therefore there is no derivative recognised on the balance sheet on said date.

3.9 Cash and cash equivalents

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

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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 balance sheet are classified into current or non-current. For these purposes, current assets or liabilities are those that meet the following criteria:

- Assets are classified as current when they are expected to be capitalised, are held for sale or consumption in the course of the normal operating cycle, are held fundamentally for trading purposes, are expected to be capitalised within twelve months after the closing date or are composed of cash and cash equivalents except in cases where they cannot be exchanged or used to settle a liability within at least the twelve months following the accounting 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 individualized 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 Corporate Tax, the consolidated tax expense is obtained by adding the expenses that the consolidated companies have estimated for said item, corrected by the consolidation restatements. Said expenses are calculated on the companies' individual economic results corrected by tax criteria and taking any applicable bonuses and deductions into account.

Therefore, the corporation tax expense (income) for the financial year is calculated 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.

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Corporation tax is recognised in the consolidated income statement except when it refers to transactions recognised directly in equity (in which case the associated tax is also recognised in equity) and in business combinations (in which case it is recognised in the same accounts the other assets of the acquired 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 tax base of an asset is considered to be the amount attributed to it for tax purposes.

The fiscal effect of temporary differences between the fiscal base and the book value of an asset or liability is included under head of "deferred tax assets" or "deferred tax liabilities" (as appropriate) on the 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 company assesses the recognised deferred tax assets and any that have not been previously recognised on the closing date of each financial year. On the basis of this assessment the company will then write off a previously-recognised asset if its recovery is no longer probable, or to enter any previously unrecognised deferred tax asset provided that it is probable that the company will have future taxable earnings against which it can be applied.

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

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

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

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

As of 30 June 2021 there are no incentive plans or compensation policies for employees and/or managers the payment and settlement of which is made using own equity instruments.

3.14 Provisions and contingencies

Provisions for responsibilities, restructuring costs and litigation are recognised when they arise from a present legal or constructive obligation as a result of past events and it is probable that an outflow

Explanatory notes to the interim financial statements as at 30 June 2021

of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions for restructuring include penalties for cancellation of the lease and severance payments to employees. Provisions for future operating losses are not recognised.

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

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

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

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

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

3.15 Recognition of revenue from the provision of services

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

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

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

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

3.16 Leases**When the Group is the lessee – Operating leases**

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

3.17 Foreign currency transactions

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

3.18 Equity items of an environmental nature

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

The directors consider that as of 30 June 2021 there are no contingencies of an environmental nature that could significantly affect the Group's equity, financial position or the consolidated results, and therefore there are no provisions or contingencies recognised under this head.

4 Intangible fixed assets

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

	Euros				
	Balance at 31.12.20	Addition for bus. comb	Additions	Transfers	Balance at 30.06.21
Cost:					
Research	56,958	---	---	---	56,958
Development	930,592	---	679,371	(1,564,761)	45,203
Intellectual property	54,447	---	7,984	---	62,431
Computer applications	5,388,582	---	107,148	1,564,761	7,060,491
Total Cost	6,430,580	---	794,503	---	7,225,083
Accumulated amortisation:					
Research	(56,958)	---	---	---	(56,958)
Development	---	---	(2,279)	---	(2,279)
Intellectual property	(4,133)	---	(4,392)	---	(8,525)
Computer applications	(2,311,047)	---	(550,525)	---	(2,861,573)
Total Accumulated Amortisation	(2,372,138)	---	(557,196)	---	(2,929,334)
Net book value	4,058,442				4,295,749

	Euros				
	Balance at 01.01.20	Addition for bus. comb	Additions	Transfers	Balance at 31.12.20
Cost:					
Research	56,958		---	---	56,958
Development	594,556		930,592	(594,556)	930,592
Intellectual property	11,378		43,070	---	54,447
Computer applications	2,425,098	2,054,150	314,779	594,556	5,388,582
Total Cost	3,087,989	2,054,150	1,288,441	---	6,430,580
Accumulated amortisation:					
Research	(56,958)		---	---	(56,958)
Development	---		---	---	---
Intellectual property	(1,245)		(2,888)	---	(4,133)
Computer applications	(1,419,222)	(78,061)	(813,764)	---	(2,311,047)
Total Accumulated Amortisation	(1,477,425)	(78,061)	(816,652)	---	(2,372,138)
Net book value	1,610,565				4,058,442

a) Development

The Group continues to implement its investment policy and to improve its current facial biometric applications. The capitalised expenses during the fiscal period ended 30 June 2021 correspond to the following milestones:

Euros

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Description: Project 2020	6/2021	12/2020
Improvements Software Development Kit (SDK) F	---	930,592
Platform as a service (PAAS)	45,203	---
Total	45,203	930,592

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

The developments capitalised as of 30 June 2021 and 31 December 2020 mainly consisted of security improvements against fraud, interactive guides for the user when recording and tools for integration of technology in multiplatform applications. After conducting tests and trials the Group considers that the developments are operative and have been brought to a successful conclusion and will be placed on the market in 2021.

b) Intellectual property

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

European Union Trademark certificates with registration numbers MUE 017896710 LookΦ MUE 017948110 inPhinite; MUE 017948113 4Phingers; MUE 017948116 Phivox; MUE 017948119 SignPhi and EUTM 017948878 SelphiID have also been obtained. Entry into force of Act 1/2019 of 20 February, the Business Secrets Act, determines 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. The Company currently owns the property rights of the following registered trademarks that constitute assets:

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

c) Computer applications

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

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

As of 30 June 2021 there are fully amortised intangible fixed assets in accordance with the following breakdown.

Euros	
06/2021	12/2020

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Research	56,958	56,958
Computer applications	1,046,216	1,045,088
Total cost	1,103,175	1,102,047

d) Other information

The Group has not recognised subsidies in relation to intangible assets in the half-year ended 30 June 2021. However, in previous years the Group companies recognised subsidies for capitalised R&D expenses for a gross sum of 180,390 euros (see note 8.3).

The Group currently has no firm investment commitments to third parties nor plans to sell intangible assets.

No financial expenses have been capitalised and there are no intangible 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.

e) Non-current asset impairment test

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

Key assumptions for calculating value in use

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

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

Sensitivity to changes in hypotheses

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

5. Tangible fixed assets

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

	Balance at 31.12.20	Addition for bus. combs	Additions	Dereg.	Balance at 30.06.21
Cost:					

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Technical facilities	1,347	---	---	---	1,347
Other facilities	32,167	---	---	---	32,167
Furnishings	74,986	---	6,503	---	81,489
Information processing equipment	139,062	51,854	173,074	---	363,989
Other tangible fixed assets	9,213	---	---	---	9,213
Total cost	256,773	51,854	179,577	---	488,204
Accumulated amortisation:					
Other facilities	(3,628)	---	(1,608)	---	5,237
Furnishings	(22,079)	---	(3,300)	---	(25,380)
Information processing equipment	(38,303)	(2,701)	(35,153)	---	(76,156)
Other tangible fixed assets	(3,438)	---	(643)	---	(4,080)
Total accumulated amortisation	(67,448)	(2,701)	(40,704)	---	(110,853)
Net book value	179,285			377,351	

Profit (loss) at 31.12.2020

	Balance at 01.01.2020	Addition for bus. combs	Additions	Dereg.	Balance at 31.12.20
Cost:					
Technical facilities	---	---	1,347	---	1,347
Other facilities	3,366	---	28,801	---	32,167
Furnishings	37,898	---	37,088	---	74,986
Information processing equipment	37,690	10,040	91,332	---	139,062
Other tangible fixed assets	4,498	---	4,715	---	9,213
Total cost	83,451	10,040	163,283	---	256,773
Accumulated amortisation:					
Other facilities	(1,831)		(1,797)		(3,628)
Furnishings	(17,184)		(4,896)		(22,079)
Information processing equipment	(23,023)		(15,280)		(38,303)
Other tangible fixed assets	(2,430)		(1,008)		(3,438)
Total accumulated amortisation	(44,468)		(22,980)		(67,448)
Net book value	38,983			179,285	

Additions for investments in tangible fixed assets during the half year ended 30 June 2021 mainly correspond to I.T. equipment for newly recruited personnel.

The main additions in 2020, including computer equipment, were for furnishings and other facilities associated with extension of the offices (note 5.d).

a) Assets fully written off:

Fully depreciated property, plant and equipment amounts to 12,387 euros as of 30 June 2021 (identical to the figure for 31 December 2020).

b) Insurance:

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

c) Other information

Explanatory notes to the interim financial statements as at 30 June 2021

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

As of 30 June 2021 and 31 December 2020 there are no firm purchase or sale commitments for property, plant and equipment.

d) Operating leases

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

Minimum future payments	30.06.21	31.12.20
Up to one year	111,178	117,886
Between one and five years	67,293	101,447
More than five years	---	---
Total	178,471	219,334

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

Description of the lease	Expense 06/2021	Expense for fin. year 12/2020	Due date	Renewal	Price update criteria
Offices, garages and storage	35,930	61,740	06/05/2025	N/A	YES (CPI)
Computer hardware	416	763	21/05/2024	N/A	NO
Computer hardware	796	3,416	18/06/2022	N/A	NO
Computer hardware	550	720	18/12/2023	N/A	NO
Transportation elements	6,674	17,948	03/01/2022	N/A	NO
Transportation elements	22,619	63,026	08/01/2023	N/A	NO
Total	66,984	147,614			

In 2017 the Parent Company entered into two operating leasing contracts for vehicles initially intended for use by members of the Board of Directors. The monthly fee amounts to 1,256 euros per vehicle and expires on 3 January 2022. Both contracts were classified as operating leases due to the fact that exercising the purchase option at maturity was not considered at the time of initial recognition. Moreover, on 8 January 2020 the Company entered into two operating rental contracts for vehicles intended for the use of members of the Board of Directors. The monthly fee amounts to 2,223 euros per vehicle and expires in 3 years.

Since 1 October 2017 the Company has maintained an operating lease contract for the offices in which the Parent Company has been conducting its activity. This contract has a term of 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 a rental bond of 5,400 euros.

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

6. Information on the nature and risk level from 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

Explanatory notes to the interim financial statements as at 30 June 2021

price risk), credit risk and liquidity risk. Risk management is monitored by the Board of Directors of the Parent Company with the support of the Management Control Departments.

Credit risk

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

Due to their excellent credit standing, the Group's main debtors do not pose specific credit risks of cancellation of the balances pending collection at the end of the financial year. The following is a breakdown of Trade Debtors and other accounts receivable by seniority as of 30 June 2021 and 31 December 2020:

	6/2021	12/2020
Not due	4,554,920	4,132,690
Past due but not doubtful	54,755	20,641
Doubtful	1,209,419	1,102,302
	5,819,094	5,255,632
Impairment corrections (note 7.3)	1,209,419	(1,102,302)
Total	4,609,675	4,153,331

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

Market-related financial risks

a. Interest rate risk

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

b. Exchange rate risk

The Company operates internationally and is therefore exposed to exchange rate risks due to its foreign currency transactions. The exchange rate risk arises from recognised assets and liabilities. The breakdown of financial assets and liabilities denominated in foreign currency and transactions denominated in foreign currency is reported in Note 11.

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

c. Interest rate risk on cash flows

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

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

d. Price risks

There are no significant price risks.

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Fair value estimate

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

7. Financial assets**7.1 Analysis by category**

The following table shows the book value of each category of financial instrument provided for in the standard for recognition and valuation of Financial Instruments except for balances with government agencies (Note 10):

	6/2021	
	Credits, derivatives and others short-term	long-term
<u>Assets at historical cost</u>		
Equity instruments (Note 7.3)	---	125,063
<u>Assets at depreciated cost</u>		
Trade debtors and other accounts receivable (Note 7.3) (*)	4,644,755	---
Loans to personnel	2,400	2,900
Other financial assets (Note 7.3)	1,677,081	131,851
TOTAL	6,324,236	259,814
	12/2020	
	Credits, derivatives and others	
	short-term	long-term
<u>Assets at historical cost</u>		
Equity instruments (Note 7.3)	---	125,063
<u>Assets at depreciated cost</u>		
Trade debtors and other accounts receivable (Note 7.3) (*)	4,253,331	---
Sundry debtors- Credits to personnel	400	4,100
Other financial assets (Note 7.3)	517,243	21,547
TOTAL	4,770,974	150,709

(*) Does not include balances with government agencies.

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

7.2 Analysis by maturity

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as of 30 June 2021:

	Financial assets					Total
	30.06.22	30.06.23	30.06.24	30.06.25	Subsequent years	
Financial asset						
Equity instruments	---	---	---	---	125,063	125,063
Trade debtors and accounts receivable	4,647,155	---	---	---	---	4,647,155
Other financial assets (*)	1,677,081	10,800	500	4,986	118,465	1,811,832
	6,324,236	10,800	500	4,986	243,528	6,584,050

As of 31 December 2020

	Financial assets				Subsequent years	Total
	2021	2022	2023	2024		

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Financial asset						
Equity instruments	---	---	---	---	125,063	125,063
Trade debtors and accounts receivable	4,253,731	---	---	---	---	4,253,431
Other financial assets (*)	517,243	18,960	1,700	---	4,986	524,889
	4,770,974	18,960	1,700	---	130,049	4,921,683

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

7.3 Trade debtors and other accounts receivable

	Euros	
	06-2021	2020
Long-term loans and receivables:		
Equity instruments	125,063	125,063
Loans to personnel	2,900	4,100
Other financial assets	131,851	21,547
	259,814	150,709
Short-term loans and receivables:		
Other financial assets	1,677,081	517,243
	1,677,081	517,243
Trade debtors and other short-term accounts receivable:		
Clients for the provision of services	5,819,093	5,255,632
Impairment of credit for commercial operations	1,209,419	(1,102,302)
Group company debtors (note 16)	29,000	100,000
Sundry debtors	2,081	300
Advances to personnel	6,400	100
Other credits with government agencies (Note 13.1)	137,376	142,893
	4,784,532	4,396,624

On 11 November 2020 the Company granted a loan of 6,500 euros with maturity at a maximum of 33 months and return by monthly instalments of 200 euros to an employee. Consequently, the sums of 2,400 and 4,100 euros have been posted as short and long-term credits to employees respectively. On 30 June 2021 the amount pending repayment stood at 5,300 euros, of which 2,400 euros are due in the short term and 2,900 euros in the long-term.

Impairment of trade credits

The following are the movements of provisions for impairment:

	Euros	
	6/2021	12/2020
Initial balance	1,102,302	749,097
Provision for impairment of accounts receivable	107,117	353,205
Reversal of unused amounts	---	---
Final balance	1,209,419	1,102,302

The Group maintains collection conditions with its customers for up to one year. As of 30 June 2021, the sum of 259,144 euros is outstanding on account of trade credits granted more than one year ago.

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

Investment in long-term equity instruments

On 21 December 2020 the Group called 125,000 shares with a par value of one euro (€ 1.00) representing 21.04% of the share capital of Ama Movie, A.I.E. (the group). This entity was

Explanatory notes to the interim financial statements as at 30 June 2021

incorporated for an indefinite period on 15 March 2018. It is domiciled in Madrid and its tax I.D number is V-88067806. Its corporate purpose is the production, edition, distribution and marketing of theatrical, cinematographic and audio-visual productions.

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

Other short and long-term financial assets

As of 30 December 2021 the "Other long-term financial assets" account includes the rental bonds for the offices for the sum of 13,386 euros and 89,957 euros as a provisional contract award process guarantee placed with a AENA for supply and upgrading of a biometric facial recognition system.

There are also other financial assets amounting to 28,508 euros pertaining to the subsidiary Facephi Apac.

Moreover, as of 30 June 2021 the "Other long-term financial assets" account includes the sum of 8,414 euros for a fixed-term deposit of \$US 10,000 with maturity on 14 February 2022 as a guarantee placed with one of its customers for provision of licensing, support and consulting services. There is also a fixed-term deposit for the sum of 1,650,165 euros placed on 24 March 2021 with an equivalent value of 2 million USD that matures on 24 April 2021 and tacit monthly renewals at an interest rate of 0.01%. As a result of the valuation of the investment at the exchange rate in force as of the half year ended 30 June 2021, earnings of 254 euros have been posted for positive exchange differences (losses of 1,001 euros as of 31 December 2020).

Moreover, at the end of the previous financial year the sum of 448,195 euros was recognised for a fixed-term deposit (F.T.D.) of 550 thousand USD constituted on 1 March 2018 and which is pledged as collateral for a loan at a variable interest rate under the agreement with the European Investment Fund with a limit of 1,000,000 euros (see note 12.3.a). The term to maturity of this F.T.D. was 3 years at an interest rate of 0.05%, for which reason it was cancelled on the maturity date.

Finally, as at 30 June 2021 there is an entry in items pending short-term application for 18,501 euros (62,782 euros at 31 December 2020) for undue charges by the financial institution related to restructuring of the financial debt capitalised during the 2020 financial year (Note 9.3.a).

7.4 Cash and cash equivalents

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

	Euros	
	30.06.21	31.12.20
Cash, euros	---	101
Cash, foreign currency	---	2,076
Banks and credit inst. demand c/c, euros	1,577,516	3,155,514
Banks and credit inst. demand f.c. (note 11.f)	2,931,317	2,620,556
Total	4,508,833	5,979,705

The treasury account under Banks and Financial Institutions includes an entry of 396,238 euros 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 Group unless the liquidity provider estimates that the cash or shares at its disposal are excessive.

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

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Previously, as a result of the financial restructuring agreement entered into on 14 December 2020, the Parent Company had established a pledge right over the current accounts and other available liquid assets for the sum of 2,244,829 euros (see Note 9.3.a).

8. Net equity
8.1 Capital and reserves

The attached statement of changes in net equity shows the breakdown and movement of the various accounts under the head of Net Equity during the financial periods ended on 30 June 2021 and 31 December 2020.

8.1 Capital and reserves
a) Share capital and share premium

The following is the composition of the Parent Company's share capital and share premium as of 30 June 2021 and 31 December 2020:

	6/2021		12/2020	
	Capital	Issue premium	Capital	Issue premium
Authorised	605,373	10,074,525	577,141	7,222,153
	605,373	10,074,525	577,141	7,222,153

The following is the composition of the Company's share capital and share premium as at 30 June 2021 and 31 December 2020:

	Number of shares	Par value	Share capital	Issue premium
Opening balance as of 1 January 2021	14,428,519	0.04	577,141	7,222,153
Capital increase 25.03.2021	237,456	0.04	9,498	1,011,551
Capital increase 29.04.2021	281,001	0.04	11,240	1,138,281
Capital increase 01.06.2021	187,346	0.04	7,494	702,540
30 June 2021	15,134,322	0.04	605,373	10,074,525

	Number of shares	Par value	Share capital	Issue premium
Opening balance as at 1 January 2020	13,569,139	0.04	542,768	2,812,602
Capital increase 01.04.2020	252,780	0.04	10,111	952,979
Capital increase 30.04.2020	106,886	0.04	4,275	555,810
Capital increase 27.07.2020	231,393	0.04	9,256	1,292,334
Capital increase 07.10.2020	170,182	0.04	6,807	986,222
Capital increase 15.10.2020	98,139	0.04	3,926	622,206
Balance at 31 December 2020	14,428,519	0.04	577,141	7,222,153

On 14 December 2020 the Parent Company entered into a new financing agreement with similar conditions and features as the previous one with Nice & Green, for which reason the Extraordinary General Meeting held on 25 January 2021 agreed, in compliance with article 297.1.b of the Corporations 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

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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 nominal value of the Parent Company's shares, i.e., at a lower price per equity warrant than 0.052 euros, or higher than the conversion price resulting from 92% of the lowest weighted average price during the six trading days prior to the date on which the conversion right is exercised. The investment commitment will end on 31 December, 2022.

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

a.1) Share capital and share premium formalised during 2021

The Board of Directors, in exercise of the power set forth above, issued the following capital increase transactions during the 2021 financial year and converted the E.W. into shares:

Issuance of equity warrants in February 2021

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

On 18 February 2021 Nice & Green communicated their intention to exercise the right to convert the EW to shares and paid a 850,000 euros in cash for conversion of 237,456 EW into the same number of new shares with a par value of 0.04 euros each. The EW exercise price was 3.5796 euros, which represents an effective amount of 849,997.4976 euros. Consequently, the new shares had an issue premium of 3.5396 euros per share and a par value of 0.04 euros, which means that the issue premium and par value contributed capital increases of 840,499.2576 euros and 9,498.24 euros respectively.

Finally, the associated capital conversion and increase was formalised on 25 March 2021 pursuant to an instrument executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 215 of his journal record and registered in the Companies Registry of Alicante on 27 April 2021.

On 6 February 2021 Nice & Green communicated their intention to exercise the right to convert the EW to shares and paid a 500,000 euros in cash for conversion of 143,872 EW into the same number of new shares with a par value of 0.04 euros each. The EW exercise price was 3.4753 euros, which represents an effective amount of 499,994.89 euros. Consequently, the new shares had an issue premium of 3.4353 euros per share and a par value of 0.04 euros, which means that the issue premium and par value contributed capital increases of 494,240.05 euros and 5,754.84 euros respectively.

On 21 February 2021 Nice & Green communicated their intention to exercise the right to convert the EW to shares and paid a 500,000 euros in cash for conversion of 137,129 EW into the same number of new shares with a par value of 0.04 euros each. The EW exercise price was 3.6462 euros, which represents an effective amount of 499,992.47 euros. Consequently, the new shares had an issue premium of 3.6062 euros per share and a par

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value of 0.04 euros, which means that the issue premium and par value contributed capital increases of 494,507.39 euros and 5,485.08 euros respectively.

Finally, the conversion to shares with the consequent increase in the Company's share capital by issue of 281,001 new shares with a par value of 0.04 euro per share was formally executed on 29 October 2021 in an instrument executed before the notary public of Castilla-La Mancha Ignacio Javier Torres López under number 366 of his journal record. The conversion price of the first 143,872 EW was 3.4753 euros and 3.6462 for the remaining 137,129, which represents an effective total capital increase of 999,998.12 euros, of which the issue premium accounts for 988,758.08 euros and share capital 11,240.04 euros. This capital increase was registered with the Companies Registry of Alicante on 5 July 2021.

On 19 February 2021 Nice & Green communicated their intention to exercise the right to convert the EW to shares and paid a 650,000 euros in cash for conversion of 187,346 EW into the same number of new shares with a par value of 0.04 euros each. The EW exercise price was 3.4695 euros, which represents an effective amount of 649,997 euros. Consequently, the new shares had an issue premium of 3.4295 euros per share and a par value of 0.04 euros, which means that the issue premium and par value contributed capital increases of 642,503.107 euros and 7,493.841 euros respectively.

Finally, the associated capital conversion and increase was formalised on 1 June 2021 pursuant to an instrument executed before the notary public of Castilla-La Mancha Iván Castejón Fernández-Trujillo under number 484 of his journal record and registered in the Companies Registry of Alicante on 6 August 2021.

The effect of the aforesaid issues of convertible EW and their conversion into own equity instruments on the income statement and net equity as of 30 June 2021

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

The following breakdown shows that the variations in the fair value of the derivative during its life (i.e. from the date of issue to exercise of the conversion option) were recognised on 30 June 2021 for a total of 380,604 euros (943,944 euros at year's end 2020) under the head of "17. Variation in the fair value of financial instruments" in the Income Statement as a financial cost and reflected in a balancing entry in Net Equity as an increase in the share premium equivalent to the cash amount received for the conversion, minus the accumulated fair value of the derivative until said moment:

	Number of shares	Conversion price	Fair value	Share premium/cost
Capital increase 25.03.2021	237,456	3.5796	4.2999	171,052
Capital increase 29.04.2021	281,001	3.5586	4.0908	149,523
Capital increase 01.06.2021	187,346	3.4695	3.7899	60,037
				380,611

As at 31 December 2020

	Number of shares	Conversion price	Fair value	Share premium/cost
Capital increase 01.04.2020	252,780	2.7692	3.81	263,092
Capital increase 30.04.2020	106,886	3.2745	5.24	210,087
Capital increase 27.07.2020	231,393	4.5377	5.6250	251,599
Capital increase 07.10.2020	170,182	5.2884	5.8351	93,034
Capital increase 15.10.2020	98,139	5.0948	6.3800	126,133
				943,944

Explanatory notes to the interim financial statements as at 30 June 2021
a.2) Share capital and share premium formalised in previous financial years

The conditions of the share capital issues executed and formalised in previous financial years and performed pursuant to the financing framework agreement entered into on 16 September 2019 with Nice & Green S.A. were reported in detail in the reports to the Parent Company's individual Annual Financial Statements for the relevant financial years. Section a.1) above also contains a breakdown of the impact of the share issues and capital increases in the 2021 and 2020 financial years on net equity.

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

There are no capital increases in progress as at the drafting date of these interim financial statements. Share capital thus stands at € 605,373, all fully called and paid up, divided into 15,134,322 shares numbered from 1 to 15,134,322 represented by book entries with a par value of four cents of a euro (€ 0.04) each, and all of the same class, identical, cumulable and indivisible.

a.4) Significant holdings

As at 30 June 2021 the following shareholders, who are also members of the Board of Directors, had significant direct or indirect holdings in the Company:

	%	%
	6/2021	12/2020
Salvador Martí Varó	7.64	9.13
Javier Mira Miró (*)	6.37	7.82
Juan Alfonso Ortiz Company	7.37	8.50
José Cristobal Callado Solana	6.10	---

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

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

b) Treasury stock

The total amount of treasury stock held at 30 June 2021 is 546,439 euros represented by 115,711 shares, the equivalent of 0.76% of the Group's share capital. This is well below the maximum limit of 10% provided for in article 509 of the Corporations 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 half year ended 30 June 2021:

	<u>2020</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Disposals for Business Combinations</u>	<u>6/2021</u>
Cost of treasury shares	341,760	410,611	(205,931)	---	546,439

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

Explanatory notes to the interim financial statements as at 30 June 2021

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

The sum of 1,099,822 euros recognised in 2020 as disposal of treasury stock corresponds to transfer of the packet of shares required for payment of the debt of 840,001 euros derived from sale of the shares in Ecercit Digital Solutions, S.L. (see note 1.c).

During the half year ended in June 2021 the Company sold treasury shares for a total price of 163,863 euros, a loss of 42,738 euros (obtaining a net negative result of 42,738 euros (earnings of 235,063 euros in 2020) charged to Voluntary Reserves.

c) Parent Company's Reserves

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

	Euros	
	<u>6/2021</u>	<u>12/2020</u>
Legal reserve	108,553	108,553
Voluntary Reserve	960,177	1,100,415
Negative results from previous exercises	(1,682,335)	---
	<u>(613,605)</u>	<u>1,208,968</u>

Legal reserve

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

Voluntary reserves

As of 30 June 2021 and 2020 the voluntary reserves include profits from previous years that were not allocated to shareholders or assigned to legal reserves.

These reserves are freely available.

As set forth in the attached Consolidated Statement of Changes in Equity, during the half year ended on 30 June 2021 the sum of 97,500 euros (126,682 euros in previous years) net of tax effect was charged against these reserves for the cost of issuance and expenses incurred as a result of the capital increases capitalised during the year and 42,738 euros (235,063 euros in 2020) for the results obtained from the sale and purchase of treasury stock (see Note 8.1.b).

d) Reserves in consolidated companies

In accordance with the criteria set forth in note 4.a, this entry in capital and reserves the consolidated balance sheet corresponds to undistributed profits generated by the subsidiaries from the date of their incorporation into the group.

e) Contribution to consolidated outcome

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

Explanatory notes to the interim financial statements as at 30 June 2021

Subsidiary	Profit/(Loss)	
	6/2021	12/2020
Facephi-Parent company	(1,464,918)	(1,682,335)
Ecertic-Subsidiary	(110,543)	62,289
Facephi	58,269	---
Consolidation adjustments	167,766.	(234,554)
Total Consolidated Outcome (Profit)	(1,684,958)	(1,854,600)

8.2. Restatement for value changes - conversion differences

The conversion differences generated in the period are mainly due to fluctuations in the exchange rate of the Korean Won since the subsidiary FacePhi Apac – consolidated for the first time by the full consolidation method – joined the group.

Certain financing transactions for foreign subsidiaries have been recognised as increased value of the investment.

A total of 9,006 euros net of the conversion tax effect has been recognised under this head during the period.

8.3. Subsidies

The following table shows the amount and nature of the subsidies on the Balance Sheet as of 30 June 2021 and 31 December 2020 under the head of "Subsidies, donations and bequests" and their variations during this and the previous financial year:

Period ended 30 June 2021

Granting body	Year granted	Amount granted	Rest pend amort. 01.01.21	Additions for bus comb.	Additions for year	Transferred to the 6/2021 result	Tax effect	Rest pend amort. 30.06.21
Europe (H2020)	2016	1,692,600	116,294	---	---	(33,532)	8,383	91,145
CDTI	2018	180,390	88,826	---	---	(18,223)	4,557	75,155
		1,872,990	205,120	---	---	(51,760)	12,940	166,300

Fin yr ended 31 December 2020

Granting body	Year granted	Amount granted	Rest pend amort. at 01.01.20	Additions for bus comb.	Additions for year	Transferred to 2020 profit (loss)	Tax effect	Rest pend amort. 31.12.20
Europe (H2020)	2016	1,692,600	166,592	---	---	(67,063)	16,766	116,294
CDTI	2018	180,390	---	75,501	39,667	(36,456)	9,114	88,826
		1,872,990	166,592	75,501	39,667	(103,519)	25,880	205,120

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

The Company signed an agreement with the European Commission in 2016 to obtain aid to finance investment in its activity during the following 24 months consisting of execution of the project known as "Facial Recognition in Banking Security (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.

On the one hand, the costs incurred associated with the eligible project were for R&D personnel costs that were capitalised in Intangible Assets and, on the other hand, for operating costs.

Explanatory notes to the interim financial statements as at 30 June 2021

Therefore the subsidy has an equity-related component and a working capital component which, in accordance with the costs incurred by the Company in previous years, was allocated in the proportions of 19.81% and 80.19%, respectively.

9. Financial liabilities
9.1 Analysis by category

The following table shows the book value of each category of financial instrument provided for in the standard for recognition and valuation of Financial Instruments except for balances with government agencies (Note 10):

	Euros					
	Long-term financial liabilities					
	Debts with credit inst.		Creditors for fin. leasing		Derivatives	Others
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	30.12.2020
Debts and accounts payable (Note 9.3)	5,631,581	6,054,477	11,528	---	---	---
TOTAL	5,631,581	6,054,477	11,528	---	---	---

	Euros					
	Short-term financial liabilities					
	Debts with credit inst.		Creditors for fin. leasing		Derivatives	Others
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	30.12.2020
Debts and accounts payable (Note 9.3)	895,768	983,672	22,545	---	1,327,789	1,171,923
TOTAL	895,768	983,672	22,545	---	1,327,789	1,171,923

9.2 Analysis by maturity

The following are the amounts of the financial asset instruments with a specific or determinable maturity classified by year of maturity as of 30 June 2021:

	Financial liabilities					Total
	30/6/22	30/6/23	30/6/24	30/6/25	Subsequent years	
Debts with credit institutions	895,768	1,287,673	1,464,041	1,619,489	1,260,378	6,527,349
Creditors for fin. leasing	22,545	11,528	---	---	---	34,073
Other financial liabilities (*)	1,327,789	---	---	---	---	1,327,789
	2,246,102	1,299,201	1,464,041	1,619,489	1,260,378	7,889,211

(*) Does not include balances with government agencies.

As of 31 December 2020:

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

Explanatory notes to the interim financial statements as at 30 June 2021

(*) Does not include balances with government agencies.

9.3. Debits and payables

	<u>30.06.21</u>	<u>31.12.20</u>
Long term debts:	5,643,109	6,054,477
Debts with credit institutions	5,631,581	6,054,477
Financial leasing creditors	11,528	---
Short term debts:	937,445	985,270
Debts with credit institutions	895,768	983,672
Financial leasing creditors	22,545	---
Other financial liabilities	19,132	1,598
Trade creditors and other accounts payable:	1,572,737	1,058,154
Short-term debts with suppliers	301,443	238,629
Various creditors	842,622	601,609
Personnel (salaries pending payment)	164,592	53,712
Other debts with government agencies (Note 10.1)	264,080	164,204
Debits and payables	8,153,291	8,097,901

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

	Euros		Euros	
	06/2021		12/2020	
	Short-term	Long-term	Short-term	Long-term
Bank loans	812,007	5,631,581	928,702	6,054,477
Credit cards	53,548	---	34,354	---
Uncollected accrued interest	30,213	---	20,616	---
Total	895,768	5,631,581	983,672	6,054,477

a) Loans with credit institutions

The following is a breakdown of the most important conditions of the financial loans in effect as of 30 June 2021 and 31 December 2020:

Type of transaction	Maturity	Limit	06/2021		31.12.20	
			Short-term	Long-term	Short-term	Long-term
Loan	31.07.21	200,000	---	---	39,850	---
Loan ⁽¹⁾	20.11.22	200,000	66,872	33,334	66,667	66,667
Loan	21.03.22	500,000	---	---	169,145	45,384
Loan ⁽²⁾	03.04.28	1,000,000	25,907	974,093	162,531	837,469
Syndicated loan	30.06.25	6,000,000	719,228	4,624,154	490,510	5,104,956
Total			812,007	5,631,581	928,702	6,054,477

- (1) The investment loan, the purpose of which is commercial establishment in the South Korean subsidiary, financing of personnel expenses, rentals and promotion.
- (2) ICO PYMES loan On 3 May 2021 the Company obtained an extension of the grace period for repayment of the principal and the associated extension of maturity.

Explanatory notes to the interim financial statements as at 30 June 2021

The interest rate for debts with credit institutions is the Euribor plus a margin considered to be consistent with market costs. As of 30 June 2021 the Group has recognised the sum of 30,213 euros as accrued interest pending settlement (20,616 euros at the end of the previous financial year).

The average interest rate on long-term debts with credit institutions, as of 30 June 2021 is 4.97% (4.93% in the previous year).

Syndicated financial restructuring agreement

On 14 December 2020 the Parent Company reached a syndicated credit line agreement with a limit of 13 million euros. The Santander, CaixaBank, Sabadell and Deutsche Bank credit institutions are involved in the deal, which is structured in three tranches:

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

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

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

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

b) Credit accounts and discount lines

The Parent Company has taken out insurance policies to cover the following amounts:

	Euros					
	Drawn		Limit		Available	
	30.06.21	31.12.20	30.06.21	31.12.20	30.06.21	31.12.20
Credit lines	---	---	450,000	450,000	450,000	450,000
Syndicated Loans (B+C)	---	---	7,000,000	7,000,000	7,000,000	7,000,000
Advances on invoices	---	---	---	250,000	---	250,000
Credit cards	53,548	34,354	185,301	119,895	131,753	85,541
	53,548	34,354	7,635,301	7,819,895	7,581,753	7,785,541

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

The following is the information required for the purposes of article 6 of the Resolution issued by the Accounting and Auditing Institute on 29 January 2016 on the information to be included in the Report in relation to deferral of payments to suppliers in trade transactions and regulated by Additional Provision Three, Duty of Information, in Act 15/2010 of 5 July that amends Act 3 /2004 of 29 December that establishes measures to combat default and late payment in trade transactions:

Explanatory notes to the interim financial statements as at 30 June 2021

Item	30.06.21	31.12.20
	Days	Days
Average period of payment to suppliers	22	21
Paid transaction ratio	25	21
Past-due transaction ratio	16	21
	Euros	
Total payments	3,516,211	7,013,762
Total pending payments	622,720	767,583

For these exclusive purposes, the Trade Creditors account encompasses the items of suppliers and various creditors for debts with suppliers of goods or services included within the scope of regulation of legal payment periods. The head of Net Purchases and Expenses for External Services encompasses the amounts recognised as such in accordance with the Spanish General Accounting Plan (PGC).

10. Government agencies and tax position

10.1 Current balances with government agencies

The following is the composition of the Company's credit and debit balances with government agencies as at 30 June 2021 and 31 December 2020:

	Euros			
	30.06.21		31.12.20	
	Assets	Liabilities	Assets	Liabilities
Deferred tax assets (Note 10.4)	452,462		452,462	
Deferred tax asset for:				
• VAT	137,376		142,893	
Other credits with government agencies	137,376		142,893	
Deferred tax liabilities (note 10.4)		58,435		68,373
Creditors Social Security Organisations		102,952		49,798
Deferred tax liability for:				
• VAT		35,240		27,412
• Personal income tax withholdings		125,888		86,994
Other debts with government agencies		264,080		164,204

10.2 Financial years pending verification and inspection

In compliance with the currently applicable legislation, taxes are not considered finally settled until the returns have been inspected by the tax agency within the four-year limitation period. As of 30 June 2021, all the Company's tax returns since 30 June 2017 for the main taxes to which it subject are pending inspection.

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

Explanatory notes to the interim financial statements as at 30 June 2021
10.3 Reconciliation of the accounting outcome and current expense for corporation tax

Since these are interim financial statements, no provision has been made for corporation tax due to the fact that the Group has reported losses during half year ended 30 June 2021. Nevertheless, this income statement account has an entry for the sum of 191,132 euros (85,939 euros as at 30 June 2020) for withholdings at origin by the tax agencies of third countries, deduction of which for double taxation is pending recognition.

10.4. Deferred tax assets and liabilities

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.

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

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

^(*) 2020 corporate tax estimate

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

Year of origin	Euros				
	Taxable bases pending 2019	Originated in 2020	Compensated in 2020	Taxable bases pending 6/2021	Tax credit
2020 financial year	---	757,767	---	757,767	189,442
Total	---	757,767	---	757,767	189,442

Ecercic Digital Solutions has the following deductions pending application and the following negative tax bases to offset with future tax benefits. These deferred tax assets are not recognised on the consolidated balance sheet:

- Ecercic's rebates pending application:

Year of origin	01.01.21	Generated	Applied	6/2021
2018	97,364	---	---	97,364
Total	97,363	---	---	97,363

- Negative tax bases to offset with future tax credits:

Explanatory notes to the interim financial statements as at 30 June 2021

Year of origin	Euros				
	Taxable bases pending 01.01.20	Originated in 2020	Compensated in 2020	Taxable bases pending 6.2021	Tax credit
2018 financial year	30,596	---	(30,596)	---	---
2019 Financial Year	272,047	---	(31,693)	240,354	60,088
Total	302,642	---	(62,289)	240,354	60,088

The following is a breakdown of deferred taxes:

	Euros				
	31.12.2020		30.06.21		
	Facephi	Ecercic	Facephi	Ecercic	APAC
Deferred tax assets:					
- Credits for N.T.B. to offset	189,442	---	189,442	---	---
- Credits for deductions	263,020	---	263,020	---	---
Deferred tax liabilities:					
- Subsidies	(38,765)	(29,609)	(30,382)	(25,052)	(3,002)
Net balance for deferred taxes	413,697	(29,609)	422,080	(25,052)	(3,002)

The gross movement in deferred taxes has been as follows:

	2020	
	Active deferred tax	Deferred tax liability
MADRID, 01 JANUARY 2020	57,862	(55,531)
Additions due to business combination	---	(25,500)
Charges/(credits) to equity	42,227	12,657
Charges/(credits) in the income statement	352,372	---
As of 31 December 2020	452,462	(68,374)
Charges/(credits) to equity	---	9,939
Charges/(credits) in the income statement	---	---
As at 30 June 2021	452,462	58,435

11. 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	%	%
	6/2021	12/2020
Spain	21.21	11.27
Rest of the European Union	---	0.93
Other countries	78.79	87.80
	100	100

Net turnover can also be analysed by business line:

Line	%	%
	6/2021	12/2020
Provision of services	100	100

Explanatory notes to the interim financial statements as at 30 June 2021

100	100
-----	-----

As of 30 June 2021 the sum of 963,767 euros has been recognised under the head of “short-term accruals” in Current Liabilities on the attached balance sheet. This item accounts for the estimate of turnover from support and maintenance services for the following financial year.

b) Supplies

Costs amounting to 851,700 euros (1,316,367 euros in the previous financial year) for licensed use of certain computer software required for development of products that the Group will subsequently place on the market under license are recognised as of 30 June 2021 under the head of Supplies on the consolidated income statement.

c) Work performed by the Group for its assets

	6/2021	12/2020
Work carried out by the company for its own asset		
Facephi	679,371	930,592
Ecertic	75,000	179,859
	754,371	1,110,451

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

d) Personnel expenses

	06/2021	12/2020
Wages, salaries and accessory exp.	2,100,634	2,814,310
Severance payments	6,000	---
Company Soc. Sec. payments	359,148	372,158
	2,465,782	3,186,468

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

	06/21	12/2020
Senior management	2	2
Scientific and intellectual and support technicians and professionals	100	47
Clerical workers	14	7
Sales force	5	4
Total average employees	121	60

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

	06/21			31.12.20		
	Hombres	Women	Total	Hombres	Women	Total
Executive directors	2	---	2	2	---	2
Scientific and intellectual and support technicians and professionals	79	21	100	33	14	47
Clerical workers	7	7	14	2	5	7
Sales force	4	1	5	3	1	4
Total workforce at the end of the financial year	92	29	121	40	20	60

As of 30 June 2021 the Company employs 2 employee with a disability equal to or greater than 33% (1 at 31 December 2020).

Explanatory notes to the interim financial statements as at 30 June 2021

e) Other operating expenses

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

	Euros	
	30.06.21	31.12.20
External services:		
Leases and royalties	66,985	147,614
Reparations and conservation	7,716	7,362
Freelance professional services	1,547,695	1,985,951
TRANSPORT	277	1,015
Insurance premiums	22,599	37,960
Banking and similar services	54,171	100,649
Advertising, promotion and public relations	130,044	218,212
Supplies	28,664	38,326
Other services	332,933	499,543
Taxes	2,494	3,804
A) Losses, impairment and variation of provisions for trade transactions	107,117	383,851
Other operating expenses	2,300,693	3,424,287

f) Foreign currency: Exchange differences

The overall value of assets denominated in foreign currency (f.c.) amounts to 6,814,834 euros. The following are the most significant items:

Item	Currency	Euros	
		6/2021	12/2020
Customers (foreign currency)	USD	1,967,606	3,064,135
Treasury (c/c in f.c.)	USD	3,059,801	2,620,556
Treasury (c/c in f.c.)	KRW	128,848	---
Treasury (cash f.c.)	USD	---	2,076
Fixed-term tax (f.c.)	USD	1,658,579	443,191
Total		6,814,834	6,129,958

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

Item	Currency	Euros	
		6/2021	12/2020
Creditors (f.c.)	USD	345,644	437,964
Creditors (f.c.)	KRW	10,186	---
Total		355,830	437,964

The following transactions were performed in foreign currencies:

	Euros	
	30.06.21	31.12.20
Services received	1,014,616	(1,462,367)
Rev. from services provided	3,079,178	6,320,187
Rev. from services provided	190,451	---
Services received	23,342	---

Explanatory notes to the interim financial statements as at 30 June 2021

The following table shows the exchange differences arising from transactions that were settled during the period under analysis and those arising from transactions pending settlement as of 30 June 2021 and 31 December 2020:

<u>Financial instrument</u>	<u>Currency</u>	<u>Exchange differences</u>	
		<u>30.06.21</u>	<u>31.12.20</u>
Negative cash differences	USD	13,802	201,996
Positive cash differences	USD	(7,274)	(16,106)
Negative differences from trade collections	USD	1,680	25,517
Positive differences from trade collections	USD	(13,322)	(66,761)
Negative differences for payments to suppliers	USD	7,292	421
Negative cash differences	KRW	10,423	---
Positive cash differences	KRW	(1,403)	---
Positive differences for customer balances	USD	(317)	---
Positive differences for supplier payments	USD	(1,498)	(24,208)
Total for transactions settled in the financial year		9,384	120,859

<u>Financial instrument</u>	<u>Currency</u>	<u>Exchange differences</u>	
		<u>6/2021</u>	<u>12/2020</u>
Negative differences due to customer balances	USD	---	278,112
Positive differences due to trade balances	USD	(75,683)	---
Negative differences due to financial investment balances	USD	---	47,968
Positive differences due to trade balances	USD	(254)	---
Negative differences due to credit advance balances	USD	---	---
Positive cash differences	USD	(159,275)	---
Negative differences for payments to suppliers	USD	13,018	7,137
Total for transactions pending maturity		(222,194)	333,217
Total exchange differences allocated for the year		(212,811)	454,077

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

In accordance with the proposal of the Appointments and Remuneration Committee on 27 December 2021, subsequently ratified by the General Meeting held on 28 July 2021, the Board of Directors received the following remuneration for the 2021 financial year:

- For senior management salaries: a total amount of 840,000 euros plus a supplementary amount of 120,000 euros distributed between the two semesters of the financial year provided that the Company's turnover is 20% higher than that of the same period previous year in both halves.
- Remuneration of the Board of Directors is composed of 250,000 euros for per diem allowances and 50,000 euros as remuneration for the Audit Committee and the Remuneration Committee.

Pursuant to these agreements, the remuneration accrued as of 30 June 2021 and 31 December 2020 was the following:

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

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

	Euros	
	6/2021	12/2020
Remuneration:		
Remuneration-Senior Management	420,000	840,000
Variable remuneration-Senior Management	60,000	225,000
Board and Audit and Remuneration Committee Allowances	150,000	300,000
Other remuneration	---	63,026
Insurance premiums	2,492	14,476
Total remuneration	632,492	1,442,502

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

Additionally, as indicated in note 16 on subsequent events, on 23 July 2021 the Company's Board of Directors accepted the resignation of its the Chairman Salvador Martí Varó.

On the same date FacePhi's Board of Directors unanimously elected the current Managing Director, Javier Mira Miró, as its Chairman, Fernando Orteso de Travesedo as Vice-Chairman and David José Devesa Rodríguez as 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 conflict with the interest with the Company, all members of the Board of Directors have fulfilled the obligations set forth in article 228 of the consolidated text of the Corporations Act during the financial year. Furthermore, both the Directors and persons related to the same have refrained from incurring in the cases of conflict of interest which may be authorised by the governing body provided for in article 229 of said Act.

13. 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 annual financial statements the Company understands 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 Rule 13 for drawing up the annual financial statements, the companies are controlled by any means by one or more natural or legal persons acting jointly or are under sole management by statutory agreements or clauses.

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

Group undertaking (decision-making unit)	% of control	Address	Main activity
CF Intercity SAD	100%	San Juan (Alicante)	Sports Limited Company

b) Balances and commercial transactions with Group companies

On 1 December 2019 the Company and CF Intercity SAD entered into an advertising sponsorship contract for a duration of 3 seasons from 1 July 2019 to 30 June 2022 for the sum of 100,000 euros per season. As of 30 June 2021 the Company has recognised the sum of 50,000 euros (100,000

Explanatory notes to the interim financial statements as at 30 June 2021

euros in 2020) for the first half of the 2021/2022 season under the head of "Other operating expenses" in the income statement.

The Company also granted an advance payment of 29,000 euros charged to the same account on 30 June 2021 (100,000 euros at 31 December 2020).

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

14. Provisions and contingencies

As of 30 June 2021 and 31 December 2020 the Parent Company has placed a performance bond of \$ 10,000 in favour of a client. Said bond will expire on 24 February 2022. It has been pledged in a fixed-term deposit for the same amount (Note 7).

15. Other information

a) Audit fees

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

The following are the estimated professional fees for the financial year 2021 for the services provided by the auditors and those invoiced in 2020:

	<u>2021</u>	<u>2020</u>
Audit services:		
• Audit of individual annual financial statements	22,450	21,500
• Audit of the consolidated annual financial statements	10,000	6,000
Other services related to the audits:		
• Review of consolidated interim financial statements as at 30/06	10,900	10,500
Other accounting verification services	<u>2,000</u>	---
Total professional services	45,350	38,000

As of 30 June 2021 and 31 December 2020 no fees have been accrued by other companies of the Auren group as a result of tax advisory services, special reports, other verification services or any other services whatsoever.

b) Off-balance-sheet agreements

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

16. Subsequent events

On 1 July 2021 the resolutions of the Ordinary General Meeting held on 28 June 2021, which included among others the following agreements, were formalised in an attested instrument

Explanatory notes to the interim financial statements as at 30 June 2021

executed before the notary public of Almansa – Albacete Ivan Castejón Fernández-Trujillo under number 649/2021 of his journal record:

- Appointment of Pablo Reig Boronat as member of the Board of Directors.
- Amendment of Articles 16, 17 and 19 of the Parent Company's Articles of Association.

On 23 July 2021 the Chairman of the Board Salvador Matí notified to the Management his decision to resign from his positions on the Board of Directors and as Joint Managing Director after having reached post-contract non-competition and non-solicitation agreements for a term of three (3) years for which he will receive a compensation of 1,100,000 euros.

There have been no other significant subsequent events apart from the information set forth above and that provided in note 8.1 on the capital increases carried out as of the drafting date of these financial statements.

Alicante, 30 September 2021

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