

# Preliminary Report BNET

## FY 2018

Company name	BITTNET SYSTEMS S.A.
Registered office	Soimus Street, No.23, Building 2, Apartment 24, District 4, Bucharest
Point of business conduct	Timisoara Boulevard, No. 26, 1st Floor, "Plaza Romania Offices" Building, District 6, 061331, Bucharest, Romania
Telephone/Fax number	021.527.16.00 / 021.527.16.98
Single Register Code at the trade Registry Office	21181848
Order Number to trade Registry Office	J40/3752/2007
Market on which the issued securities are traded	AeRO ATS Premium
Symbol	BNET - shares BNET19, BNET22, BNET23, BNET23A, BNET23C - bonds
Subscribed and paid up share capital	5,175,523.80 RON
Main characteristics of the securities issued by the company	51,755,238 common shares with face value of 0.10 RON each



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## Letter from the Bittnet Group CEO, Mihai Logofatu

Exactly on the date of publishing of this report, that is February 22nd, 12 years ago, together with my brother Cristian, we began building the Bittnet story. We started as a company offering IT training and IT&C communication solutions for corporate clients. We always liked to underline how important has been to us the trust with which we have been awarded thought these years by our clients and business partners and a bit later in our journey – our shareholders. The latter group has been especially supportive to us in the course of last year, 2018, when with the help of the capital obtained through the local capital market, we were able to initiate, and finalize, many ambitious goals that helped us turn what was initially known as ‘Bittnet Systems’ into a Group of companies with more than 100 employees and collaborators, expecting revenues of over RON 100 million in 2019.

We thus begin 2019 as a medium-sized company, with a group structure and professional, independent management, active in the field of Technology and Education. Bittnet remains the leader in the IT training market, while Equatorial owns intellectual property - being the first mobile platform for gamification of learning (game-based learning or gamified learning), Elian is one of the Microsoft Gold Level ERP systems partners in Romania, and Dendrio is the first integrator of multi-cloud hybrid solution for businesses. The investment from the end of 2018, namely the consolidation of the IT&C integration market through executing business transfer from Crescendo, positions Dendrio as one of the most prominent IT&C integrators in Romania.

We are proud to unite 120 employees and collaborators, who work for one of our five companies, axated on two main business divisions – education and technology. Today, Bittnet Group encompasses brands and companies such as Bittnet Training, Equatorial, Credis, Dendrio as well as Elian. We are a complex organization that is still undergoing a process of consolidation and adaptation but I can proudly say that we remain dedicated to the exact same values and business principles like honesty, transparency and flexibility in terms of performance and competence, that we have shared with Cristian and our first Colleagues already at the beginning of our entrepreneurial journey, 12 years ago.

Before we dive into the subject of our new Group structure and the changes that we have been implementing in the course of past 12 months, I would like to share with you the key financial indicators from the last year. Yet again our team has managed to close the best year in its history – both in terms of revenues as well as profits. In 2018 we have registered consolidated<sup>1</sup> revenues of RON 53 million, a growth of approximately 21% when compared to 2017. In terms of profit, we have reached RON 5,8 million in gross profit<sup>2</sup>, which means that the profitability has almost tripled compared to 2017. The increase in the revenues was supported by IT&C integration business line, which grew by 10% compared to 2017 and Cloud, which registered a growth of 60% compared to 2017. Here I would like to underline the performance that was generated by the individual companies from our group, which all ended the year on profit. In case of Dendrio, the profit overpassed RON 1 million It is important to remember that 2017 was the first year that the company registered profit after 3 fiscal years of registered losses.

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<sup>1</sup> The companies included in consolidated financials are Bittnet and Dendrio. For Elian we will implement the technical solutions that we have implemented also for Dendrio in 1<sup>st</sup> HY 2018

<sup>2</sup> The estimated net profit is RON 4.88 million, an increase of 3x vs 2017



The economic cycle and the capital markets were favorable to Bittnet and in 2018, the following quote from our last year's report is still very relevant:

*Just like it was in previous years, I feel the need to start this letter by sharing my enthusiasm when looking back at the latest fiscal year and affirming, yet again, that 'last year, was the best year in the history of the company'. Surely, there will come a day when we will no longer be able to make this statement, but the management, together with the whole team, is dedicated to delaying such moment as much as possible [...] we could dare to say that today, we are a mature company that has surpassed the average life of a Romanian business and that is the market leader in the field in which it operates. We believe that all of the previous results come as a consequence of our efforts and are important, but it is more important to focus on the future, because the Bittnet story has much more 'ahead' than 'behind'.*

The company's capitalization followed the same trend of correlation with the turnover that we have seen since the 2015 listing. In 2018, Bittnet shareholders registered an increase in their investment value of over 55% (well above the evolution of BET index). These values are not necessarily relevant unless analyzed in the context of liquidity, and in 2018 Bittnet was the most traded share of the AeRO market, an accomplishment for which we received an award at the Broker's Association Gala in December 2018. The number of transactions with BNET shares in 2018 was over 3500, with a total volume of 4.5 million lei, that is 35% of free float<sup>3</sup>.

But as the most successful investors say, management should not focus on the price of shares as it reflects the opinion of the market about the evolution and perspectives of the company; there has to be directed the attention of the whole team. 2018 will go down in Bittnet's history as a year when we significantly grew our organization. We started 2018 by continuing the integration of the former Gecad Net team by migrating into a group structure with two companies in the group – Bittnet Training and Dendrio. This process has generated more positive results than we initially expected, one of them being the fact that we could easily and clearly confirm our conviction that the Romanian IT market needs to be strengthened. Thus, in 2018, three new investment projects were born, expanding further our Group's coverage in the two key areas of our activity: education and technology, which materialized through our investments in Elian Solutions and Equatorial Gaming and the business transfer of the IT&C division of Crescendo International into Dendrio. Having realized 3 major M&A transactions in the course of last 12 months, we look forward to dedicating 2019 to consolidating our business position as well as focusing on the integration of all the new business lines in our activity.

In line with the process of integrating the new brands in our Group, such as Dendrio, Equatorial as well as Elian, we have introduced a new organizational chart. The two major changes that it brings are the promotions of two of our senior directors, Cristian Herghelegiu, CEO of Dendrio as well as Dan Berteanu, the founder of Equatorial. As of January 2019, Cristian Herghelegiu has taken over the position of Vice-President of Bittnet Group responsible for Technology, meaning that he overlooks all the activity within the group that is related to IT&C integration and other technological process. Dan Berteanu on the other hand was promoted to the position of Vice-President for Education at Bittnet Group and will be responsible for implementing the strategy for Bittnet Training, Equatorial as well as Credis Academy. For more information about our new business structure as well as further information

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<sup>3</sup> This volume does not include DEAL transactions



about the organizational chart, I would like to invite you to read Chapter “General Information about the Issuer”, which provides further details about this subject.

Talking about Bittnet people, who are actually the most important and valuable characteristic of our business, I need to underline that today, Bittnet Group consists of exceptional professionals and experts in their fields. Thanks to our M&A activity, we have managed to create an exceptional pool of talent that is currently engaged in all of our key projects. Today, our IT infrastructure, sales team, technical team and unified operations team are all aligned, allowing us to enjoy economies of scale as well as addressing both customers and suppliers under the ‘One Single Organization’ motto. By investing in Dendrio in 2017, we have gained professional management both for the integration division (VP of Technology, Cristian Herghelegiu) and sales team (Sales Manager) and by investing in Equatorial, we gained professional management for the education division (VP of Education, Dan Berteanu). Overall, 2018 was a very good year for attracting talent into our Group.

The investment in Crescendo's integration division has brought us not only 40 new colleagues to Dendrio, but a remarkable operational management with a successful history of nearly 20 years, which in practice has allowed us to double the size of management and execution capabilities in both the technical, marketing and HR team, as well as develop new pre-sales and business development capabilities that did not previously exist in the group. With such a team, we are very confident for 2019!

Operating at a larger scale brings many advantages, one of the most important being offering opportunities to expand our teams’ professional competences. Today, Bittnet Group consists of over 120 professionals who have joined our entrepreneurial journey, enjoying the development opportunities in both areas of our activity - education and technology. In a situation where the competition for talent is as fierce as it is now in the IT field in Romania, we believe this will be one of the key differentiators for Bittnet Group in the coming years that will help us retain the best people.

On February 6th, 2019, we have announced a new capital increase, which will serve as a tool to implement the Stock Option Plan that was approved by Bittnet’s AGA from April 2016. We are pleased to mention that this is the first time in the history of the Romanian capital market when a SOP of the company is realized through a capital increase, not through the share buyback and we hope that in the coming years, also other entrepreneurial companies listed on BVB will follow our footsteps. Most probably later this year, in July 2019, will take place a new capital increase in order to complete the second edition of Bittnet's key employee reward program, SOP2017.

Coming back to the subject of our M&A activity, all 3 investments that we finalized in 2018 fit ‘bolt on’ with the two areas of activity of Bittnet Group – education and technology – and aim to strengthen our position on local and international markets. When we talk about education, or rather technology education, it is crucial to underline that estimated 100 billion euro are spent every year in Europe on training programs. Bittnet has started as a company specialized in delivering IT trainings and through the years, has managed to become a leader in this domain in Romania. We have benefitted from the leadership position on the Romanian IT training market, but we also have recognized that in order to stay ahead and keep building our position, we need to constantly bring new solutions to our clients. Our investment in Equatorial Gaming aims to serve these exact purposes and is in line with our Group’s 2018-2020 growth strategy, in the ‘education’ area. As technology evolves, so does the manner in which adults learn. With Equatorial being part of Bittnet Group, we will enlarge our education portfolio with



proprietary products, which are innovative and oriented towards future and that will surely bring a positive difference to our clients.

For the technology part, the goal of Dendrio is to be the leader of the multi-cloud integration market in Romania and abroad, offering comprehensive and complex solutions (from structured cabling, network infrastructure, servers and PCs, wireless, teleconferencing, computer security, operating systems, antivirus, productivity applications to ERP) hosted both 'on-premise' and 'managed services' and hosted in public cloud-capable public infrastructures. Elian Solutions' portfolio perfectly completes the IT services and secured hybrid cloud solutions portfolio of Dendrio. The typology of the projects on which we have collaborated with Elian in the course of last 3 years is the same one as the strategy on which Dendrio is concentrated for years 2018-2020: turnkey projects, high value-added IT solutions, delivered as-a-service, with hybrid infrastructures (on premise and in the cloud), which ensure scalability and resilience in similar or lower cost conditions. With Elian Solutions being Microsoft's only Gold Certified Partner in Romania for integrating ERP systems based on Microsoft NAV technology, our group strengthens our competitive position by adding a third Gold Certification to the portfolio, alongside Cisco Gold Partner and Microsoft Gold (Cloud Platform & Cloud Productivity) titles.

On the other side, the consolidation of the IT&C division of Crescendo International into Dendrio will help us to further strengthen our position in Romania, to enter foreign markets and to extend their delivery capacity to the CEE level. As a result of the merger, Dendrio benefits from a stable business structure, extended personnel as well as enlarged portfolio of customers, products and services. Thanks to the merger with Crescendo, we estimate that by the end of 2019, the Bittnet Group will reach RON 120 million in consolidated revenues, overpassing RON 100 million – a revenue goal for 2020 that we have set for ourselves last year.

I have been saying for several years that the IT&C market has to be strengthened and in both 2017 and 2018 we have been active in this area. This trend was also recognized by others, as we could have seen some major transactions on the Romanian markets, such as the acquisition of Brinel by SNEF or the acquisition of SoftVision by global giant, Cognizant. We believe that the IT services market must follow the same trends that nowadays characterize the global economy, in this case the most relevant being the consolidation and the 'uberization' - that is the transformation into platforms and the gig economy.

These two seemingly contradictory tendencies have arisen and continue to exist because of a common goal and a natural evolution trend at the human level of society: the need for quality. This need takes several forms - for customers, the need for quality takes two aspects: timely and within budget delivery (as Jeff Bezos says, "there is no customer who does not prefer faster << and >> cheaper <<" ) of functional solutions that ensure productivity, collaboration, mobility and security.

On the other hand, for the staff, employers or, in the future, freelancers, the need for quality takes on two aspects that also seem contradictory: the need for security versus the need for freedom - to choose how to fill your time, to select your projects with which you want to be associated, to have free time for yourself and your loved ones, provided that you have money to fund those moments.

As more people understand that security comes from independence (contractual and financial), and customers understand that the value of paying just for what they consume, the evolution to the platforms and the 'gig economy' is on the way. Players who will understand this and will consolidate themselves to be first movers in



this direction have the greater chance of being the 'winners' of this new mega-wave. We believe that the platform we have built so far is well positioned to be one of the cores of this consolidation, at least at national and regional level.

An important note about the end of 2018 is that we have been able to identify the technical solution to address one of the risk elements that the company has had over the past 4 years. It is about the fact that until 2019, the "Bittnet" brand was not owned by the company - the historical situation with which we started our journey on the public markets. In previous years we have promised our shareholders that we will look for a solution to this problem, a solution which would not impose any cost on the minority shareholders who joined the company after 2015. During 2018 we succeeded in achieving this goal as the company has finally acquired the trademark from its holder for RON 5.8 million, the value established in an assessment report prepared by an independent certified assessor. The founders took over the burden of the company's debt to the owner of the brand in person, thus generating zero costs for the company nor for the minority shareholders. This operation, together with the completion of the first Stock Option Plan, voted by the general assembly in April 2016, generated an increase in the Group's assets by almost RON 10 million. If we also add the investment in Crescendo's IT&C integration division, the Group's fixed assets exceeded RON 20 million - a significant increase, especially taking into account the "light asset" characteristic of the IT domain.

Apart from delivering the financial results, we remain committed to delivering the highest levels of transparency and openness towards our investors and we are pleased that in 2018, our efforts in this regard were recognized twice – first by the Bucharest Stock Exchange, which in February 2019 recognized Bittnet during the 2018 Capital Markets Awards and designated us as the company with the most active use of capital markets instruments, and secondly by the jury of 35 international capital markets experts and professionals, who awarded us with first prize for the 'Best IR department in the Central and Eastern Europe'. Humbled by these recognitions we are also extremely proud to be considered a company of reference in terms of our capital markets presence not only in Romania, but also in the region. We believe this is a good sign ahead of Bittnet's transfer to BVB's Main Market, which was approved by our shareholders during our December AGEA. We expect for the formal transfer to take place at the end of this year, subject to specific market conditions and we expect to communicate further details as we begin preparing for this significant event.

Similar to last year, I would like to finish this letter by inviting you all – our shareholders, future investors, representatives of the capital markets institutions as well as journalists – to Bittnet's 2019 Investor Day, which will take place on April 17th, 2019. Following the success of the last year's first edition, we are looking forward to welcoming you all at our offices and to bringing you yet one step closer to our universe by sharing with you our results, plans as well as objectives for the coming period. We hope you will all join us numerously!

Mihai Logofatu

CEO Bittnet Group

## Key events in 2018

CISCO Certified Gold Partner Status Extension | January 2018



On January 22nd, 2018, Bittnet received the extension of the 'CISCO Gold Certified Partner' status for 2018, after passing the audit realized by the American vendor, Cisco Systems. The audit has checked the existence of company-wide standardized processes and procedures for treating customers and projects in a unitary manner, sales competences, project management as well as technical skills for delivering and maintaining complex IT solutions as well as the way of responding to technical support tickets opened by the clients. The audit has also checked the customer satisfaction, business practices as well as the Company's capacity of integrating Hybrid IT, Cloud and Management Services solutions based on CISCO Technology. The status of "Cisco Certified Gold Partner" is verified and extended by the American vendor every year.

### Recognition from the Bucharest Stock Exchange | February 2018

On February 20th, during the Inauguration of the 2018 Stock Exchange Year, in front of over 600 local and international representatives of the capital market, Bittnet has received an award in 'The issuer with the most active usage in 2017 of capital market financing opportunities' category. This special distinction, awarded by the Bucharest Stock Exchange, the Romanian market operator, was a form of recognition of the Company's active use of financing mechanisms offered by the AeRO market as well as implementation of the highest corporate governance and investor relations standards.

### Improved financing model | February, May, November and December 2018

In February 2018, the Company has informed the shareholders about the new operations regarding two bank loans with ProCredit Bank – a revolving overdraft contract in the amount of RON 2,790,000 with a fixed interest rate of 3,75% per year, and signing of a credit contract with the same financial institution amount of RON 697,000 with an interest rate of ROBOR6M+1,5% per year and 3 years maturity, with monthly reimbursements. The loans intend to finance current activity, working capital and the development plans of Bittnet.

Same month, Bittnet has extended the loan contract to Dendrio from an initial amount of EUR 90,000 to a new ceiling of EUR 1 million. The new interest rate for this loan is 6.5% per year. The reason for this EUR currency loan contract between the two companies is that Dendrio makes more foreign currency payments to foreign vendors, whereas Bittnet has more foreign currency receivables than payables. Under this model, Bittnet obtains FCY reserves, while Dendrio needs to negotiate and buy FCY to cover payments. With the loan agreement the two companies intend to decrease the FX exposure and minimize currency exchange costs.

In May 2018, the company has further improved the financing structure of Dendrio Solutions SRL by signing a revolving overdraft contract with ProCredit Bank in the amount of RON 1,800,000, with an interest rate of ROBOR3M+2.5% per year and a 36 months maturity. The loan will be used for financing current activity and working capital of Dendrio Solutions SRL.

In November 2018, the company has further contracted a revolving overdraft contract with ING Bank Amsterdam, Bucharest Branch in the amount of RON 2,000,000 with an interest rate of ROBOR1M+2.9% per year and a 1-year maturity, with an extension possibility. The loan will be used for financing current activity and working capital of Dendrio Solutions SRL.





In December 2018, Bittnet contracted a ceiling product from Banca Transilvania for Dendrio Solutions SRL in the value of RON 1,000,000, with a maturity of 15 months and interest of ROBOR3M+3.8% (based on the actual value used). The product provides access to corporate credit line as well as different types of non-cash Guarantee Letters (bank guarantee letters, performance letters, vendor payment guarantee, prepayment, etc.). The company intends to use this banking product to stop “blocking” its own cash to issue Guarantee Letters and to unlock the current guaranteeing instruments of this kind.

## Announcement of planned acquisition of ELIAN Solutions and Equatorial Gaming | March 2018

With the publication of the convening notice for the 2018 General Shareholders' Meeting, it was officially announced that the Company wishes to acquire stake in two local companies – 51% stake in Elian Solutions SRL and 25% stake in Equatorial Gaming SA. Elian Solutions is a company with over 10 years' experience in providing implementation services for the Enterprise Resource Planning (ERP) solution, Microsoft Dynamics NAV while Equatorial Gaming is a game-based learning company. Elian Solutions' portfolio perfectly completes the IT services and secured hybrid cloud solutions portfolio of Dendrio, the integrator of the Bittnet Group, while the game-based learning platform of Equatorial Marathon fits well with the IT training solutions provided by Bittnet Training.

The acquisition of the stake was approved by the April GSM and at the end of July 2018, Bittnet has signed the first investment contract, for 51% stake in Elian Solutions. The signing of the second investment contract, for a 25% stake in Equatorial Gaming, took place at the beginning of August 2018.

## Bittnet Investor Day | April 2018

On April 19th, 2018, Bittnet organized the very first edition of Bittnet Investor Day at the Company's headquarters in Bucharest. It was one of the first events of such sort in Romania and the Company has managed to host around 70 investors, shareholders, representatives of the local capital market as well as the media. During the event, the company's management has presented the strategy for the next years, which focused on reaching a target of revenues on the Group level of RON 100 million by 2020, presented new brand Dendrio, which has replaced what was formerly known as GECAD NET as well as hosted presentations of management from Elian Solutions and Equatorial Marathon.

## General Shareholders' Meeting | April 2018

On April 25th, 2018, the General Shareholders' Meeting of the Company took place during which the shareholders have approved, among other points, the following items on the agenda:

- Extension of the administrator contract to Mr. Mihai Logofatu until June 30th , 2021;
- Extension of the financial director contract to Mr. Cristian Logofatu for two more years;
- Capital increase of the amount of RON 1.826.655,40, equal to the company's previous years' profits, by issuing 18.266.554 new shares with nominal value of RON 0,1 per share, to be distributed to shareholders at the registration date of June 29th, 2018. The allocation ration of the newly issued shares was 3 bonus shares for 5 shares held; fractions were not compensated;



- Increase of shared capital through new contributions (with pre-trade of the preference rights) – by offering 3.044.426 new shares to be offered for subscription at a price of RON 0.95 per share;
- Investment to acquire up to 51% of shares of company Elian Solutions SRL;
- Investment to acquire 25% of shares of company Equatorial Gaming SA and financing with convertible loan for up to 20% of company's share capital;
- Issuance of convertible corporate bonds with a maximum value of RON 50 million;
- Issuance of non-convertible bonds with a maximum value of RON 50 million;
- Incentive plan for the key personnel, a stock option plan (SOP), which offers an option to purchase share in the maximum amount of 5% of the total number of shares of the Company at a preferential price.

The full text of the decisions rendered during the General Shareholders' Meeting can be found at the following link: [http://bvb.ro/info/Raportari/BNET/BNET\\_20180425183237\\_Current-report---Results-of-shareholder-meeting---EN-docx.pdf](http://bvb.ro/info/Raportari/BNET/BNET_20180425183237_Current-report---Results-of-shareholder-meeting---EN-docx.pdf)

### Information about shareholding thresholds | April 2018

On April 27th, the holding of Carpathia Capital SA in Bittnet's voting stake has dropped below the threshold of 5%. The change in the holding resulted from the sale of shares by trading on the secondary market. Prior to the sale, which took place on April 25th 2018, Carpathia Capital held 1,522,214 shares, giving 5.000% of votes at the General Shareholders' Meeting and after sale, it held 1,448,556 shares with 4.758% of votes at the GSM.

### Significant contract | May 2018

On May 24th, the Company has informed the shareholders about signing of a significant contract with an electronic household manufacturing producer for the development of a new production capacity in Dambovita county (a greenfield investment). Bittnet was contracted for the delivery of IT equipment, technological solutions and wi-fi installation services and the value of the contract was USD 450,000.

### Registration of free shares | June 2018

On June 27th, 2018, Bittnet received certificate attesting the registration of the share capital increase with 18,266,544 free shares issued as a result of the GSM resolution from April 25th, 2018. The registration date was established for June 29th, 2018 and the payment date, that is the date on which the newly issued shares were available for trading, was July 2nd, 2018.

Following the registration of the free shares on July 2nd, the market capitalization of Bittnet has overpassed the historical level of RON 50 million.



## Introduction of Dendrio brand and new division structure | June 2018

In April 2018, during Bittnet's Investor Day, the Company has officially launched Dendrio, a new entity within Bittnet family, which combines IT integration services that were previously rendered under two separate brands – Bittnet and GECAD NET. Following this announcement, in June 2018, the company announced a new structure with the Group, focused on the following key domains of activity:

- Education, which currently consists of IT training segment where Bittnet is the market leader, and which in the future will also include any other education-based initiatives, including future integration of activities of Equatorial Gaming, a game-based learning company. Education activities will be carried out under Bittnet Training brand.
- Technology, which will be focused on IT integration services, offering integration solutions that were previously offered by both, Bittnet and GECAD NET. This activity will have shared products, services and solutions portfolio and a larger team that allows for a bigger workload, both from technical and sales standpoint. Elian Solutions, a company in which Bittnet took a 51% stake earlier this year, completed the services offer by adding ERP solutions to the Group's portfolio.

At the same time, Bittnet aims to accelerate the development of the international division that started to take shape over the last two years and that is expected to generate increasing percentage of revenues. The responsibilities under this division include opening new offices abroad, expanding sales and delivery capacities across borders. International activities will also be carried out under Bittnet brand.

## Private Placement for BNET23 bonds | June 2018

On June 26th 2018, the private placement for Bittnet's 3rd corporate bonds issuance begun. The offering has closed on July 4th and the Company has managed to successfully raise RON 4.7 million. The most part of this capital raised fueled the acquisition of a 51% stake in ELIAN Solutions and 25% stake in Equatorial Gaming, while the remaining amount was used as working capital.

The bonds have a face value of RON 100, a maturity of 5 years and a yearly coupon of 9%, payable quarterly. The placement was subscribed by 32 natural persons, 1 legal entity and 3 investment funds.

Due to the large interest coming from investors, the offering was closed 9 days ahead of the end of the subscription period, which was initially established for July 13th.

In accordance with the resolution of the Extraordinary General Shareholders' Meeting from April 25th, 2018, BNET23 bonds floated in November 2018 on the ATS-Bonds market operated by the Bucharest Stock Exchange, under BNET23 symbol.

## Signing investment contract for ELIAN Solutions | July 2018

On July 24th, 2019, Bittnet has successfully closed the negotiations and signed a contract for an investment in Elian Solutions SRL. Through this operation, Bittnet gained a controlling stake of 51.0082% of the acquired company. The mandate to negotiate and sign the agreement has been granted to Bittnet's management by the Shareholders Meeting Decision nr. 7 from April 25th, 2018.



The investment in Elian Solutions was performed in 2 stages. In the first stage, Bittnet participated in the company's capital increase, which allowed it to reach a 33,33% stake in Elian Solutions. In the second stage, the founders have agreed to sell additional stake in the company so that Bittnet reaches 51.0082% shareholding position in Elian Solutions. The deal was finalized by end of August 2018. The capital for this transaction has been raised by Bittnet during BNET23 placement of corporate bonds.

### Signing investment contract for Equatorial Gaming | August 2018

On August 13th, 2018, Bittnet has successfully closed the negotiations and signed a contract for purchasing a 24,9989% stake in Equatorial Gaming SA. The investment had two components. In the first phase, Bittnet acquired 24,9989% of Equatorial Gaming shares in exchange for RON 1,050,000. In the second stage, Bittnet granted Equatorial Gaming a convertible loan (with a conversion option at discretion of Bittnet's management) in the amount of RON 1,050,000, for the period of 3 years, with an interest rate of 9% per year. In case of exercising the convertibility option, Bittnet's stake in Equatorial Gaming will reach 45%. The capital for this transaction has been raised by Bittnet during BNET23 placement of corporate bonds.

### Recognition during CEE Capital Markets Awards | September 2018

On September 12th, during the 4th edition of the Central and Eastern European Capital Markets Awards that took place in Warsaw, Poland, Bittnet received the first prize in the "Best IR department of a listed company in CEE" category. The distinction came as a recognition for Bittnet's efforts to introduce the highest standards of communication with investors in Romania. The jury that awarded Bittnet consisted of 35 experts from international financial community, including CEOs of 5 stock exchanges from the CEE region.

### Signing investment contract for IT&C division of Crescendo International | October 2018

On October 15th, 2018 Bittnet announced that it has successfully closed negotiations for business transfer of the IT&C integration activities of Crescendo International SRL, a company with 25 years of experience in Romania and foreign markets. Along with the transfer of the IT&C equipment as well as all the other assets that are needed to carry out the ongoing work, the parties also agreed for the transfer of 41 employees from Crescendo International to Dendrio, a Bittnet company. As a result of the merger, Dendrio is able to benefit from a more stable business structure, extended personnel as well as enlarged portfolio of customers, products and services.

Crescendo was established in 1993 and was specialized in providing personalized IT&C applications, solutions as well as services. In 2017, the company recorded revenues of RON 79,2 million (an increase of 56% compared to result from 2016) and a net profit of RON 4,4 million (+140% compared to 2016). Prior to the transaction Crescendo had more than 60 employees, 200 active clients and over 2,000 projects successfully implemented in Romania and abroad. The transaction was subject to the approval of the General Shareholders Meeting of the two companies as well as the approval of the Competition Council and has received all of them by the end of 2018. The business transfer was officially finalized by December 31st, 2018.



### Floating BNET23 bonds on ATS AeRO market | November 2018

On November 28th, 2018, BNET23 bonds floated on the ATS AeRO market of the Bucharest Stock Exchange. It was the third issuance of Bittnet to float on the local stock exchange, following BNET19 and BNET22.

### Receiving approval from Competition Council to acquire IT&C division of Crescendo International | December 2018

On December 7th, Bittnet received from de Competition Council approval for the business transfer of IT&C integration division of Crescendo International SRL to Dendrio, a Bittnet company. Under the notified transaction, Crescendo International SRL agreed to transfer to Bittnet a significant part of its business, representing 97% as rate of the turnover.

### Share capital increase with cash contributions | December 2018

On December 14th, Bittnet has closed the subscription process in the capital increase operation approved by the Extraordinary Shareholders Meeting of April 25th, 2018.

During the first stage of the subscriptions, which took place between November 6th and December 6th, 2018, Bittnet sold 2,866,255 shares (94.14%) for RON 0.95 per share. In the second stage, the 178,171 unsubscribed shares from Stage 1 (5.86%) were subscribed in a private placement. In the second stage the shares were subscribed at a price of RON 0.99 per share by 10 individual investors. During both stages, the Company attracted a total amount of RON 2,899,331.54 in the capital increase operation. The capital increase was registered by the Trade Register on December 18th, 2018.

### Extraordinary General Shareholders' Meeting | December 2018

On December 17th, 2018, the Extraordinary General Shareholders' Meeting of Bittnet took place during which the shareholders have approved, among other points, the following items on the agenda:

- Business transfer of the entire IT&C integration activity of Crescendo International SRL to Dendrio Solutions SRL, a Bittnet company;
- Issuance of non-convertible corporate bonds with a maximum value of EUR 10 million;
- Transfer of Bittnet shares from AeRO to the Main Market of the Bucharest Stock Exchange.

The full text of the decisions rendered during the General Shareholders' Meeting can be found at the following link: [http://www.bvb.ro/info/Raportari/BNET/BNET\\_20181217153001\\_Current-report---Results-of-Shareholder-Meeting--ENGL.pdf](http://www.bvb.ro/info/Raportari/BNET/BNET_20181217153001_Current-report---Results-of-Shareholder-Meeting--ENGL.pdf)



### Private Placement for BNET23A bonds | December 2018

On December 27th, 2018, Bittnet has successfully closed the 4th private placement of corporate bonds, 2nd one from 2018. During BNET23A placement, the Company obtained RON 9,703,700 from 20 individual investors and one legal person. During the placement process, 21 transactions totaling 97,037 nominative, dematerialized, unconvertible, unsecured corporate bonds, with a face value of 100 lei / bond, were settled through the Bucharest Stock Exchange mechanisms (POFBX market).

BNET23A bonds have 5 years maturity, fixed interest rate of 9% per year, payable semi-annually and the allocation date is 28.12.2018. The company used the funds raised in the BNET23A issue to finance the business transfer of Crescendo International's IT&C division and its integration into Bittnet Group structure, according to the approval of the EGMS on 17 December 2018.

BNET23A bonds floated on Bucharest Stock Exchange's ATS-Bonds market on February 18th, 2019, under BNET23A symbol.

### Business Transfer of Crescendo International | December 2018

On December 31st, the business transfer of the IT&C integration activity of Crescendo International SRL to Dendrio Solutions SRL, a Bittnet company, has been formally completed. The transaction, totaling RON 10,9 million, was financed through corporate bonds issuance BNET23A, which was closed on December 27th, 2019. Along with the transfer of the IT&C equipment as well as all the other assets that are needed to carry out the ongoing work, the deal also involved the transfer of 41 employees from Crescendo International to Dendrio.

### Payment of BNET bond coupons | Throughout 2018

Throughout 2018, the Company has paid coupons on three of its bond issuances – BNET19, BNET22 BNET23. For BNET19, the 7th coupon payment was made on April 3rd, 2018, the 8th coupon payment was made on July 2nd, 2018 and the 9th coupon payment was on October 3rd, 2018. For BNET22, the 2nd payment coupon was made on March 1st, 2018, the payment for the 3rd coupon was done on May 29th, 2018, the 4th coupon payment was on September 3rd, 2018 and the 5th was on November 28th, 2018. For BNET23, the 1st coupon payment was made in August 2018 and the 2nd coupon payment was made in November 2018.

In cases of all issues, BNET19, BNET22 and BNET23, the company is up-to-date with the payment of the interest to its investors.



## General information about the Issuer

Bittnet was founded in 2007 by Mihai and Cristian Logofătu, both of whom are still occupying leadership positions within the company. From its early beginnings, Bittnet was focused on delivering IT training and integrated network solutions, based on the technologies of the market leaders like Cisco, Microsoft, Dell, Oracle, HP, VMware, Google, Amazon Web Services, etc.

In February 2009, the company changed its legal status into a joint-stock company (SA), following an increase of share capital, using profits generated in 2008. In 2012, the company had another capital infusion received from business angel Razvan Capatina, who still remains a significant shareholder of the company.

Since March 2015, Bittnet is listed on AeRO market of the Bucharest Stock Exchange with ticker BNET. Bittnet was the first IT company to ever list on the BVB, following an infusion of EUR 150K into the company, received from Polish fund Carpathia Capital SA in exchange for 10% stake. Since then, Bittnet has been actively using capital markets mechanisms in order to grow and develop, having already successfully placed five bonds issues, 2016, 2017, 2018 (twice) and in 2019. In almost 4 years since listing on the Bucharest Stock Exchange, Bittnet has attracted more than EUR 10 million using capital market financing mechanisms (corporate bonds, capitalization of profits, capital increases, etc.), with part of the capital being used for fueling M&A activity. Since 2016, the company has followed the patented success model of Banca Transilvania, distributing to the shareholders the accrued profits in the form of free shares, and consistently growing its share capital through the years.

In 2016, the company has created a new area of competence by introducing consultancy and cloud migration services. As a result thereof, Bittnet has launched a number client-engaging actions strictly for this range of services, targeting a new group clients, with a slightly different profile. Throughout 2017, the company continued to invest in increasing and diversifying the technical competencies specific to AWS and Azure in order to be able to respond to incoming requests.

The company's founders have always believed that the Romanian IT market needs to be strengthened and consolidated. This is why in the course of 2017 the company has identified the first opportunity to act in this direction and acquired GECAD NET from Radu Georgescu. The process of acquiring and the subsequent turnaround was a success as following the acquisition, at the end of 2017, GECAD has ended the year on profit for the first time in 3 years. In the first half of 2018, GECAD Net rebranded to Dendrio Solutions. Today, Dendrio is the only "multi-cloud" integrator in Romania, having a consolidated position as a highly certified company by the world's leading IT vendors focusing on cloud and cybersecurity.

In April 2018, Bittnet has adopted the Group structure and restructured the business, which is nowadays based on two key vectors:

- Education, which currently consists of IT training segment where Bittnet Training is a market leader.
- Technology, which will be focused on IT integration services, offering integration solutions that were previously offered by both, Bittnet and GECAD NET. This activity will have a shared products, services and solutions portfolio and a larger team that allows for bigger workload, both from technical and sales standpoint.

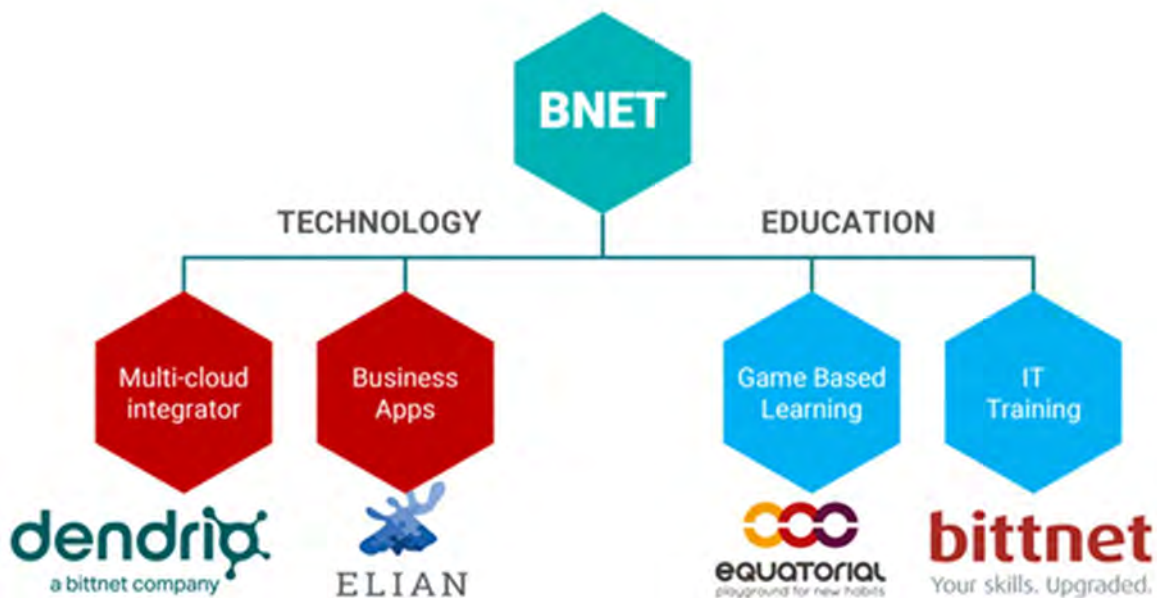


Soon after announcing the new structure, Bittnet has announced two new acquisitions – purchasing of a majority stake in ERP solution provider, Elian Solution as well as game-based learning company, Equatorial Marathon. Following the acquisition, activities of Equatorial Solutions were integrated under ‘Education’ division while Elian completed the IT integration services offer by adding ERP solutions to the group’s portfolio. In October 2018, Bittnet has announced that it has successfully closed negotiations for purchasing the IT&C integration activities of Crescendo International SRL, a company with 25 years of experience in Romania and foreign markets. The activities of Crescendo were integrated in Dendrio and, as a result of the merger, the company was able to benefit from a more stable business structure, extended personnel as well as enlarged portfolio of customers, products and services.

Today, Bittnet Group has two key 2 divisions, education and technology. The company has a total of 120 employees and collaborators, who work in and for one of the 5 companies included in the group.

## Group Structure

Following two years of consistent acquisitions, Bittnet Group has undergone a major development – from a single company operating in two key areas of education and technology to a Group that now includes several organizations active in these two key areas of interest.





**EDUCATION DIVISION, led by Dan Berteanu, Vice-President for Education at Bittnet Group**

I. Bittnet Training

- Shareholding structure: mother-company, Bittnet Systems SA, which is listed on the stock exchange, which keeps at this moment the IT training activity
- Responsible: Dan Berteanu, VP of Education Bittnet Group
- Number of employees/collaborators: 20
- 2018 revenues: RON 25,757K, 18,3% growth compared to 2017<sup>4</sup>
- 2018 net profit: RON 3,746K, 135% growth compared to 2017
- Website: [www.bittnet.ro](http://www.bittnet.ro), <https://bittnet.training>

Bittnet Training is the IT training market leader in Romania, with approximately 20 years of experience and the largest team of trainers in Romania. Throughout the years, the company has delivered more than 50,000 hours of IT training and currently has one of the most comprehensive and updated curricula in the CEE region. The trainings offered by Bittnet enable people's access to technology by teaching IT skills, from the basic (e.g.: Microsoft Office Suite), to the most advanced (Cloud, DevOps, Cybersecurity). The business training portfolio of Bittnet includes project management, IT services management, business intelligence, CRM, ERP, Agile etc.

Bittnet is certified as a training center licensed by the world's largest technology manufacturers, offering the largest training portfolio on the Romanian market: Cisco, Microsoft, Amazon Web Services, Oracle, ITIL, Citrix, etc. Through the partnerships at European level (LLPA - the Association of the Most Important Training Centers in the World), Global Knowledge, etc. Bittnet offers a portfolio of more than 1000 official courses, thus extending the vendor portfolio with names like VMWare, IBM, RedHat, etc.

Bittnet offers a wide range of IT courses. Each course can be sustained in two flexible modes: intensive (5 days a week, 8 hours a day) or mixed format (2/4/6 hour courses, depending on customer needs). Each student gets access to dedicated equipment, official curriculum, and online and offline exams.

Having the opportunity to deliver courses both in Romanian and in English, the company operates in a strategic partnership with Global Knowledge, the global leader of the IT training market. Starting in 2016, Bittnet has joined the largest association of training partners Microsoft - LLPA.

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<sup>4</sup> The turnover of Bittnet Systems SA in 2018 was RON 19 million and revenues RON 25.7 million lei. In addition, to the IT training activity, Bittnet also registered IT integration and cloud revenues, which are allocated to the business line of Dendrio. Strictly IT training turnover was RON 8.28 million, a +3% vs 2017



**II. Equatorial Gaming SA**

- Shareholding structure: 24,9989% Bittnet SA (with option to increase until 45%); rest - founders
- Responsible: Diana Rosetka, Managing Partner
- Number of employees/collaborators: 15
- 2018 revenues: RON 3,218K, 4x growth compared to 2017
- 2018 net profit: RON 217K, compared to losses of RON83K in 2017. The positive evolution of financial results has been helped by business transfer to the entity that the team has previously run, United Business Dynamics. If we look at "consolidated" financial results, Equatorial has seen a 11% increase in turnover. It is worth mentioning that Equatorial pays a 9% annual interest to Bittnet for a convertible loan of RON 1.05 million.
- Website: [www.equatorial.ro](http://www.equatorial.ro), [www.vrunners.com](http://www.vrunners.com), [www.equatorialmarathon.ro](http://www.equatorialmarathon.ro)

Equatorial is specialized in designing and implementing experimental, game-based learning projects. The company designs and implements custom-made learning projects in the following areas: leadership, motivation & engagement, interpersonal relationships, communication and emotional intelligence. In 2015, the company has invented and launched Equatorial Marathon, an Alternate Reality Game for corporations, which increases the level of engagement and stimulates behavioral changes in employees. The product is available 24/7, on multiple devices and has been used for learning projects, conferences and academic masters in Romania, Poland, Italy and France.

In 2018, the company launched a new learning mobile game, called VRUnners, which began generating financial results.

From an operational point of view, 2018 was a good one for Equatorial:

- The company won 2 prizes at the HR Excellence Awards Gala in April 2018;
- The company gamified event organised by Cariere, HR Play Tech, for the 4th consecutive year as well as gamified the LLPA Summit from Bordeaux;
- The company gamified ASE Master in HR for the third consecutive year;
- Secured contract with Raiffeisen Bank in the amount of EUR 150,000 which will finance the launch of game Catalizator (a business- focus and intraprenariat game) which will be available to be sold to other companies starting with October 2019;
- The company won an EU project with Renault, worth EUR 75,000
- The company signed the extension of a inter-company project with Engie-Renault-BRD for 2019, with a new series of students, the project being worth EUR 40,000



**TECHNOLOGY DIVISION, led by Cristian Herghelegiu, Vice-President for Technology at Bittnet Group**

## III. Dendrio Solutions SRL

- Shareholding: 100% Bittnet SA
- Key responsible: Cristian Herghelegiu, CEO
- Number of employees/collaborators: 65
- 2018 revenues: RON 27,750K, 27% growth compared to 2017<sup>5</sup>
- 2018 net profit: RON 1,131K, 5x growth compared to 2017
- Website: [www.dendrio.com](http://www.dendrio.com)

The IT solutions provided by Dendrio include: general consultancy services, IT assessment services, implementation and migration services, maintenance and support services, infrastructure optimization services and IT training services. The company is the only "multi-cloud" integrator in Romania, consolidating its position as a highly certified company by the world's leading IT vendors, focusing on cloud and cybersecurity. As of December 31st, 2018, Dendrio also includes the IT&C division of the Crescendo International SRL that was acquired by Bittnet Group in Q4 2018.

Integrator business means that Dendrio offers to its clients solutions and services that they need, starting with the initial analysis, design, implementation and testing phase resulting in turnkey projects for companies with different IT needs:

- Network infrastructure (routing, switching, Wi-Fi, optimization, consulting);
- Cybersecurity (network security, datacenter security, user-device security, IPS, Advanced Malware Protection, Next Generation Firewall, security for e-mail and web);
- Network management (monitoring and alerting, centralized management, traffic analysis);
- Migration and cloud services (privat, public and hybrid cloud, switching from one version to another, migration and relocation step-by-step);
- Virtualization and data center (computing, storage, networking, backup, virtualization platforms, VDI)
- Employee mobility, including Bring Your Own Device - BYOD;
- Communications and centralised collaboration (IP telephony, DECT phones, instant messaging, online presence, web conferences);
- Video conferencing, including telepresence (for desktops, offices, conference rooms, smartphones, tablets, notebooks and workstations, integration with smartboards);
- Software licences (Microsoft, Adobe, Cisco, Bitdefender, Dell, VMware, Veeam);
- Maintenance and support services.

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<sup>5</sup> If we analyse from the perspective of operational allocation, the total revenues from IT integration and cloud in amount of RON 39 million, 4 million more than the value of 2017 revenues. A part of this revenues were recorded by Bittnet



## IV. Elian Solutions SRL

- Shareholding structure: 51.0082% Bittnet SA, rest split equally between founders
- Responsible: Iulian Motoi, CEO
- Number of employees/collaborators: 15
- 2018 revenues: RON 3,983K, 10% growth compared to 2017
- 2018 net profit: RON 188K, 75% growth compared to 2017
- In 2018, for the first time, Elian begun to provide and deliver services abroad, to customers from 4 countries: Bulgaria, Croatia, Germany and the USA
- Website: [www.elian-solutions.ro](http://www.elian-solutions.ro)

Elian Solutions is specialized in providing implementation services for the Enterprise Resource Planning (ERP) solution, Microsoft Dynamics NAV. Elian is the only Gold Certificate partner for this solution of Microsoft in Romania. The solution implemented by Elian allows companies to know the status of their inventory, assets and liabilities as well as it helps predict, inter alia, the cash-flow and to trace the production processes.

The Elian team is working on finalizing the localization process for Romania of Microsoft's future integrated ERP - "Microsoft Dynamics 365 Business Central", to be released in March 2019 by Microsoft. It is intended that, by the end of first half of 2019, Elian will obtain from Microsoft the certification of Dynamics 365 Business Central localization solution.



## Information about the evolution of shares and bonds on the stock exchange

2018 was a year of continued efforts to strengthen the status of a highly transparent public company (included in the "Premium" category of the AeRO-ATS market), which uses financing mechanisms of the capital market. In this regard, our efforts were rewarded with the prize for Best IR Team in Central and Eastern Europe at CEE Capital Markets Gala Awards in Warsaw in autumn 2018.

In 2018 we continued to operate on the capital market, following Banca Transilvania, Impact or Albalact successful models, that combine capitalization of profits through distribution of free shares and offering investors new shares at advantageous prices. The General Shareholders' Meeting of April 2018 approved such a combined operation, which was carried out with the help of the Central Depository and the Bucharest Stock Exchange, in two stages:

In July 2018, free shares (6 free shares for each 10 shares held) were distributed and loaded to the shareholders' trading accounts.

In January 2019, we completed a new share capital increase with new cash contributions - an operation that brought in the company's treasury almost RON 3 million; the maximum number of new shares were completely subscribed, similarly with the the same operations from previous years.

At the same time, the market appreciated the activity of our company. The evolution of BNET shares was yet again one well above the market average, as indicated by the BET index. We also consider important to mention the liquidity of Bittnet shares (BNET), which were traded in 3500 transactions, thus becoming the most traded issuer on the AeRO market, an accomplishment for which we received an award at the Brokers Association Gala in December 2018. During 2018, a volume of 4,542,255 BNET shares, that is 35% of the free float, were traded in the secondary market (excluding the DEAL transactions).



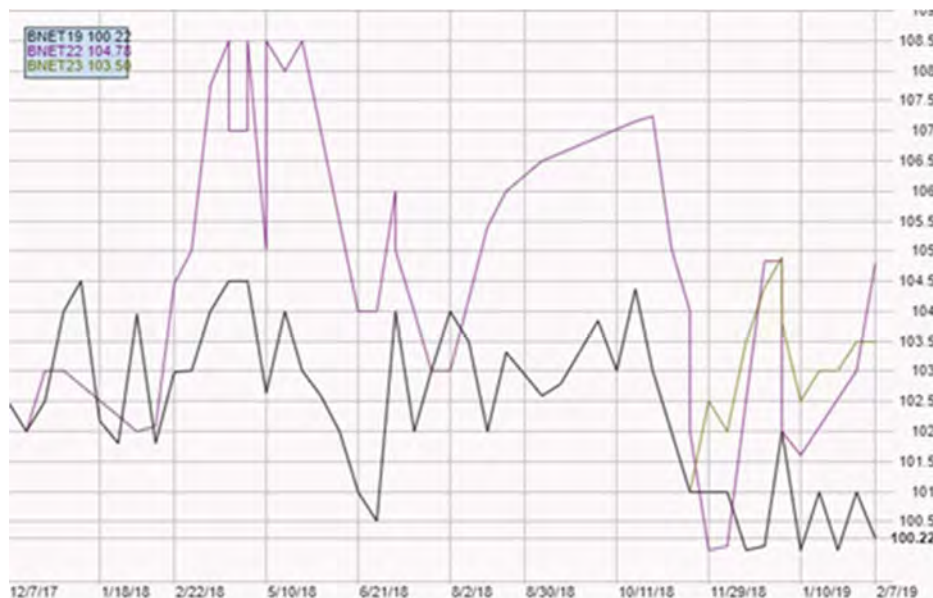
In 2018, the company continued being up-to-date with coupon payments for BNET19 and BNET22 bonds and issued two new bond issues - BNET23 (listed on ATS-Bonds market in November 2018) and BNET23A (listed on ATS-Bonds market in February 2019). All 3 bond issuances continued to be highly traded, providing the initial investors with liquidity as well as relevant returns for new investors/buyers. All the bond issues were traded above the face value - up to a maximum of 106%. The BNET19 bonds were redeemed by the company in February 2019 to reduce the company's indebtedness rate and financial expenses.

During 2018, the BNET19 bonds were traded in a number of 159 transactions, which represents a volume of 1.271 bonds (30.36% of the total issue of 4,186 bonds) and a cumulated value of RON 1,306,211.27;

14,585 of BNET22 bonds changed their holders in 388 transactions throughout 2018, which represents 32.41% of the total volume of the issuance.

With regard to BNET23 issue, there has been a growing trading volume since the listing of the bonds in November 28, 2018. In just 19 sessions, 5,235 BNET23 bonds changed the owners in 176 executed orders, with a total value of RON 536,392.42, which places this issue as the most traded in the history of Bittnet.

BNET22 and BNET23 bonds have a fixed interest rate of 9% per year, payable quarterly through the Central Depository. Regarding BNET19 issue, the Company exercised the call-back option through which it repaid in full the face value to the borrowers, as the issuer informed the Market through a Current Report published on 07.02.2019.



For 2019, we intend to continue with the same successful model – full capitalization of profits executed in parallel with increasing capital with new cash contributions, to further strengthen the Company's financial position.



## Overview of results with profit allocation proposal

The financial results of the company confirm the management's approach to running the company given the specifics of the business. As we are in a knowledge business, this requires a great team of professionals, both on the sales, operations and technical implementation sides. This approach leads to a relatively high fixed costs structure. However, after the gross margin generated by the business surpasses the fixed costs threshold, most of the new gross margin generated instantly becomes profit.

An extra peculiarity, resulting both from the business cycle and from the high fixed cost structure, is the profit concentration in Q4 (with the highest earnings). This peculiarity presents the risk that an amount of delays in the sales process (delays in the process of projects "closers") or delivery processes will generate the impossibility of recognizing some revenue in a given fiscal year, which may negatively affect the financial result. In 2017, there was a repeat of the situation from 2014, when some clients delayed (possibly deliberately) placing orders so they did not record their costs in the fiscal year 2017. These projects were not lost, and on a historical scale, and the company's situation was unimpeded. Instead, it generates lower sales than those we consider potential, as well as profits. On the other hand, from the point of view of ensuring profitability, stability and improving the cash flow for the first quarter of 2019, the delivery of these negotiated projects in 2018 as of January 2019, generates a significant improvement.

We intend to pursue the same growth strategy in 2019, relying on the three pillars of growth:

- capitalizing on industry trends: cloud, cyber security and "everything as a service";
- widening the product portfolio: upsell and cross-sell, a strategy strongly fueled by the Crescendo business transfer investment, but also by the two previous investments - Elian and Equatorial;
- capitalizing on the trend of 'uberising' services worldwide - aiming to migrate to a model of IT&C proficiency platform for both customers and suppliers, partners, freelancers. Hybrid cloud services will continue to receive more attention from the entire team and we want to deliver more cloud-related services in 2019, including "as a service" deliveries based on an IT or leased IT infrastructure, not to sell only hardware solutions. We intend to accelerate migration towards a managed services approach.



	2016 Individual Bittnet	2017 Consolidated	2018 Consolidated	Evoluție FY18 / FY17
Total revenues, out of which:	13,849	43,675	53,376	+21.5%
Revenue related to trademark			5,876	
Revenues, out of which:	13,695	43,307	47,195	+10%
IT Integration	8,251	33,626	36,358	+10%
IT Training	5,405	8,078	8,280	+3%
Cloud	905	1,603	2,557	+60%
Total COGS	(6,315)	(32,305)	(38,386)	+19%
Indirect Costs	(5,505)	(7,763)	(7,832)	+1%
Operational Profit	1,825	3,028	1,100	-58%
Interest	(328)	(851)	(1,240)	+46%
Amortization	(114)	(99)	(93)	-10%
Gross Profit	1,383	2,079	5,643	+180%
Net Profit	1,158	1,761	4,878	+177%

In order to continue to be a company in the outpost of technological development - and through that, continue to be relevant to our partners - our strategy must also provide financial stability. Management intends to propose an increase in the company's share capital using current and unpaid profits from previous years, by issuing free shares to be distributed to shareholders.

We intended to propose a distribution rate of 1 new free share to 1 share owned .In addition, we intend to propose a capital injection with new contributions related to Main Market transger, aiming to obtaining significant capital to fuel development plans, but also to strengthen the financial position of the company. Bittnet will aim to rise RON 7-12 million in new contributions.

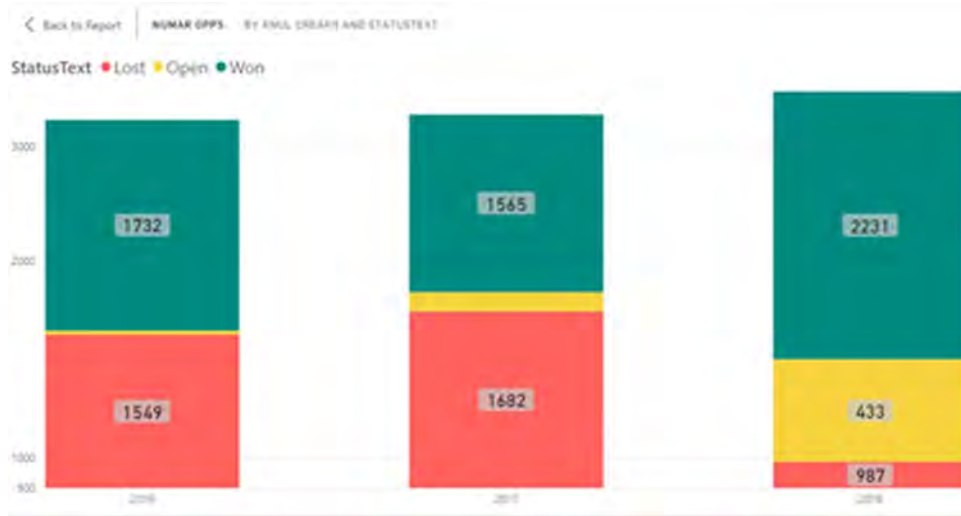




## Analysis of the activity: Key Points and Highlights

### Sales team

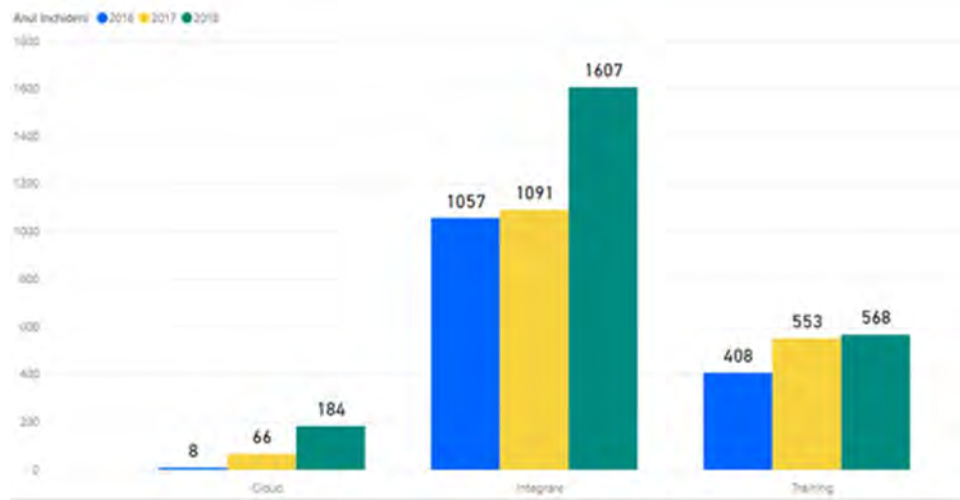
We have continued to implement sales team technical skills to support the role of trusted advisor for IT infrastructure and cloud solutions. Thus between 5-10% of the time of sales staff was allocated for various internally-led training sessions organized by representatives of technology partners and vendors. This will continue in 2019 as well. The sales team has also improved the number of "open" opportunities in the CRM - an increase of 8% to 3650 "open" opportunities in 2018:



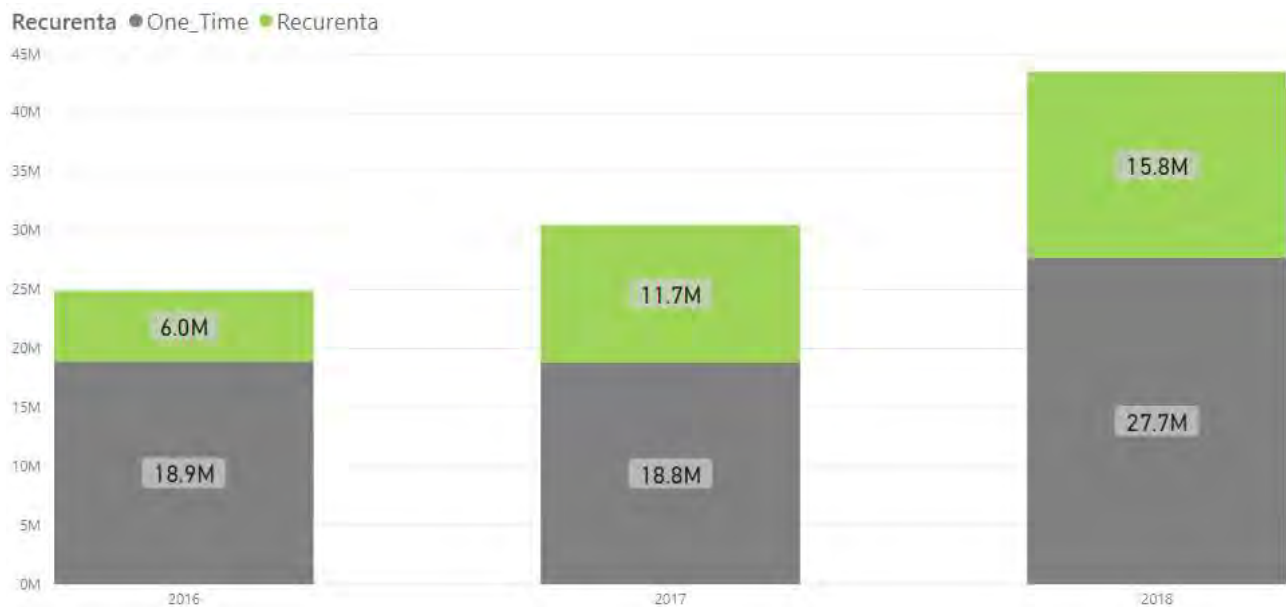
As it can be seen, in 2018, the company registered a much higher rate of winning the identified projects. Additionally, in 2018 we benefitted from the increase in value of the identified opportunities on all types of projects:



Although the biggest increase is the number of projects won for integration business line, it is worthy to mention the growth of the cloud business – in 2018, we have registered 3 times more projects than in 2017.

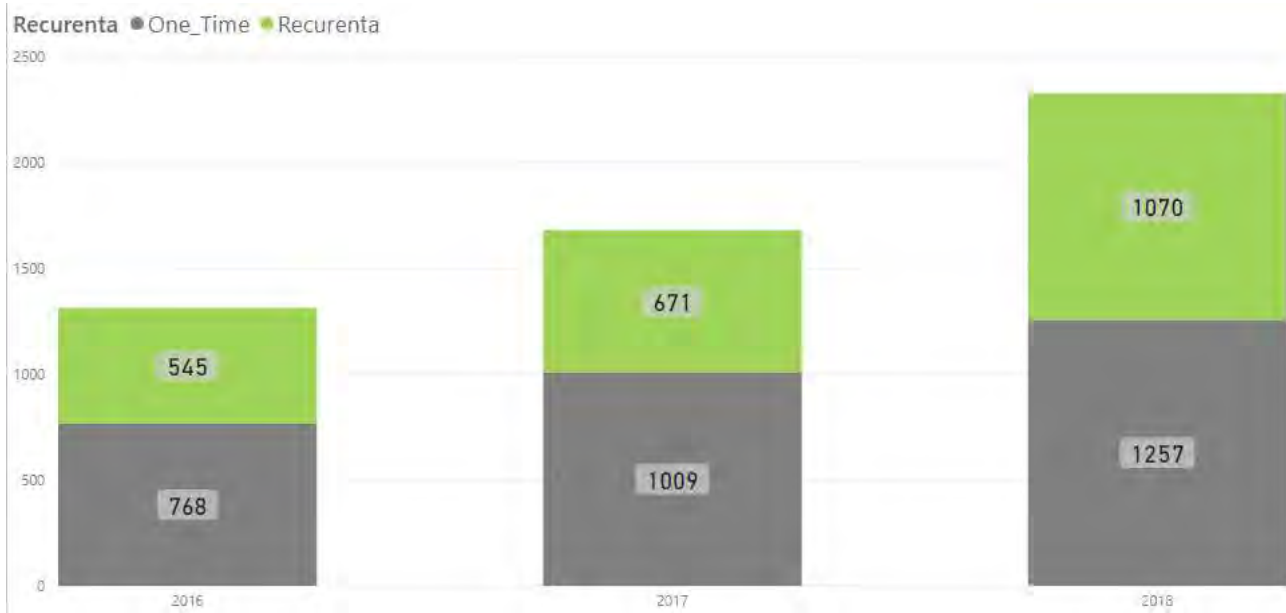


The fact that in 2018 we have earned a significant number of recurrent projects (opportunities that will bring income for many years / months) is a gratifying sign:



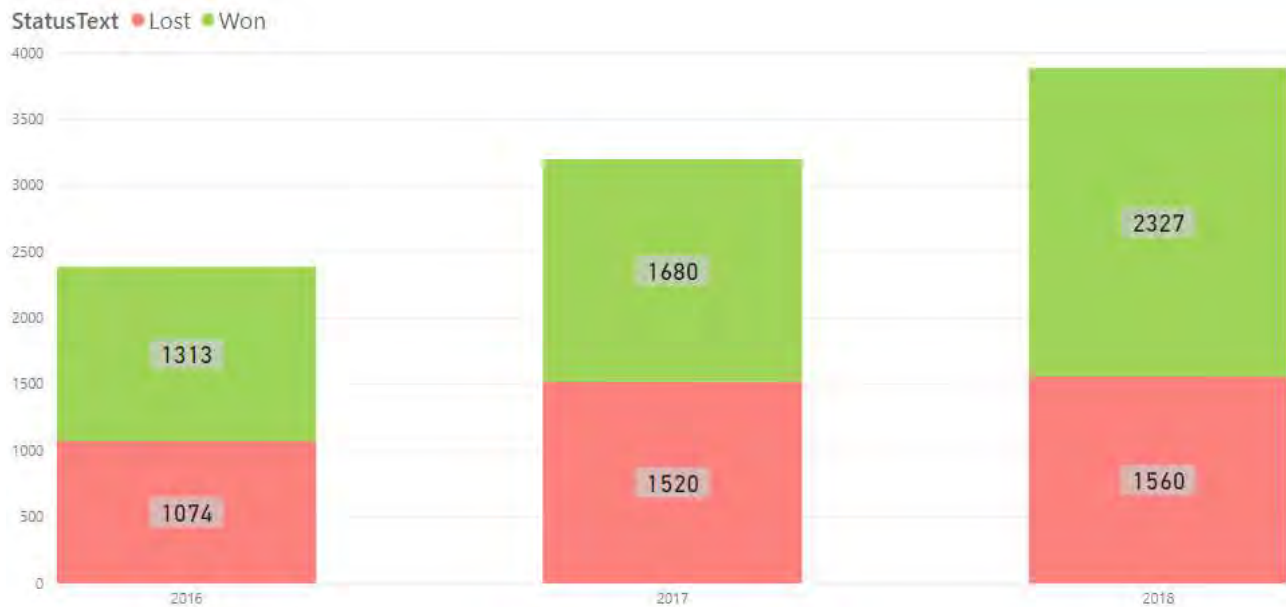
This has happened both in terms of amounts (previous chart) as well as number of projects (the following graph):





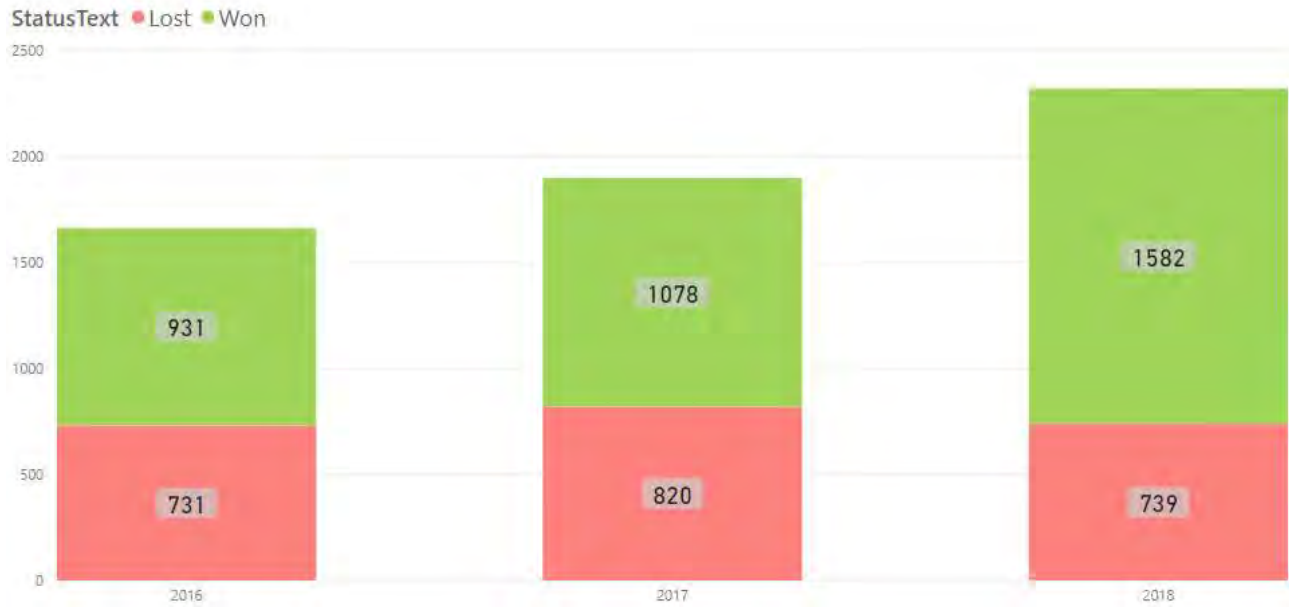
Perhaps the most important indicator of the sales team performance is keeping the percentage of winning opportunities - 59% in 2018 - the result is a significant increase in opportunities „won” - with more than 600 units!

Looking at annual developments, it's easy to forget 'where did we start' and that's why we included the 2016 chart, which shows the doubling of activity.

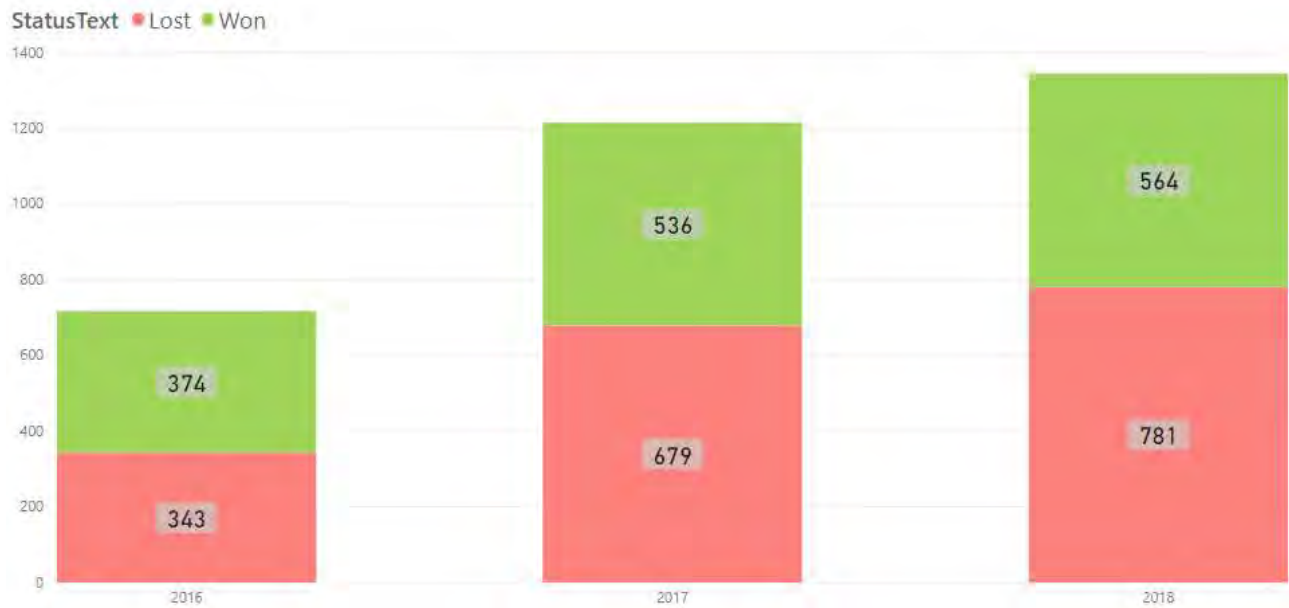


If we analyze by project types, the evolution of project earning rates is as follows:

Integration

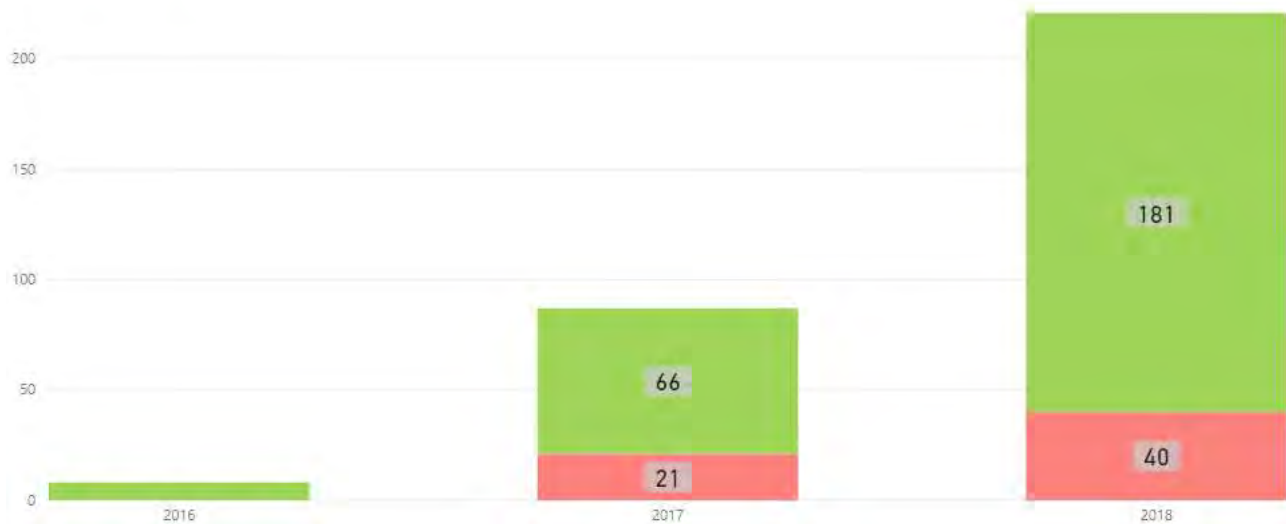


Training



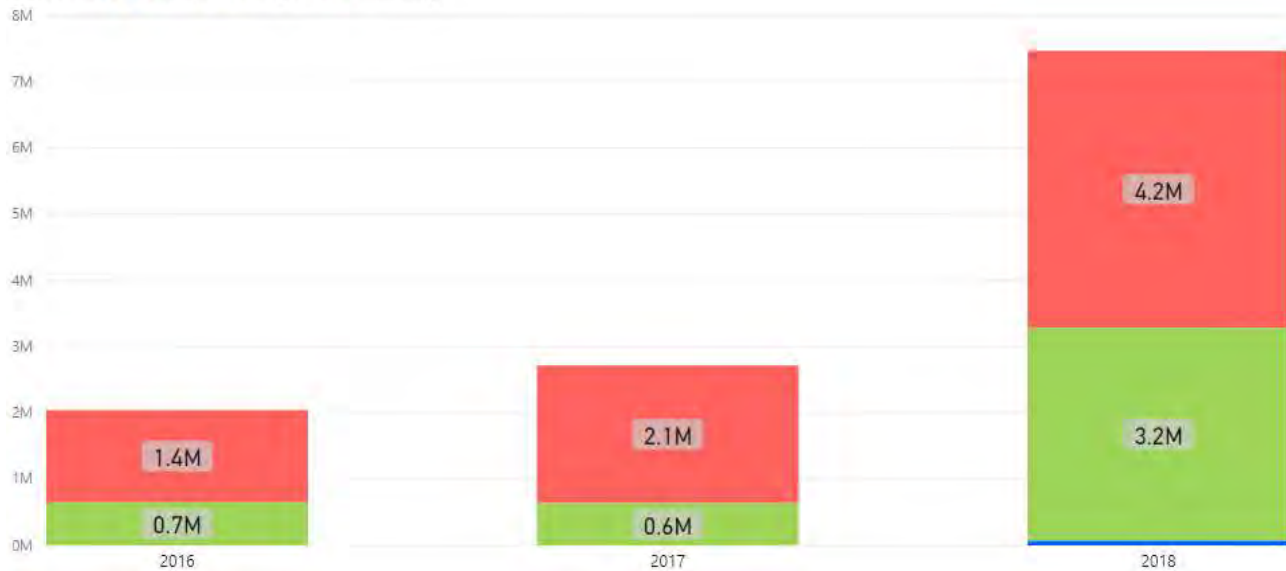
Cloud

StatusText Lost Won



In 2018, exports grew by 136%, reaching over 5 million lei, as we delivered projects to 18 customers in 15 countries:

TipProiect Cloud Integrare Training



From the perspective of the team, in 2018, 4 new colleagues joined our office in Bucharest, two of them to take up new positions, two to complement the existing roles in the organization. At regional level, we succeeded by the middle of the year, to complete the Brasov office team and Iasi, with one colleague to serve the local market in each region.



## Technical team

In 2018, the Bittnet technical team was involved in a series of integration and training projects that contributed both to the company's profitability and IT experience. This year, the company continued to invest in developing the technical team by maintaining certifications and continuing the technical career path for each resource within the team.

At the level of the available technical resources, we created a new team dedicated to O365 solutions and consolidated the cloud team by co-opting 2 new colleagues.

From a technological point of view, we have increased the level of security by implementing Cisco Umbrella and Cisco Stealthwatch solutions. These solutions allow us to protect DNS requests (the first line of defense) and analyze all of the company's security events.

Also, within a two-month, internal project the email and collaboration solutions following Microsoft Office 365 services were unified under the same subscription:

- Sharepoint
- Domain controller, file server
- Skype
- Ticketing process within Microsoft Cases

Other landmarks for the technical department in 2018:

- Continuing the internship programme
- The Start Career in Cloud Program
- Local Autodesk promotion through visits to local offices
- The first Microsoft Windows Server 2019 workshop in Romania



## Marketing team

As we stated in previous years, Bittnet Group's product sales cycle is longer and there is a direct link between the sales team and the relationship they have with customers. We run under the Business to Business (B2B) model, which involves actions and activities different from those specific to the market where you interact directly with the final consumer (B2C). In this context, the marketing department has the role of facilitating and improving the sales team's activity in terms of identifying new business opportunities and addressing new customers. Moreover, our marketing department ensures through its own events, branding and PR initiatives, a better visibility of the Bittnet Group companies, making efforts to position ourselves as the "first option" when customers are thinking about a trusted IT partner, both from the perspective of IT education and also from the technical perspective as an IT integrator.

2018 for our team was the year when we have launched the Dendrio brand, a new name in Romanian IT. Despite the fact that Dendrio is the result of mixing Bittnet's integration division with what was formerly known as Gecad Net, the name (brand) was new to market. That is why we have made strong efforts in communicating with our customers, partners, employees, shareholders, etc. to increase brand awareness. We have started a series of internal team initiatives so that all people involved in the current work are ambassadors of the Dendrio brand, understand its DNA and are its promoters. We have also spent more time in the area of communication, organizing and participating in events that promote Dendrio brand among the IT integrators in Romania.

At the end of last year, we set up the mechanisms for a Dendrio branding campaign. We chose a list of relevant projects and a number of representative clients for our work, which we will be communicating from March 2019 for at least 6 months.

Although we did not run online campaigns in 2018, we did not lose sight of the website that was constantly updated for Bittnet Training, where new courses are continually being introduced into the portfolio of major technology vendors. In March 2019, we will launch a new website for Dendrio brand to highlight the entire portfolio of IT services and solutions that we make available to our customers. It will unite the Bittnet integrator, the former Gecad Net, and Crescendo integrator divisions.

Sales team figures from 2018 were also supported by marketing activities that generated the following results:

- 287 marketing opportunities were won in 2018 (but not all were generated in 2018), meaning about 7% of the sales pipeline was based on marketing activities.
- 62 of the opportunities generated in 2018 are still open (about 23% of total opportunities). They have an estimated value of EUR 169K.

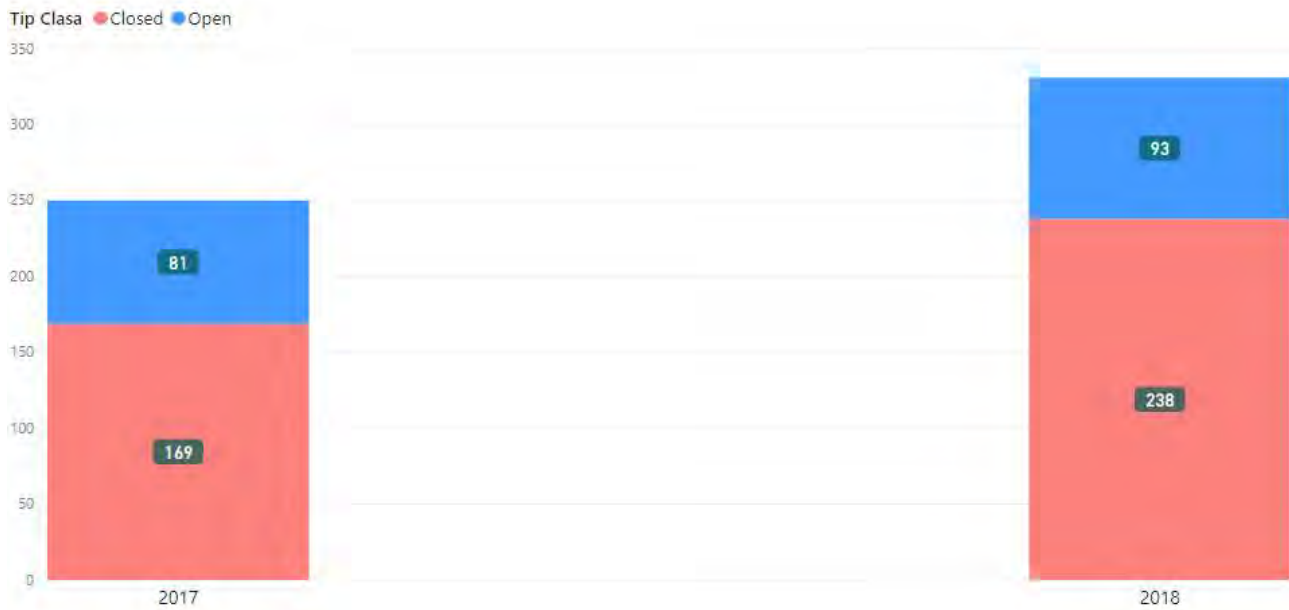
Beyond generating figures, the main goal of the department is to provide customers with pleasant experiences within the Bittnet Group of brands, to listen to their needs and to help the sales team come forward through proactivity and flexibility, through openness and a memorable experience.



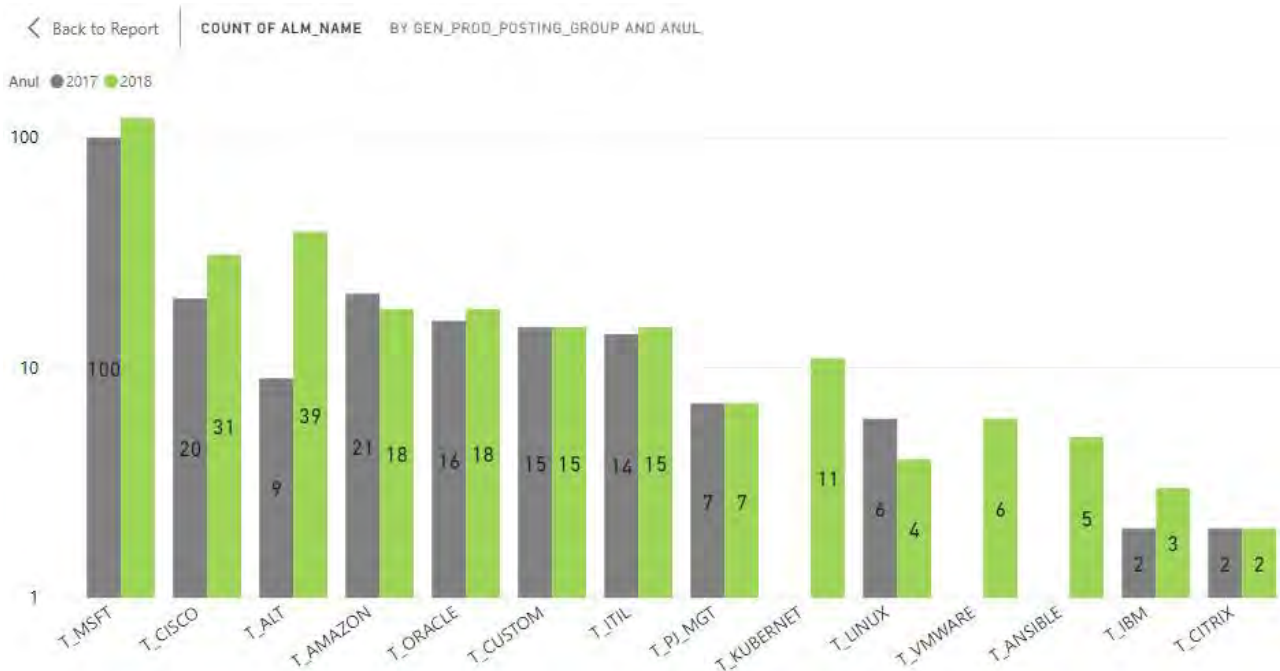
## IT training Center

### Student count

In 2018, the increasing trend of the number of classes (training sessions) continued, exceeding 300, distributed in 93 open classes (14% increase versus 2017) and 238 dedicated type classes, 41% increase versus 2017:

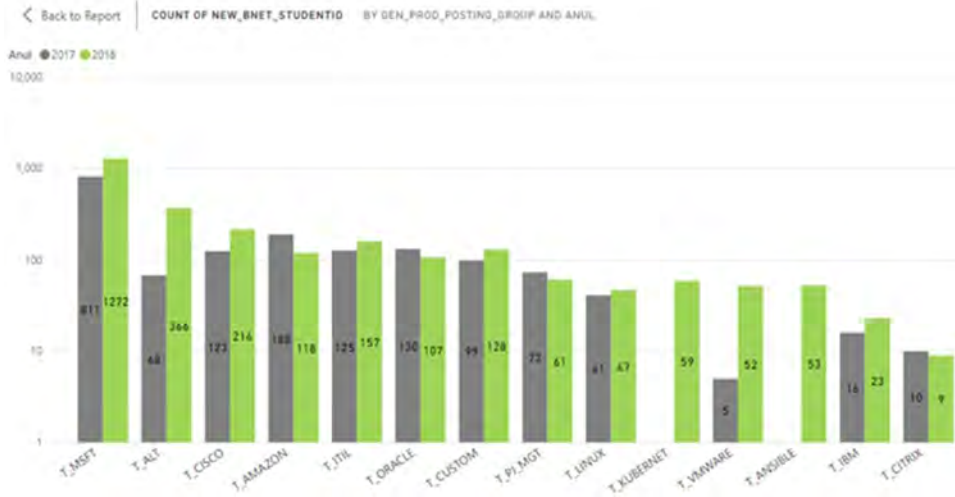


From the producer distribution point of view (type of training), the most popular classes were:

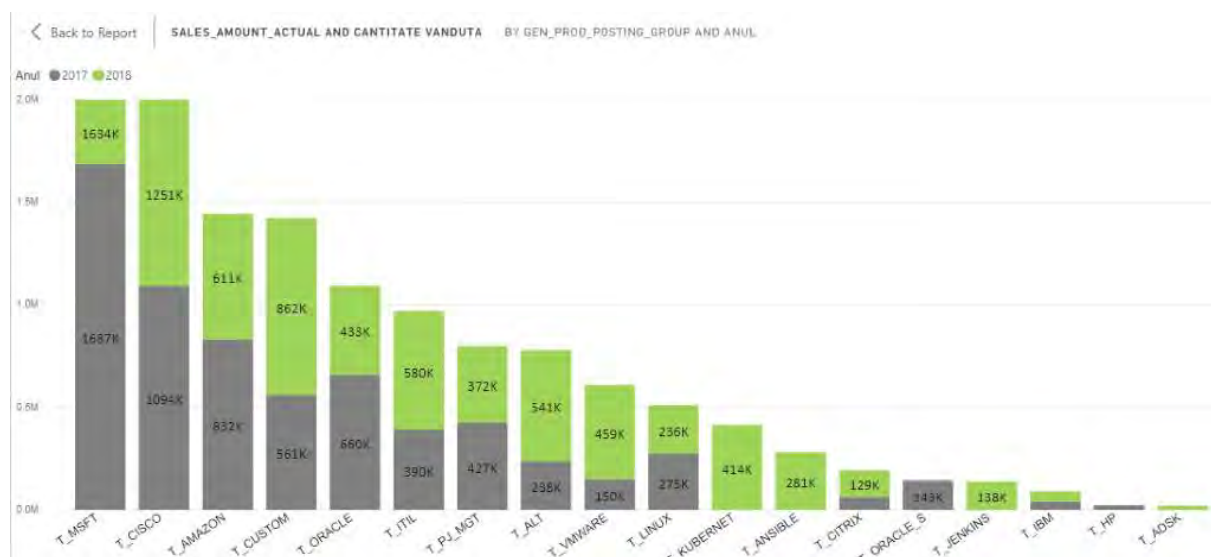




And from the perspective of popularity among the learners, the most successful trainings were:



## Financial highlights

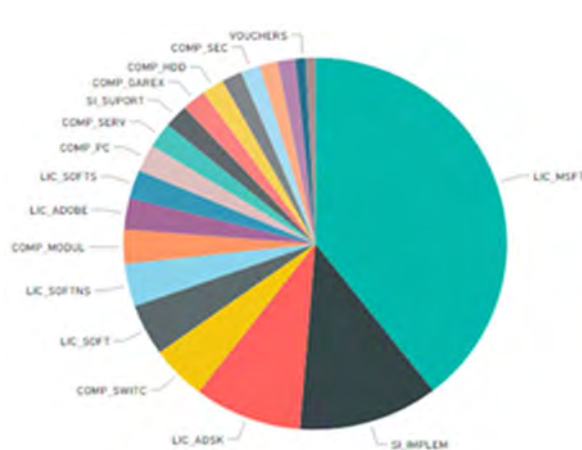


The main drivers of revenue growth for the training activity were:

- training Cisco: +14% vs 2017
- training Custom: 56% vs 2017
- training ITIL: +48% vs 2017
- training Alternativ (software): +126% vs 2017
- In 2018 we brought DevOps specialized training courses: Kubernetes, Ansible, Jenkins, Chef etc: RON 830K in 2018 - 10% of the total training revenues (1.4 million lei if we add the "alternative training" category). Bittnet team has delivered 30 dedicated DevOps classes.

The main factors of revenue growth in the integration activity were:

- Implementation Services: + 77% vs. 2017 - over € 1 million
- Microsoft Licenses: 5% versus 2017, but this position is the highest in total integration products
- Network Infrastructure: + 13% vs 2017, with an increase of more than RON 1 million
- Autodesk licenses: + 23% vs 2017
- Security Software Licenses + 50% vs 2017
- Support services: a 12 times increase compared to 2017

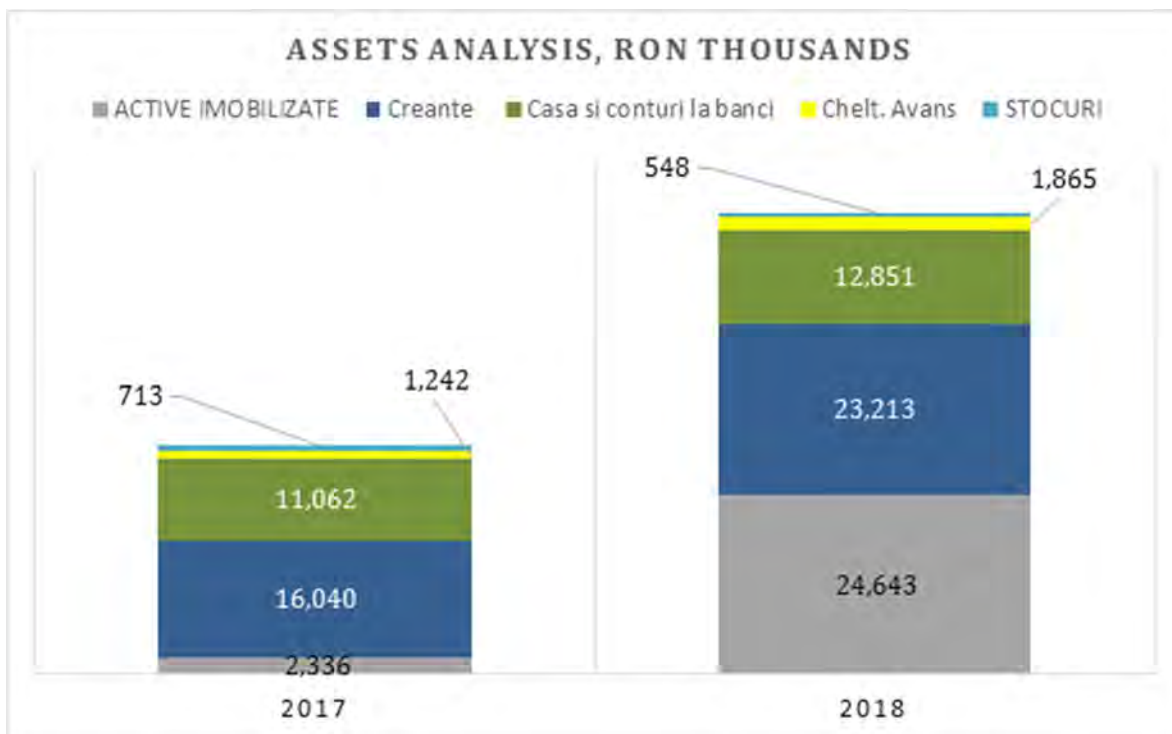


## Balance sheet highlights

### Assets Analysis

In 2018, the Group's consolidated assets increased significantly from RON 31.3 million to over RON 63 million lei, and resulted from the following significant events:

- Dendrio's investment in Crescendo IT&C integration division: RON 10.9 million<sup>6</sup>
- Increase in intangible assets
- The acquisition of the "bittnet" trademark by the parent company from its holder: RON 5.8 million
- Capitalizing the value of the incentive plan with options SOP 2016-2017, which generated the company's capital increase in February 2019: RON 3.9 million
- Bittnet's investment in Elian and Equatorial shares: RON 1.6 million
- Business growth, materialized in the increase of receivables: RON 7.3 million
- Increase of cash position: RON 1.8 million

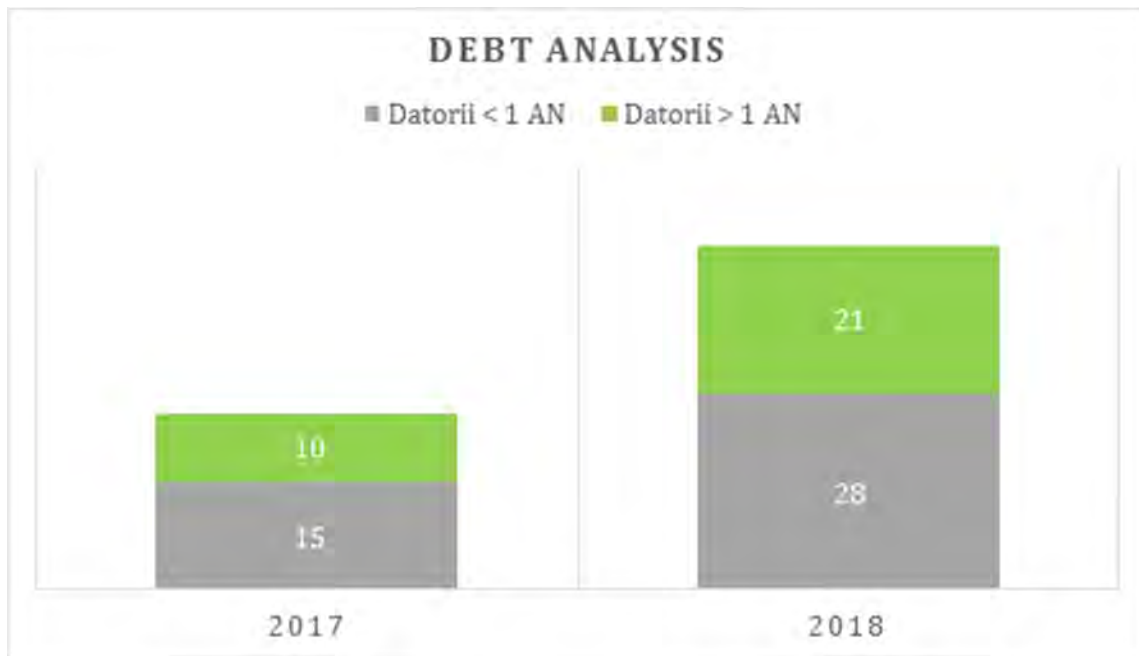


<sup>6</sup> At the time of publishing this report, until we got a valuation report for transferred assets (IT equipment, furniture, printers, cars, etc.) - we recorded the full value of the business transfer as 'goodwill' - a conservative assumption (equivalent to asserts that absolutely all assets transferred have market value equal to zero).



## Debt Analysis

The company continued to attract long-term funding sources. In total, the group's consolidated debts doubled, reaching RON 49 million. The long-term debt ratio increased from 39% to 43% of total debt, with debt maturities in 2022 and 2023. In other words, the company has these funds available for almost 4 years at an interest rate fixed at 9%, in RON currency.



The two bond issues in 2018 attracted a total of RON 14.4 million in "long-term debt" position. This amounts were used to finance medium-term investments - the acquisition of Crescendo International's IT&C integration business line, and investments in Elian and Equatorial. In the case of short-term debt, they increased as a result of the following events:

- The maturity of RON 2.7 million bank overdraft credit (extended for a period of one year, according to the company's current report on February 13th 2019);
- Maturity of BNET19 bonds issue from long-term debts to short-term debts – RON 4.2 million. If we had recorded the early repayment in December, the proportion of long-term debt in total debt would have increased to 47% - the situation at the time of this report;
- The debt to option holders according to incentive plan SOP2016-2017 – RON 3.9 million. This debt has been reduced in february 2019 via the capital increase announced by the company in CR10 – thus strengthening the capital of the company.



## Debt Ratios

One of the discussion with potential investors is the rate of indebtedness. It can be calculated in several ways, of which we reproduce 2: "the ratio of assets financing with credit" and "net borrowed capital versus own capital".

The "ratio of financing assets via credit" approach has the advantage of being easy to calculate, achieving a simple and fast result. In Bittnet case, this ratio is 78% (RON 49 million loans vs RON 63 million total assets). Unfortunately, this report can often send an erroneous message. Thus, in our opinion, the fact that this formula ignores the availability times (credit maturities), not differentiating between the payment amounts to a bond issue of RON 10 million, made on December 27, 2018 due in December 2023, and the invoices of the suppliers due in January 15 2019, is a feature that makes it less useful to understand a company's financial situation. At the same time, this formula does not differentiate between type assets, banking availability or invest in other company shares. Thus, a company with own capital of RON 1 million and borrowed capital of RON 1 million, having all the amounts fully disposed of in the accounts, has a financing degree of assets by 50% credit. Instead, a company with RON 1,000 equity, receivables of RON 1100 and zero cash are listed with a zero debt rate.

In our opinion, as the case of any other mathematical or economic formula, the definition of terms, "which elements we include in every formula," is very important, and significantly changes interpretation. On December 30, 2018, the Bittnet group had the following debts:

- Banks - 9.2 million
- Bonds Issues – RON 23 million
- Suppliers – RON 10.85 million

The commercial debt (suppliers/vendors) was covered in 1.92: 1 by the amounts to be collected from the customers, RON 20.9 million. This ratio of customer invoices to suppliers' payables also illustrates the rationale for the existence and use of bank financing by the company - we pay suppliers on time or in advance to have a good reputation, and we offer payment terms to customers to win projects.

From the point of view of the availability of borrowed funds, bank financing is predominantly short-term - it is meant to cover working capital requirements, as in the case of BNET19 bonds, RON 4.2 million. On the other hand, bond issues BNET22, BNET23, BNET23A but also a smaller part of bank loans are available in the long term, 4 or 5 years for bond issues, meaning a total of RON 25 million term credits of 4 or 5 years. From the point of view of use, the BNET22, 23 and 23A bond yields were invested with a 5-year recovery target in the acquisitions already implemented by the group: a 100% stake in Dendrio, 51% in Elian and 25 % in Equatorial.

Investments in Elian and Equatorial, made during the second half of 2018, are still at the beginning of the realization period, so it is premature to draw conclusions about their evolution. However, the results of Dendrio acquisition are promising, according to data published in the HY1 2018 Group report and financial results in December 2018, which showed a 5x increase in Dendrio's profit.



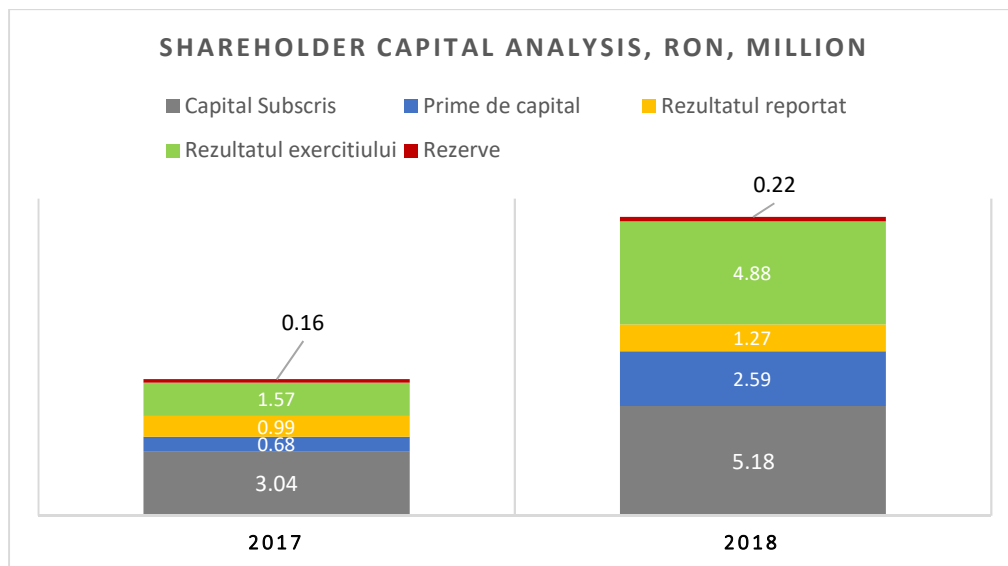
If we look at the debt ratio in terms of equity, (with the company lacking significant tangible assets, so that an analysis is not relevant) , the commercial debt ratio is close to 2: 1 (clients versus suppliers) and the ratio of the borrowed long term capital versus equity ratio is approximately 1.51: 1, taking into account the long-term borrowings and equity capital of RON 14.1 million.

The above reports do not include "net borrowings", in the previous calculations the cash availability position of RON 12.85 million from December 30, 2018 is ignored. If we reduce this amount (a very un-wise decision), we could either completely eliminate bank financing or we could repay early (4 years earlier!) half of the bond issue. However, we believe that for a fast-growing company the existence of a solid cash position is essential to provide a solid basis from which to continue building the growth story.

In this context, we believe that the new size of the group can support the migration to the Bucharest Stock Exchange’s Main Market, a transaction that can be accomplished with a capital raising component made either by the secondary public offer (SPO) or through a listing followed by an increase in capital, similar to what has been achieved so far. In any case, we consider a viable target to attract a capital injection of RON 7-12 million through this process, which would lower the ratio of borrowed capital versus own capital to under 1:1.

## Shareholder equity

During 2018, the company's equity increased more than double, from RON 6.25 million to RON 14.1 million<sup>7</sup>. Further, management's intention is to capitalize earnings by distributing free shares, reinforce the company's capital base and improve financial stability.



<sup>7</sup> This amount includes the net profit of the Group

