KPMG

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CY4Gate Group

Consolidated and separate financial statements as at and for the year ended 31 December 2022

(with independent auditors' reports thereon)

KPMG S.p.A.

12 April 2023

CY4GATE S.P.A. 2022 ANNUAL REPORT

31 December 2022

(Translation from the Italian original which remains the definitive version)

Approved by the board of directors on 23 March 2023

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CY4GATE GROUP

Details of the parent
CY4Gate S.p.A.
Registered office: Via Coponia 8, 00131 Rome (Italy)
Fully paid-up share capital of €1,441,499.44
Company registration no.: 13129151000
REA no.: RM – 1426295
VAT no.: 13129151000
www.cy4gate.com

CORPORATE BODIES

BOARD OF DIRECTORS:

Chairperson	**Domitilla Benigni**
Managing director	**Emanuele Galtieri**
Director	**Alberto Luigi Sangiovanni Vincentelli**
Director	**Vincenzo Pompa**
Director	**Cinzia Parolini**
Director	**Enrico Peruzzi**
Director	**Sandro Etalle**
Director	**Roberto Ferraresi**
Director	**Paolo Izzo**

BOARD OF STATUTORY AUDITORS:

Chairperson	**Stefano Fiorini**
Standing statutory auditor	**Paolo Grecco**
Standing statutory auditor	**Daniela Delfrate**
Alternate statutory auditor	**Sebastiano Bonanno**
Alternate statutory auditor	**Gregorio Antonio Greco**

INDEPENDENT AUDITORS

KPMG S.p.A. term of engagement until the date of the shareholders' meeting which approves the separate financial statements at 31 December 2022

DIRECTORS' REPORT

GENERAL INFORMATION

CY4Gate S.p.A. (the "parent") has prepared this directors' report to accompany both the consolidated financial statements of the CY4Gate Group (the "group") and its separate financial statements, drawn up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. It provides information on the results and performance of the group and the parent, updated to 31 December 2022, and on the key events of the year. This directors' report should be read in conjunction with the consolidated and separate financial statements at 31 December 2022 and the notes thereto. The consolidated financial statements at 31 December 2022 include the separate financial statements of the parent and the financial statements of its subsidiaries and were approved and authorised for publication by the parent's board of directors on 23 March 2023. CY4Gate S.p.A. is listed on the regulated Euronext Growth Milan market organised and managed by Borsa Italiana S.p.A.. It heads the CY4Gate Group specialised in the design, development and production of technologies and products, systems and services able to meet the most stringent and modern requirements of Cyber Intelligence & Cyber Security of the armed forces, law enforcement agencies and companies in Italy and abroad. One of a kind, CY4Gate operates in the cyber market on all fronts with proprietary products that meet both the needs of information collection and analysis and security.

ECONOMIC CONTEXT AND REFERENCE MARKETS

Bank of Italy notes in its economic bulletin no. 1/2023 that the global economy continues to be affected by high inflation, great uncertainty caused by the war in Ukraine and the restrictive orientation of monetary policies. In the fourth quarter of 2022, economic indicators and available national statistics indicate a worsening in the macroeconomic situation, which is more evident in the advanced economies. International trade also slowed down at the end of the year. The contraction in global demand helped to lower the price of oil and natural gas prices fell sharply in Europe, thanks to the mild temperatures, the reduction in the demand for industrial use and the considerable stocks accumulated, although they remained at historically high levels. Developments in the geopolitical situation and the war in Ukraine continue to generate great instability in the global economic market. Concerns about the war are expected to stay high in the early months of 2023 to gradually dissipate. Despite some signs of a reduction, inflation continues to be high and the central banks of the main advanced economies have continued their restrictive monetary policies which led, inter alia, to tensions in the banking sector (SVB, First Republic and Signature in the US and Credit Suisse in Europe) with wide-scale repercussions for the global financial markets. The international institutions expect global growth to weaken in 2023.

GDP in the Eurozone was substantially stagnant in the last quarter of 2022 and consumer price inflation continued to be high. The European Central Bank's governing council has continued to tighten its monetary policies, increasing the key interest rates, making the conditions applied to the third series of the targeted longer-term refinancing operations (TLTRO3) less attractive and announcing general criteria for the bond portfolio wind-downs. The European programme to reduce the Eurozone's dependence on Russian fossil fuels and to fast forward the green transition (REPowerEU) has earmarked new funds to support the member states' national recovery and resilience plans.

In the third quarter, contractual wages were only slightly ahead of the previous three months, staying at modest annual variation rates. If the one-off components are added, wages increased by 2.9% year-on-year. Wage trends improved slightly from October, partly due to the increase in the minimum wage in some countries, including Germany, and activation of inflation indexation mechanisms in France and Belgium. Overall, the percentage of wages indexed to inflation is small, lessening the risks of an upward spiral between wages and prices. Among other underlying pressures, producer prices for goods sold domestically continued to slow in November (to 27.1%) while non-food consumer good prices decelerated (to 9.1%).

GDP in Italy continued to rise in the third quarter. The cyclical phase weakened in the last three months of the year partly due to the halt imposed by the still-high energy prices as well as to the slowdown in the strong rebound of the added value of services seen after the most intense phase of the public health crisis. In the fourth quarter, industrial production decelerated again due to the continued high energy costs and weak demand. After the expansion in the second and third quarter, the services sector lost momentum and the uncertainty triggered by the ongoing war in Ukraine adversely affected investment spending given the tougher financing conditions.

With respect to the banking and financial markets, bank loans to the non-financial private sector slowed down between August and November, impacted by weakened demand from companies for investments and from households for home purchases. Supply conditions saw modest restrictions. The rise in central bank interest rates in July is being passed on to the cost of bank loans. The credit quality deterioration rates continue to be modest while the profitability of large banking groups increased. The conditions on the Italian financial markets improved after mid October. Up until mid December, expectations about a slowdown in the pace of interest rate hikes and investors' greater risk appetite encouraged a drop in yields on long-term government bonds and the sovereign risk premium as well as driving up share prices. After the meetings of the main central banks, there was an about-turn in these trends which was only temporary. By mid January 2023, the gap between the spread on ten-year Italian government bonds and the equivalent German bonds was around 185 basis points, which was much lower than the highs reached during 2022.

The initial information available about public finances in 2022 indicate a large reduction in the country's deficit and the debt/GDP ratio. The budget act approved by the Italian parliament in December increases the 2023 deficit by 1.1 percentage points of GDP in the official assessments, compared to the currently application budget act. In November, Italy received the second tranche of funding from the EU Recovery and Resilience Facility and it applied for the third tranche at the end of December.

Bank of Italy's projections for the Italian economy set out in its official bulletin and based on the most recent economic information (prepared as part of the projection exercise coordinated by the Eurosystem) published on 16 December 2022. In the baseline scenario, after an increase in GDP of almost 4% in 2022, growth will weaken in the next three years to 0.6% in 2023 and strengthen again to 1.2% in 2024 and 2025. Consumer price inflation, which rose to an average of almost 9% in 2022, is projected to decline to 6.5% in 2023 and at a faster pace thereafter, reaching 2,0% in 2025. These projections are purely indicative given the current environment of exceptionally high uncertainty.

The war in Ukraine continues to be a major cause of instability for the macroeconomic outlook. In the above baseline scenario, Bank of Italy has assumed that the tensions associated with the conflict will remain high in the early months of 2023 before easing gradually over the projection horizon. The following table shows the central bank's main assumptions about GDP and inflation:

Comparison with other organizations' forecasts for Italy
(percentage change on previous period)

	GDP (1)		Inflation (2)	
	2023	2024	2023	2024
IMF (October)	-0.2	1.3	5.2	1.7
OECD (November)	0.2	1.0	6.5	3.0
European Commission (November)	0.3	1.1	6.6	2.3
Consensus Economics (January)	0.0	1.1	6.6	2.2
Memorandum item:				
Bank of Italy (October)	0.3	1.4	6.5	2.3
Bank of Italy (January)	0.6	1.2	6.5	2.6

Sources: IMF, *World Economic Outlook*, October 2022; OECD, *OECD Economic Outlook*, November 2022; European Commission, European Economic Forecast. *Autumn 2022*, November 2022; Consensus Economics, *Consensus Forecasts*, January 2023; Banca d'Italia, *Economic Bulletin*, 4, 2022.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and IMF are not. – (2) HICP. Forecasts of Consensus Economics refer to the consumer price index for the entire resident population.

In this macroeconomic context, the "new normal" characterised by alternating home/office working methods and the constant increase in attacks, has prompted many Italian companies to increase investments in cyber security. The risk of cyber attacks has been included again in 2023 in the World Economic Forum's global risk report as the main technological risk at global level and it dedicated an entire chapter to this issue, for which only 25% of companies worldwide have introduced mitigation measures. According to the Allianz Risk Barometer 2023, cyber incidents and business interruption are companies' main concerns again in 2023 (34% of responses for both issues). Moreover, macroeconomic developments such as inflation, volatility in financial markets and fears about a recession (up from 10th place in 2021 to 3rd place) and the impact of the energy crisis (new entry at 4th place) have risen in the classification of global business risks this year, as have the economic and political repercussions of Covid-19 and the war in Ukraine.

The relevant legislative framework at European institutional level continues to be based on the 2016 NIS Directive, with which the EU institutions decided to adopt measures to reinforce cyber security in the European Union, and the 2020 Cybersecurity Act, which is a fundamental part of the EU's new cyber security strategy, designed to strengthen the Union's resilience to cyber attacks, to create a single cyber security market in terms of products, services and processes and to increase consumer confidence in digital technologies. In 2021, the European Union Agency for Cybersecurity (ENISA) defined the technological standards supporting the Cybersecurity Act and the new European-wide cyber security technologies certification framework.

Italy is rapidly aligning with the rest of Europe: it transposed the EU NIS Directive into Italian law with Legislative decree no. 65 of 18 May 2018, the Prime Minister's decree of 8 August 2020 set up the Computer Security Incidence Response Team (CSIRT) and the government introduced the National Cybersecurity Perimeter (NCSP) in 2020. Its institutions are responding to the challenges of correctly managing cyber risks by defining strategies, standards and legislative measures to roll out a public-private partnership model, as part of the supranational system, to protect the country's economy.

In 2021, a new Prime Minister's decree on the National Cybersecurity Perimeter was published in Official Journal no. 131 of 21 October 2021 and became effective on 5 November 2021. It establishes new national regulatory profiles favourable to the creation of European and Italian digital software companies. The decree identifies critical companies and bodies providing that they shall be protected by technologies validated at European/Italian level with a significant increase in the entry barriers for many foreign providers.

Legislative decree no. 82 of 14 June 2022 set up the National Cybersecurity Agency, whose objectives include the coordination of cyber security issues among public bodies and the promotion of joint actions to ensure cyber security and resilience for the achievement of national and European autonomy of strategic IT products and processes for the protection of national interests. In 2022, the Italian government issued the national cybersecurity strategy and its implementation plan provides for 82 measures to be put in place by 2026. The National Cybersecurity Agency will define this innovation journey and will also be responsible for checking that the objectives are achieved. Specifically, it has defined a model and work plan to develop measurement indicators to measure KPIs (starting from the second year of their development) that show the effective advancement towards the strategy's objectives and performance trends. A special dashboard will present these data, which will be automated for the subsequent reporting on the results achieved as established by Decree law no. 82/2021.

This legislative framework has cultivated heightened awareness of cyber issues with positive effects on the market and business.

On 17 January 2023, the NIS2 Directive was enacted, replacing Directive (EU) 2016/1148 (the "NIS Directive"), introducing new cyber security obligations and greater responsibilities for those operators that provide essential services ("OES") for the EU's main social and economic activities. The Directive's objective is to improve the capacity to manage and respond to cyber attacks from their initial phase.

In 2022, the Italian cyber security market was worth €1.86 billion, a jump of 18% on 2021 (Situazione attacchi informatici, Osservatori.net) as the main organisations increased their cyber security budgets. Their interest in cyber security was matched by that of the institutions, which introduced significant measures in this respect including the National Recovery and Resilience Plan, which has earmarked roughly €620 million for public administration's cyber security and to strengthen personnel and structures for which the related projects are beginning to be assembled. The NextGenerationEU instrument is another step towards achievement of the Missions to be achieved by Italy to gain access to the EU's recovery funds that supplement the 2022-2027 long-term EU budget.

The diplomatic crisis between Russia and Ukraine that culminated with the outbreak of war on 24 February 2022, after Russia's invasion of the regions of Luhansk, Chernihiv and Kharkiv in the early hours of the morning, emphasised the importance of managing sensitive data and information and, consequently, of protecting them. The war has created a situation rarely seen in the past with a cyberwar without borders and unprecedented mass participation intervening in support of both the attacked and attacking countries. The most active player is the hacking collective Anonymous, a loose international movement of hackers that has made the headlines on other occasions as well for some particularly memorable actions, and GhostSec, another hacking collective mostly dedicated to combating terrorist organisations, which would appear to be acting against Russia according to available information. Russia seems to have less hackers although Check Point Software recorded an increase of 196% in hacker attacks against Ukraine in the first three days of the war. These attacks do not appear to be limited to just the countries involved directly in the war but target many European states. They can be traced back to the Russian government as attempts to infect computers of various Ukrainian bodies immediately before the military attack using destructive malware. The cyberwar is increasingly playing a central role not only in low-intensity conflicts where the superpowers aim not to get involved in a full-fledged conflict, but also as an additional weapon available for the operational management of conflicts in the field.

The CY4Gate Group structures its value proposition in two main lines of business: cyber intelligence and cyber security, with products and services designed for each business. Specifically, the cyber intelligence business segment includes proprietary decision intelligence products and forensic analysis products while the cyber security segment offers cyber security products and technologies as well as consultancy, training and services.

Specifically, the group designs, develops and produces technologies, products, systems and services to meet the cyber intelligence and cyber security needs of Italian and foreign companies, public institutions, armed forces and the police force that must guarantee high security and resilience standards against cyber attacks when they are used as parts of communication networks, IOT networks and OT (the process of connecting physical objects to the internet) and the related data flows. The group's customers also need to correlate significant amounts of data (big data) to enable decision-makers to take timely decisions and actions (decision intelligence).

Thanks to the group's recent acquisitions, its product and services portfolio has been extended to include products for both segments, with best-in-class software platforms that can act as gap fillers for the emerging and increasingly challenging requests from customers and the changes in technologies and threat scenarios. The group has commenced and is consolidating its journey to become a national and European centre of excellence on all fronts in the cyber world, as it has a portfolio of proprietary products, able to provide an integrated response to digital transformation, decision intelligence and cyber security, that has improved its customer value proposition designed to become a one stop shop.

In addition, with the recent acquisition of a 55.33% investment in DIATEAM at the end of January 2023, the group has gained a foothold in a new complementary business, thus extending and completing its cyber security offering.

The group also operates on the European stage and is involved in EU projects either directly and/or through its commercial partners. They include:

- Project ECYSAP: this is a European cyber defence project, whose main objective is the creation of a European cyber situational awareness platform capable of streamlining the work carried out by military personnel in cyber missions.

- Project REACT: this project called Responsive Electronic Attack for Cooperative Task has the aim of developing CEMA (cyber electro magnetic activities) capacity and cyber resilience in the avionics domain.

- Project GEODE: this project called GalilEO for EU DEfence is designed to develop military capacity within the European Union, using the Galileo navigation satellite system and, specifically, the public regulated service (PRS).

- Project CERERE: this project called Cyber Electromagnetic Resilience Evaluation on Replicated Environment has the aim of developing advanced capacity to test the cyber resilience of systems to the planning and/or performance of cyber attack chains through the use of the electromagnetic spectrum (i.e., the "Cyber Electro Magnetic Activities").

The main end markets of these lines of business are the AIRO (Cybersecurity Analytics, Intelligence, Response and Orchestration) market, as defined by the IDC report "Analyse the Future" (the "IDC report"), and the decision intelligence market, whose segments include forensic analysis, as defined by the Market Research Future and Technavio report. The group's reference markets are the different sectors in which it operates in Italy and abroad.

The cyber market

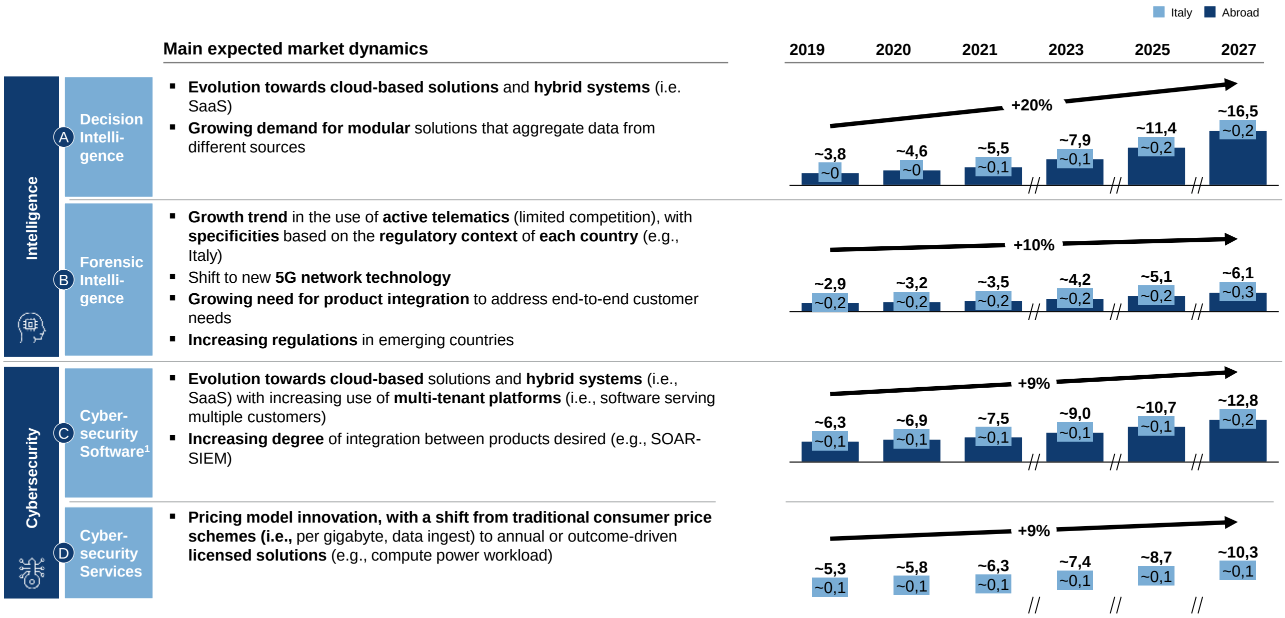
Digitalisation and data protection are fundamental pillars for a company's growth and the proper working of institutions as they guarantee the sustainability of business models and the traceability of information in a context characterised by high technological content and the rapid introduction of innovative technologies that radically modify this context.
Worth approximately €5.5 billion in 2021 (including about 65%-70% in North America and Europe), the global decision intelligence market is expected to grow around 20% a year up until 2027, assisted by the increase in the volume and complexity of data (e.g., 4x data available in the world in 2025 compared to 2020) and defence spending.

At international level, forensic intelligence (e.g., lawful interception) represents an opportunity of between €3 billion to €4 billion, with forecast growth of about 10% per annum, bolstered by the marketing of new products and services (e.g., active telematics systems) and increased regulatory support. The group controls around 20% of this market in Italy.

In 2021, the cybersecurity product market (e.g., SIEM/SOAR) was worth roughly €8 billion, with expected annual growth of around 9% up until 2027 in Italy, assisted by the National Recovery and Resilience Plan (despite the initial delay in the disbursement of funds).

The cybersecurity services market is worth approximately €6 billion, with expected annual growth of about 9%, driven mostly by penetration testing due to the growing number of cyber attacks, the proliferation of end points and visibility gaps.

The market's main characteristics and related growth rates are presented below:



2022 was less affected by Covid-19 and there was a gradual return to working in the office although the group kept the remote work options that ensure it can respond promptly to any change in the public health emergency. Accordingly, the group continued the measures introduced in March 2021 designed to comply with all the competent authorities' requirements to contain the spread of Covid-19, limit travel and encourage working from home. The adoption of similar measures abroad held back the group's international journey, which it has nonetheless managed to continue successfully.

Contrary to what was expected, the impacts of the funds to be disbursed as part of the National Recovery and Resilience Plan were very limited and are only expected to be seen starting from 2023.

KEY EVENTS OF THE YEAR

The group continued to ramp up development of its business on the domestic market with government and corporate customers in the above-described national and international scenario. It bettered its previous year results in full compliance with the strategic development plan.

With respect to the export market and in line with the global public health emergency, the group pursued business development opportunities in certain selected countries in Latin America and Asia. It also entered into commercial agreements and long-term strategic partnerships with sector leaders in order to improve the usability of its products, as well as the provision of Cyber in Cloud Services in SaaS mode.

Market appreciation of the group’s capacities and technological edge of its products was confirmed by its inclusion in the ESCO Cyber Security Market Radar, the absolute benchmark for the European cyber segment, again in 2022. ESCO is the European Cyber Security Organisation that advises the European Commission on cyber matters.

CY4gate was mentioned together with other major operators in its sector, in Gartner’s “Innovation Insight for Composite AI” report as a “representative provider” for composite AI solutions for 2022. This is an important accolade of the technological excellence of its proprietary products, achieved through the work and investments made in R&D applied to the cybersecurity and decision intelligence sectors to develop an important and now indispensable technology which will contribute to meeting the most demanding performance needs of customers and to maintaining its best-in-class position in the global markets.

The parent has been listed on the EGM (Euronext Growth Milan, previously AIM Italia) segment of the Milan Stock Exchange since June 2022. This was one of the most successful listings of the last two years, collecting funds of more than €20 million (from over 60 Italian and foreign investors), of which approximately €5 million serving the purchase of its shares from the non-controlling investor Expert System. As a result, the parent had a market capitalisation in excess of €130 million at the end of 2021 and more than €155 million at 31 December 2022.

After its listing and pursuant to the resolution passed by the board of directors on 9 June 202, the parent is no longer managed and coordinated by any of its shareholders as the board of directors can independently and autonomously take all decisions about its operations.

The parent received the award for the best strategy for using the capital market in the fundraising section on the AIM Italia market organised and managed by Borsa Italiana for 2021 as part of the event organised by Equita and Bocconi University. It was also selected as a finalist for the Star of Innovation- European Small and MID-CAP awards 2020 from along the companies listed on the main European stock exchanges.

As already noted, on 16 December 2021 and as resolved by its directors on the same date, the parent:

- signed the preliminary acquisition agreement for 100% of Aurora S.p.A. (the “acquisition”), parent of a group leading its market in Italy and one of the major European operators in the forensic intelligence & data analysis segment. This acquisition kickstarted a journey to build a national champion in the cyber intelligence and cyber security sector through the development of a portfolio of proprietary products to provide an integrated response to the important digital transformation and cyber security objectives set by Italy as part of its National Recovery and Resilience Plan. The acquisition will enable significant development synergies to consolidate and strengthen the group’s entire technological and product portfolio for its cyber intelligence and cyber security customers. It will also allow the group to extend its market reach in Europe, strengthening and accelerating its foreign expansion.

The parent financed the acquisition using debt of €12.5 million and the proceeds from the capital increase for a maximum of €90 million, including the share premium and excluding the right of first refusal pursuant to article 2441.5 of the Italian Civil Code (the "capital increase") to provide an additional capital buffer;

- signed an investment agreement with TEC Cyber S.p.A. and Elettronica S.p.A. regulating, inter alia, the latter's commitment to subscribe the capital increase (the "investment agreement");
- published the information document presenting the acquisition and the post-acquisition company as required by article 14 of the Euronext Growth Issuers' Regulation in order to provide its shareholders with sufficient information about the acquisition (the "information document").

The transaction was closed on 29 March 2022 as per the terms of the related agreements.

Therefore, the effects of the transaction are reflected in the separate financial statements at 31 December 2022.

On 22 July 2022, the parent applied for membership to Consorzio ABI Lab, the research and innovation centre for banks promoted by the Italian Banking Association. Its membership was accepted and it was appointed advisor of CertFin for cyber security matters.

On 1 August 2022, CY4Gate became a signee of the United Nations' Global Compact.

On 5 September 2022, it was included in the finalists of the Real Deals ESG Awards 2022 (ESG Tech category), organised by a major international private equity journal to identify and promote companies that bring about positive change through ESG in the private equity sector.

On 20 October 2022, CY4Gate signed a preliminary agreement to acquire roughly 55% of DIATEAM, a French company specialised in the design, development and production of advanced testing, validation and training systems in the world of cyber security for government and corporate customers.

On 8 November 2022, the parent obtained the "Cyber Security Made in Europe" label, a prestigious, unique certification for companies active in the cyber security sector that have their registered office and main market in Europe.

On 24 November 2022, the parent received the Industria Felix Award as one of the top companies with registered offices in Italy for their performance and Cerved-rated creditworthiness in the innovative sector.

On 28 November 2022, the parent signed a commercial partnership agreement with Almaware, a market leader in AI, natural language analysis and big data services, covering the integration of some Almaware natural language recognition and interpretation technologies into the parent's decision intelligence platforms.

In corporate terms:

- on 14 March 2022, the €90 million capital increase authorised by the shareholders was carried out through an accelerated book build procedure, after which the shareholder structure is as follows:
  - Elettronica 38.38%
  - Tec Cyber 16.16%
  - Market (float) 45.46%

As resolved by the board of directors on 16 December 2021, the parent used financing of €12.5 million to acquire the RCS Group (formerly Aurora). It also has additional facilities of: (i) €25 million for future capex or acquisitions

to be performed by the group, and (ii) €7.5 million for general liquidity requirements due to changes in working capital.
The supplement to the information document published on 23 January 2022 fully illustrates the above.

With respect to the capital increase, the shareholders approved a capital increase without the right of first refusal in their extraordinary meeting of 7 February 2022 in order to perform the investment agreement signed on 16 December 2021. The capital increase for a maximum of €90 million was to take place by issuing an instalment of up to €10 million reserved for the ultimate parent Elettronica S.p.A., an instalment of up to €40 million reserved for TEC Cyber S.p.A., a company set up by the owners of The Equity Club, and an instalment for the remainder and up to €90 million for qualified institutional investors in Italy and institutional investors abroad. The shareholders also approved some changes to the by-laws necessary as a result of the above-mentioned investment agreement.

Performance of the capital increase and the acquisition before 31 March 2022 was subject to conditions precedent usual for this type of transaction, including confirmation from the panel set up by Borsa Italiana S.p.A. that the investment agreement among the parent, Elettronica S.p.A. and TEC Cyber S.p.A. as part of the acquisition did not trigger the obligation to make a takeover bid for the CY4 shares pursuant to the by-laws and applicable laws, and receipt of the authorisations required by the golden power regulations as per Decree law no. 21/2012, converted into Law no. 56/2012. At the date of preparation of this report, the conditions precedent had been met.

As already described, on 14 March 2022 and as communicated on 16 December 2022 and resolved by the shareholders in their ordinary and extraordinary meetings of 7 February 2022, the parent offered for subscription the shares issued as part of its capital increase against payment in one or more instalments of up to a maximum of €90 million, including a premium but excluding the right of first refusal as per article 2441.5 of the Italian Civil Code.

The transaction was successfully completed with the subscription of the capital increase for the maximum amount of €90 million and the issue of 8,571,428 shares at a price of €10.5 per share.

Following the capital increase of 14 March 2022 and as resolved by the shareholders in their ordinary meeting of 7 February 2022 (second matter on the agenda), the number of the directors was increased from seven to nine.

On 16 June 2022, Domitilla Benigni, chairperson of the parent's board of directors, was elected member of the technical scientific committee of the Italian National Cybersecurity Agency.

The director Eugenio Sant'Agato resigned on 4 November 2022 and was replaced by Paolo Izzo, the chief commercial officer, VP Global Sales, Bus. Dev. & Internationalisation of the Elettronica Group.

At the date of preparation of this report, the parent's board of directors is composed as follows:

- Domitilla Benigni (chairperson)
- Emanuele Galtieri (managing director)
- Paolo Izzo
- Alberto Sangiovanni Vincentelli
- Enrico Peruzzi
- Vincenzo Pompa (independent director)
- Cinzia Parolini (independent director)
- Roberto Ferraresi
- Sandro Etalle

- continued to make its value proposition more attractive with the transparent definition of products and services, developing its product catalogue for the cyber security, intelligence and cyber electronic warfare sectors with Elettronica S.p.A.;

- allocated significant resources to its R&D activities in order to provide customers with innovative products and cutting-edge technological solutions;

- strengthened its workforce by hiring 115 resources during the year, mostly allocated to the technical departments, while 68 people left the group. At 31 December 2022, it had 442 employees. The parent's technical engineering and commercial departments were strengthened with 83 and 24 new hires, respectively. During the year, the parent also worked with strategic consultants to develop its products;

- structured, defined and implemented important partnership agreements with major players in the domestic market;

- continued to upgrade its IT infrastructure, which is best-in-class in the domestic market and an enabler of its business development, and to align it with the very challenging requirements of the NIS Directive as the group is part of the National Cybersecurity Perimeter;

- obtained ISO 9001 quality management system recertification and ISO 27001 information security management system certification;

- completed internal laboratories necessary to develop its product portfolio;

- has the NCAGE code (NATO Commercial and Governmental Entity Code);

- has the licence as per article 28 of the Consolidated Public Security Act (TUPLS) for the design, production, holding and sale of electronic equipment designed specifically for military use for the Italian and foreign armed forces and police forces;

- obtained the Industrial Security Clearance (NOSI, Nulla Osta Sicurezza Industriale) in 2021, which authorises the processing of information, documents or materials classified from the level of highly confidential to that of top secret under Italian law;

- has adopted the code of ethics, Model 231, anti-corruption code and a policy to counter money laundering and the financing of terrorism to ensure the correctness and transparency of its business activities.

FINANCIAL PERFORMANCE AND KEY PERFORMANCE INDICATORS

The group's 2022 results confirm its strong growth path with intense development of its business at home and abroad with government and corporate customers. Its revenue has improved on the previous year in line with the group's strategic development plan.

2022 revenue was very satisfactory, demonstrating the strength, robustness and scalability of the group's business model, leveraging technological solutions that meet the increasingly challenging requirements of the cyber intelligence and cyber security market. The group's revenue is historically concentrated in the last quarter of the year.

Profitability remained high despite the non-recurring effects of the acquisition of 100% of the Aurora Group (now RCS Group following the reverse merger of Aurora into RCS after the initial optimisation of its organisation structure), which has lower profitability compared to CY4Gate.

The acquisition of 100% of the RCS Group, a market leader in the forensic intelligence segment, during the year kickstarted a journey to build a national champion in the cyber intelligence and cyber security sector through the development of a portfolio of proprietary products to provide an integrated response to the important digital transformation and cyber security objectives, to create significant development synergies to consolidate and strengthen the group's entire technological and product portfolio for its cyber intelligence and cyber security customers.

KEY PERFORMANCE INDICATORS

The parent's management assesses the group's performance using certain measures that are not envisaged by the IFRS. Specifically, it uses EBITDA as the main profitability indicator as it provides a snapshot of the group's profitability, after eliminating the effects of any volatility caused by non-recurring, exceptional or atypical events.

The alternative key performance indicators and their composition are described below:

- **adjusted EBITDA** is calculated by adjusting the profit or loss for the year to exclude income taxes, net financial income (expense), amortisation, depreciation, net impairment losses on financial assets and provisions as well as non-recurring transaction costs related to the acquisition of 100% of Aurora S.p.A.;

- **EBIT** is calculated by adjusting the profit or loss for the year to exclude income taxes and net financial income (expense);

- **adjusted EBIT** is calculated by adjusting the profit or loss for the year to exclude income taxes, net financial income (expense), non-recurring transaction costs related to the acquisition of 100% of Aurora S.p.A. and amortisation arising from the purchase price allocation (PPA) procedure due to the allocation of part of the consideration transferred to intangible assets;

- **adjusted EBITDA margin** is the adjusted EBITDA, calculated as described above, as a percentage of total revenue;

- **EBIT margin** is EBIT, calculated as described above, as a percentage of total revenue;

- **net financial position (indebtedness)** is calculated by subtracting cash and cash equivalents and current financial assets from current and non-current liabilities. If the group identifies atypical events and/or events linked to non-recurring transactions that affect its net financial position (indebtedness), it also presents its adjusted net financial position (indebtedness) to exclude the effects of these events or transactions.

The group deemed it appropriate to present these performance indicators at group level to present its financial performance net of non-recurring, atypical or unusual events.
They are based on the group's key figures less non-recurring income and expense that are not strictly related to its core business and, therefore, they facilitate a better comparison with the group's performance in previous years.
The main variations that affected the group's performance compared to 2021 are shown below. The 2021 comparative figures solely refer to the stand-alone financial statements of CY4Gate S.p.A. as it finalised the acquisition of the RCS Group (formerly Aurora) on 29 March 2022. As a result, the figures at 31 December 2022 include those of the RCS Group for the period from 31 March 2022 to the end of the year.

RECLASSIFIED STATEMENT OF PROFIT OR LOSS

(€)	2022	2021
Revenue	**56,645,309**	**17,916,942**
Purchases, services and other operating costs	20,164,194	6,811,747
Personnel expenses	23,318,765	5,736,993
R&D expenditure	(3,630,164)	(2,865,510)
Costs	**39,852,795**	**9,683,230**
EBITDA	**16,792,514**	**8,233,712**
EBITDA Margin	**30%**	**46%**
Amortisation, depreciation, net impairment losses on financial assets and provisions	9,880,651	3,622,584
Adjusted EBIT	**6,911,863**	**4,611,128**
Non-recurring costs	3,635,711	
Amortisation related to the PPA procedure	3,067,835	
EBIT	**208,317**	**4,611,128**
Net financial expense	(890,595)	(72,461)
Income taxes	3,156,115	647,161
Profit for the year	**2,473,837**	**5,185,828**
Basic earnings per share	**0.11**	**0.35**

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(€)	31/12/2022	31/12/2021
Non-current assets	**70,124,338**	**10,266,695**
Inventories	777,399	66,500
Net contract assets (liabilities)	(957,087)	1,477,237
Trade receivables	64,488,220	23,585,605
Trade payables	(10,571,285)	(4,330,658)
Operating working capital	**53,737,246**	**20,798,685**
Other assets (liabilities), net	(4,383,805)	898,075
Net working capital	**49,353,441**	**21,696,760**
Net invested capital	**119,477,779**	**31,963,455**
Cash and cash equivalents	19,885,505	2,297,858
Financial assets	1,807,337	6,000
Financial liabilities	(15,379,687)	(2,005,878)
Lease liabilities	(3,251,144)	(2,006,595)
Net financial position (indebtedness)	**3,062,010**	**(1,708,615)**
Equity	**(122,539,788)**	**(30,254,839)**
Total sources of funding	**(119,477,778)**	**(31,963,455)**

Revenue amounts to €54 million, up 217% on the previous year (€17 million). The net organic growth in revenue, considering the parent on its own, is 22%. The recent acquisition has strengthened the group's forensic intelligence segment, which works with government bodies (B2G), which now accounts for roughly 63% of the group's operations. Moreover, the expectations about the greater input of foreign business have been confirmed (47% of total revenue) and the group has also strengthened its footprint in the domestic market (53% of revenue).

Total costs approximate €39.9 million compared to €9.7 million for 2021. The upturn is mostly due to the increase in:

- the cost of raw materials and services, mainly as a result of higher business volumes, with a smaller percentage compared to revenue due to the different product/service mix;

- personnel expenses, due to both the new RCS resources and the new hires taken on during the year, mostly for the engineering department, mostly for the R&D projects and to meet contractually-agreed deliveries.

Adjusted EBITDA amounts to €16.8 million (€8.2 million in 2021) and the adjusted EBITDA margin is 30%.

Amortisation, depreciation, net impairment losses on financial assets and provisions amount to €12.9 million compared to €3.6 million in 2021. The higher percentage of amortisation and depreciation of revenue is mostly due to the PPA procedure (amortisation of €3.1 million) for the greater value of the assets acquired as part of the Aurora transaction which led to the allocation of roughly €13 million to proprietary software. These assets, recognised in accordance with IFRS 3, will be amortised over three years.

EBIT amounts to €0.2 million (€4.6 million in 2021) and reflects the above factors and the non-recurring costs incurred during the year to finalise the acquisition of the RCS Group (approximately €3.6 million).

The net income tax benefit of €3.2 million is mostly a result of the recognition of deferred tax assets principally on tax losses and the release of deferred tax liabilities related to the PPA procedure.

As a result, the group made a profit of €2.5 million for the year compared to €5.2 million for 2021.
Equity amounts to €122.5 million (€30.3 million at 31 December 2021).

The group has a net financial position of €3 million compared to net financial indebtedness of €1.8 million at 31 December 2021 (both include lease liabilities recognised in accordance with IFRS 16). The net financial position is mostly a result of the initial post-acquisition optimisation and, therefore, the group's more efficient management, as well as the remainder of the capital increase performed to service the RCS Group acquisition.

Financial liabilities are mainly composed of financing of €12.5 million used to acquire the RCS Group and lease liabilities of €3.3 million recognised in accordance with IFRS 16.

HUMAN RESOURCES

With respect to the group's workforce, it should be noted that the group fully complies with the regulations about the workplace environment and hygiene as well as any application foreign local regulations. A breakdown of its employees at year end and changes during the first half -year are shown in the following table:

	Managers	Junior managers	White collars	Apprentices	Other	Total
31 December 2021	8	13	68	4	0	**93**
Aurora acquisition	13	30	243	15	1	**302**
New hires (+)	3	15	75	22	0	**115**
Promotions	1	(1)				**0**
Departures (-)	(3)	(5)	(54)	(6)	0	**(68)**
31 December 2022	**22**	**52**	**332**	**35**	**1**	**442**

KEY EVENTS OF THE YEAR

RUSSIA – UKRAINE WAR

With respect to the recent geopolitical events related to the Russia – Ukraine war and the sanctions imposed on Russia by the European Union, the group checked that this situation will not potentially impact its financial position and financial performance. The group does not have contracts to sell or supply products or services to entities resident in Russia, Belarus or Ukraine or other commercial relationships. It does not have assets, liquidity, equity or debt instruments in these countries. As a result, it has not identified nor does it expect that the situation will have a significant impact on its commercial activities or supply chain. The parent's share price is exposed to the volatility and uncertainty seen in international financial markets over the past few months, which has led to a generalised downturn in the main stock exchange indexes.

CAPITAL INCREASE AND ACQUISITION OF THE RCS GROUP (FORMERLY AURORA)

On 14 March 2022 and as communicated on 16 December 2021 and resolved by the shareholders in their ordinary and extraordinary meetings of 7 February 2022 and as the conditions precedent communicated to the market were met, the parent commenced the placement of the shares issued as part of its capital increase against payment in one or more instalments of up to a maximum of €90 million, including a premium but excluding right of first refusal as per article 2441.5 of the Italian Civil Code. The transaction was successfully completed with the subscription of the capital increase for the maximum amount of €90 million and the issue of 8,571,428 shares at a price of €10.5 per share. As a result, the parent's shareholder structure is as follows:

- Elettronica 38.38%
- Tec Cyber 16.16%
- Market (float) 45.46%

On 29 March 2022, the acquisition of the RCS Group (formerly Aurora) was closed in accordance with the previously-established agreements.

COVID-19

The group maintained all measures necessary to ensure ongoing monitoring of developments in the pandemic and to manage the health risk. It provided its employees, suppliers, subcontractors and other parties that work with the group with all useful information about the necessary and/or useful actions to minimise the risk of contagion and to manage any risk situations or infections.

At the date of preparation of this document, none of the group’s activities has been suspended or slowed down due to issues caused by the pandemic in Italy or abroad.

PRELIMINARY AGREEMENT FOR THE ACQUISITION OF DIATEAM

On 20 October 2022, CY4Gate signed a preliminary agreement to acquire roughly 55% of DIATEAM, a French company specialised in the design, development and production of advanced testing, validation and training systems in the world of cyber security (cyber hybrid digital twin) for government and corporate customers.

EVENTS AFTER THE REPORTING DATE

As the conditions precedent were met, on 30 January 2023, the parent signed the closing documents for the acquisition of 55.33% of DIATEAM for €5.5 million, including any earn-out, thus extending its cyber security product portfolio to include cyber digital twin products. It funded the acquisition by using €3.2 million of the acquisition facility. The acquisition agreement includes put and call options to allow the parent to acquire 100% of DIATEAM by 2026.

On 9 February 2023, the parent signed an important foreign three-year contract worth €9 million to provide decision intelligence systems to major institutional customers.

On 14 February 2023, the parent was awarded contracts for the supply of its proprietary SIEM RTA model and for its verticalisation and integration to protect both government bodies and companies. These contracts are worth approximately €1.3 million.

On 2 March 2023, the parent was awarded three important contracts by institutional customers in Italy and abroad worth roughly €5.7 million.

OUTLOOK

The cyber intelligence and cyber security markets continue to be very attractive and show strong growth, recording a CAGR in excess of 15% in the past three years. This positive upwards trend is assisted by continuation of the digital transformation and cyber security initiatives funded by the National Recovery and Resilience Plan and the creation of a European regulatory framework with the issue of the NIS 2 Directive and the DORA Regulation. This framework meets the need for suitable organisational and technological measures to guarantee the resilience of IT systems and processes, especially in those sectors where cyber security is essential for business and operational continuity.

The group, one-of-a-kind both in Italy and Europe for its ability to meld capacity and expertise in developing technologies for cyber security and also cyber intelligence, can exploit the above-described situation to pursue a solid order acquisition programme over the next three years. It can also expect to continue to earn profits in the short and medium term.

Over the last three years, the group has successfully achieved its set strategic objectives: i) to become the leader in the domestic law enforcement market; ii) to acquire and hone great expertise in “made in Italy” cyber products and technologies; iii) to develop brand awareness and visibility in its reference market (cyber intelligence and cyber security); and iv) to extend its foreign footprint (through both organic growth and M&As).
The group will continue to implement its strategies to consolidate its share of the cyber market by introducing the following five key enablers of this project:

- **adoption of a distinctive commercial model with a go-to-market approach tailored to its different customer segments:** diversification and growth of its customer base through partnerships with suppliers, distributors and other players in the domestic and international markets as well as through entry into the SME market with its Pronto Cyber product, a semi-insurance product that provides SMEs with immediate technical and legal assistance in the case of a cyber attack and to integrate the SIEM RTA modem with the MSSP (managed security services provider), cyber security outsourcing providers, through their SOC;

- **develop cascading custom cyber products and solutions** that meet the most challenging European standards: evolution of cyber intelligence and cyber security products to incorporate increasingly advanced functions and a greater level of automation thanks to the use of composite artificial intelligence, thus allowing integration and synergies with all the group's proprietary products that are entirely developed in Italy. The group's objective is to have a product portfolio that is increasingly integrated and able to offer not just a product but also turnkey cyber capabilities and design solutions to customers;

- **strengthen the CY4Gate brand promoting its post-integration change story** with the new entries into the group: this will be achieved through marketing and communication campaigns to promote greater brand awareness for the cyber security and decision intelligence solutions on the domestic and international markets;

- **pursue additional targeted M&A transactions** in the market niche that the board of directors is investigating to identify and analyse potential targets and extend its existing virtuous partnership model to accelerate the expected growth, while concurrently undertaking an effective derisking project and ensuring structured growth in the cyber security market to achieve its goal of becoming a European centre of excellence in its field;

- **step up investments in human resources**, considered to be the group's key asset: its focus on talent and its people, placing them at the heart of its strategies, has meant that CY4Gate is the top employer in the cyber industry. It has specific talent enhancement programmes and an effective governance system.

In addition, thanks to the existing strong synergies with the ultimate parent Elettronica S.p.A. and as an integrated group, CY4Gate will continue to invest in disruptive technologies for the Cyber Electronic Warfare market which, in the context of the Aerospace & Defense sector, is impacted by important challenges and supported by equally significant global investments, at a historic moment characterised by the modernisation of defence systems with a "network-centric" and therefore interconnected approach, with the consequent need to strengthen its cyber resilience.

Based on the above, the group expects its revenue and profits to grow, thanks to a more efficient operating structure and greater sales volumes as well as the expected more effective roll out of the projects funded by the National Recovery and Resilience Plan.

MAIN RISKS AND UNCERTAINTIES

RISK MANAGEMENT

The group is exposed to financial risks and specifically:

- interest rate risk, arising from the group's financial exposure.
- currency risk, arising from transactions carried out in currencies other than its presentation currency;
- liquidity risk, related to the availability of financial resources and access to the credit market;
- credit risk, related to normal commercial transactions or financial activities;

The group carefully monitors each of the above financial risks and acts promptly to minimise them, resorting to hedging instruments when appropriate.

CURRENCY RISK

The group operates in countries outside the Eurozone and is thus exposed to the risk that exchange rates may fluctuate significantly with the risk that revenue and costs denominated in currencies other than the Euro may change in value compared to when the prices were agreed.

At the reporting date, the group does not have currency hedges as its exposure to this risk is immaterial and it only has financial liabilities denominated in Euros.

LIQUIDITY RISK

Liquidity risk refers to the risk that the group is unable to meet its financial obligations deriving from contractual commitments and, more generally, its short-term financial commitments which, in a worst case scenario, could lead to insolvency jeopardising the group's business. The main factors contributing to liquidity risk are, on the one hand, the generation and/or utilisation of cash by the group's operating and investing activities and, on the other, the due dates of its loans and borrowings and investments as well as financial markets' contingent situation. The group aims to have sufficient liquidity on hand to cover its financial requirements. It regularly monitors and manages its cash flows, financing needs and liquidity to ensure the efficient and effective deployment of its financial resources.

At the reporting date, financial liabilities, excluding lease liabilities recognised in accordance with IFRS 16, amount to €15,379,687 and include non-current and current financial liabilities of €11,744,570 and €3,635,117, respectively. Cash and cash equivalents amount to €19,885,505 at the reporting date.

CREDIT RISK

Credit risk refers to the group's exposure to the possible risk of default by its counterparties.
The group is exposed to the risk that a customer may delay or not comply with its payment obligations at the agreed terms and conditions and that its internal credit assessment and customer solvency assessment procedures are inadequate to ensure collection. Such non-collection of its trade receivables could adversely affect the group's financial position, financial performance and cash flows.

The group's exposure continues to be mostly with public sector customers. However, to mitigate this risk, it checks its customers' credit quality using internal or external credit scoring and sets credit limits which are checked regularly. Moreover, credit risk can be considered to be immaterial given that one of its customers is its parent, Elettronica S.p.A., which also belongs to the public sector.

INTEREST RATE RISK

In accordance with article 2428.6-bis of the Italian Civil Code, it is noted that the group takes decisions about financing and investing transactions in line with prudence and risk limitation criteria. It has not entered into speculative transactions. It hedges financial risk, and specifically interest rate risk, by entering into interest rate swaps in order to hedge the risk of fluctuations in the interest rates applied to its variable rate loans.

These interest rate swaps are as follows:

Bank	Agreement date	Maturity date	Reference principal	Outstanding principal	Fair value
UNICREDIT	21/12/2020	29/12/2023	1,500,000	500,000	10,268
INTESA	14/04/2020	15/12/2023	1,725,000	575,000	12,874
INTESA	25/06/2021	25/06/2025	2,813,751	1,880,015	84,772
ICCREA	24/05/2022	29/03/2028	5,000,000	5,000,000	243,840
CREDIT AGRICOLE	24/05/2022	29/03/2028	7,500,000	7,500,000	382,505

The above interest rate swaps qualify as hedges and their effect on profit or loss for the year solely relates to the recognition of the interest rate differentials accrued at the reporting date. At 31 December 2022, the group recognised hedging derivatives at fair value under assets in the statement of financial position for €734,259, with a balancing entry of €558,037 in the hedging reserve under equity, net of deferred tax liabilities.

RELATED PARTY TRANSACTIONS

The parent adopted a "Related party transactions procedure" (the "procedure") in 2020, which became effective on 24 June 2020, as required by the Regulation on related party transactions issued by Consob (the Italian Commission for listed companies and the stock exchange) with resolution no. 17221 of 12 March 2010 as subsequently amended (the "regulation") and article 2391-bis of the Italian Civil code. The parent updated the procedure on 27 June 2022 to incorporate the amendments requested by Borsa Italiana in its communication no. 22008 of 25 June 2021.

The procedure can be consulted on the parent's web site (www.cy4gate.com, Governance section, Company documents area). Pursuant to article 5.8 of the regulation, in 2022, the group did not carry out major transactions (as defined by article 4.1.a) and identified in the procedure in accordance with article 3 of the regulation) or other transactions with related parties that had a significant effect on its financial position. More information is available in the section on related party transactions in the notes to the consolidated financial statements.

OTHER INFORMATION

Shares of ultimate parents

CY4Gate S.p.A. does not hold shares or quotas of its parents either directly or indirectly through trustees or nominees.

Shares of ultimate parents purchased or sold during the year

The group companies have neither (re)purchased or sold treasury shares or shares or quotas of parents either directly or indirectly through trustees or nominees.

Management and coordination

The parent is not managed and coordinated by another party as per article 2497 and following articles of the Italian Civil Code, as it checked that the presumption of article 2497-sexies of the Italian Civil Code does not apply.

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(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
CY4Gate S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the CY4Gate Group (the "group"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the CY4Gate Group as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of CY4Gate S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The parent's directors are responsible for the preparation of the group's directors' report 31 December 2022 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the group's consolidated financial statements at 31 December 2022 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the group's consolidated financial statements at 31 December 2022 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, 12 April 2023

KPMG S.p.A.

(signed on the original)

Marco Mele
Director of Audit

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022

STATEMENT OF PROFIT OR LOSS

(€)	Note	2022	2021
Revenue	*(1)*	54,062,437	17,038,384
of which: with related parties		3,368,827	4,263,880
Other revenue and income	*(2)*	2,582,873	878,558
Revenue		**56,645,309**	**17,916,942**
Purchases, services and personnel expenses	*(3)*	(42,939,963)	(9,553,720)
of which: with related parties		(661,844)	(531,820)
Amortisation, depreciation, net impairment losses on financial assets and provisions	*(4)*	(12,948,485)	(3,622,584)
Other operating costs	*(5)*	(548,543)	(129,510)
Costs		**(56,436,992)**	**(13,305,814)**
Operating profit		**208,317**	**4,611,128**
Net financial expense	*(6)*	(890,595)	(72,461)
Pre-tax profit (loss)		**(682,278)**	**4,538,667**
Income taxes	*(7)*	3,156,115	647,161
Profit for the year		**2,473,837**	**5,185,828**
Profit attributable to the owners of the parent		**2,209,462**	
Profit attributable to non-controlling interests		**264,375**	
Basic and diluted earnings per share	***(8)***	***0.11***	***0.35***

STATEMENT OF COMPREHENSIVE INCOME

(€)	Note	2022	2021
Profit for the year		**2,473,837**	**5,185,828**
Net actuarial gains (losses) on defined benefit plans		(605,799)	96,231
Related tax		164,779	(23,095)
Items that will not be reclassified subsequently to profit or loss	***(7,22)***	**(521,799)**	**73,136**
Fair value gains on cash flow hedges		734,259	-
Related tax		(176,222)	-
Items that will or may be reclassified subsequently to profit or loss	***(7,12)***	**558,037**	**-**
Comprehensive income		**2,510,075**	**5,258,964**
Comprehensive income attributable to non-controlling interests		**249,061**	**-**
Comprehensive income attributable to the owners of the parent		**2,261,014**	**5,258,964**

STATEMENT OF FINANCIAL POSITION

(€)	Note	31/12/2022	31/12/2021
Intangible assets and goodwill	***(9)***	61,632,292	7,524,937
Property, plant and equipment	***(10)***	4,732,835	709,242
Right-of-use assets	***(11)***	3,192,760	2,032,516
Non-current financial assets	***(12)***	475,024	6,000
of which: with related parties		*6,000*	*6,000*
Equity-accounted investments	***(13)***	566,451	-
Non-current tax assets	***(14)***	1,806,275	621,199
Deferred tax assets	***(7)***	2,833,917	716,696
Non-current assets		**75,239,554**	**11,610,589**
Inventories	***(15)***	777,399	66,500
Contract assets	***(16)***	3,625,192	1,542,489
of which: with related parties		*1,295,339*	*599,102*
Trade receivables	***(17)***	64,488,220	23,585,605
of which: from related parties		*5,524,590*	*4,464,820*
Current tax assets	***(18)***	4,160,573	929,351
Other current assets	***(19)***	2,740,548	1,243,057
Current financial assets	***(12)***	1,332,312	-
Cash and cash equivalents	***(20)***	19,885,505	2,297,858
Current assets		**97,009,749**	**29,664,860**
Total assets		**172,249,303**	**41,275,450**

(€)	Note	31/12/2022	31/12/2021
Share capital		1,441,500	481,500
Share premium		108,539,944	19,499,944
Other reserves		8,926,237	5,087,568
Profit for the year		2,209,462	5,185,828
Equity attributable to the owners of the parent		**121,117,142**	**30,254,839**
Share capital and reserves attributable to non-controlling interests		1,158,273	-
Profit for the year attributable to non-controlling interests		264,375	-
Equity	***(21)***	**122,539,790**	**30,254,839**
Employee benefits - non-current	***(22)***	2,894,479	326,481
Provisions - non-current	***(23)***	-	32,952
Other non-current liabilities		242.665	
Non-current financial liabilities	***(24)***	11,744,570	-
Non-current lease liabilities	***(25)***	2,059,798	1,563,517
of which: with related parties		*964,971*	*1,509,436*
Deferred tax liabilities	***(7)***	2,937,336	-
Non-current liabilities		**19,878,848**	**1,922,950**
Employee benefits - current	***(22)***	-	271,875
Provisions - current	***(23)***	122,111	267,793
Trade payables	***(26)***	10,571,285	4,330,658
of which: to related parties		*694,810*	*262,428*
Current financial liabilities	***(24)***	3,635,117	2,005,878
Current lease liabilities	***(25)***	1,191,346	443,078
of which: with related parties		*233,171*	*296,614*
Contract liabilities	***(16)***	4,582,279	65,252
of which: with related parties		*165,279*	*10,000*
Current tax liabilities	***(27)***	1,451,024	580,261
Other current liabilities	***(28)***	8,277,502	1,132,867
Current liabilities		**29,830,665**	**9,097,661**
Total liabilities		**172,249,303**	**41,275,450**

STATEMENT OF CHANGES IN EQUITY

			Other reserves									
	Share capital	Share premium	IFRS-EU FTA reserve	Legal reserve	Reserve for capital increase transaction costs	Other comprehensive income	Other reserves	Retained earnings	Profit for the year	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2021	**481,500**	**19,499,944**	**(96,039)**	**92,590**	**(1,172,651)**	**(41,664)**	**-**	**950,215**	**5,281,981**	**24,995,876**	**-**	**24,995,876**
Allocation of previous year profit	-	-	-	3,710	-	-	-	5,278,271	(5,281,981)	**-**	-	**-**
Net actuarial gains	-	-	-	-	-	73,136	-	-	-	**73,136**	-	**73,136**
Profit for the year	-	-	-	-	-	-	-	-	5,185,828	**5,185,828**	-	**5,185,828**
Balance at 31 December 2021	**481,500**	**19,499,944**	**(96,039)**	**96,300**	**(1,172,651)**	**31,472**	**-**	**6,228,486**	**5,185,828**	**30,254,839**	**-**	**30,254,840**
Allocation of previous year profit	-	-	-	259,292	-	-	-	4,926,538	(5,185,830)	**-**	-	**-**
Net actuarial losses	-	-	-	-	-	(515,585)	-	-	-	**(515,585)**	-	**(515,585)**
Capital increase transaction costs	-	-	-	-	(1,387,500)	-	-	-	-	**(1,387,500)**	-	**(1,387,500)**
Other changes	960,000	89,040,000	-	-	-	-	-	(2,115)	-	**89,997,884**	1,158,273	**91,156,158**
Net fair value gains on cash flow hedges	-	-	-	-	-	-	558,039	-	-	**558,039**	-	**558,039**
Profit for the year	-	-	-	-	-	-	-	-	2,209,462	**2,209,462**	264,375	**2,473,837**
Balance at 31 December 2022	**1,441,500**	**108,539,944**	**(96,039)**	**355,592**	**(2,560,151)**	**484,113**	**558,039**	**11,152,909**	**2,209,460**	**121,117,140**	**1,422,648**	**122,539,788**

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	2022	2021
Profit for the year	**2,473,837**	**5,185,828**
Income taxes	(3,156,115)	(647,161)
Pre-tax profit (loss)	**(682,278)**	**4,538,667**
Adjustments for:		
• Non-monetary items		
Amortisation and depreciation	12,102,182	3,395,403
Impairment losses	724,192	116,787
Service costs for post-employment benefits and defined benefit plans	983,074	206,356
Employee incentive plans	-	(93,750)
Accruals to provisions for risks and charges	122,111	110,394
Net interest expense	890,595	72,461
Sub total	**14,822,155**	**3,807,651**
Cash flows from operating activities before changes in net working capital	**14,139,876**	**8,346,318**
Changes in net working capital		
Trade receivables	(11,738,630)	(8,099,800)
of which: from related parties	*(1,059,770)*	*(2,155,147)*
Inventories	(459,798)	184,500
Contract assets	(1,664,597)	(934,332)
of which: with related parties	*(696,237)*	*(431,741)*
Trade payables	7,063,794	2,500,437
of which: to related parties	*221,803*	*85,167*
Provisions for risks and charges	(178,634)	60,745
Contract liabilities	4,517,027	(1,612,218)
of which: with related parties	*155,279*	*131,921*
Other current assets	(956,220)	(1,082,183)
Other current liabilities	(127,838)	776,178
Payment of post-employment benefits and defined plan benefits	(869,016)	(289,625)
Sub total	**(4,413,910)**	**(8,496,298)**
Cash flows generated by (used in) operating activities	**9,725,967**	**(149,979)**
Interest paid	(635,914)	(40,707)
Taxes paid	(705,154)	(120,634)
A) Net cash flows generated by (used in) operating activities	**8,384,899**	**(311,320)**
Net investments in intangible assets	(11,243,892)	(6,729,136)
Investments in property, plant and equipment	(2,301,208)	(314,883)
Acquisition/sale of subsidiaries net cash and cash equivalents	(70,971,144)	(900,684)
B) Cash flows generated by (used in) investing activities	**(84,516,244)**	**(7,944,703)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital increase	88,612,500	-
Net (repayments) utilisations of credit facilities	6,024,745	(850,000)
of which: with related parties	-	*(700,000)*
Change in other financial liabilities	(1,168,252)	1,830,326
Finance lease payments	-	(237,119)
Other changes	250,000	(171,603)
C) Cash flows generated by financing activities	**93,718,993**	**571,604**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**17,587,648**	**(7,684,420)**
OPENING CASH AND CASH EQUIVALENTS	**2,297,858**	**9,982,277**
CLOSING CASH AND CASH EQUIVALENTS	**19,885,505**	**2,297,858**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REPORTING ENTITY

CY4Gate S.p.A. (the "parent") is a company limited by shares with its registered office at Via Coponia 8, Rome (Italy). The consolidated financial statements at 31 December 2022 include the separate financial statements of the parent and the financial statements of its subsidiaries (the "CY4Gate Group" or the "group").
The group's core business is the design, development and production of technologies, products, systems and services for the armed forces, law enforcement agencies and Italian and foreign companies.
Since 2020, the parent's shares have been listed on the Euronext Growth Milan segment of the Milan Stock Exchange.

BASIS OF PREPARATION AND COMPLIANCE WITH THE IFRS-EU

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the International Accounting Standards (together the "IFRS") issued by the International Accounting Standards Board ("IASB") and the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and the Standing Interpretations Committee ("SIC"), endorsed by the European Union with Regulation (EC) no. 1606/2022 and effective at the reporting date. The above standards and interpretations are identified as "IFRS-EU" in these notes.

The consolidated financial statements comprise the statements of financial position, profit or loss, comprehensive income, changes in equity and cash flows as well as these notes. They have been prepared in accordance with IAS 1 – Presentation of financial statements and the historical cost principle, except for those captions measured at fair value as required by the IFRS (identified in the accounting policies section).

The statement of financial position presents assets and liabilities as current or non-current while costs are classified by nature in the statement of profit or loss. The statement of cash flows is prepared using the indirect method. The group has applied the IFRS in accordance with the guidance provided in the Framework for the Preparation and Presentation of Financial Statements. No critical matters were identified that would have made it necessary to resort to the departures described in IAS 1. The statement of changes in equity complies with the requirements of IAS 1 and presents comprehensive income.
All figures are shown in Euros unless stated otherwise. KPMG S.p.A. audited these consolidated financial statements.
The parent's board of directors authorised the consolidated financial statements at 31 December 2022 for publication in its meeting of 23 March 2023.

BASIS OF PRESENTATION

The consolidated financial statements at 31 December 2022 comprise a statement of profit or loss, a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows and these notes.

The group has opted to present assets and liabilities in the statement of financial position as current or non-current while income and expense items are recognised in the statement of profit or loss according to their nature. This approach complies with the group's management reporting format and is deemed the most suitable presentation method rather than using the presentation by destination method, as it provides more reliable and useful information about the group.

The statement of profit or loss and the statement of comprehensive income are presented separately with the former showing the profit or loss for the year while the latter starts with the profit or loss for the year and adds or deducts other comprehensive income or expense items. The statement of comprehensive income also presents changes in equity arising from non-owner transactions.

The group prepares the statement of cash flows using the indirect method presenting cash flows from operating, investing and financing activities separately.

The group's presentation of the statement of changes in equity complies with the requirements of IAS 1.
Note 33 provides information about the group's transactions with related parties.

The group's presentation currency is the Euro, which is also that of the parent. Assets and liabilities are presented separately without offsetting. Figures in the consolidated financial statements and the notes are in Euros unless indicated otherwise and, therefore, the totals of some statements and tables in the notes may be slightly different from the sum of the individual components due to rounding.

ACCOUNTING POLICIES

The consolidated financial statements at 31 December 2022 have been prepared using the historical cost method, except for those items that, in accordance with the IFRS, are mandatorily measured at fair value. The most significant accounting policies are described below.

The group has prepared the consolidated financial statements at 31 December 2022 on a going concern basis. They give a true and fair view of the group's financial position at 31 December 2022 and its financial performance and cash flows for the year then ended. Preparation of the consolidated financial statements has required management to make use of estimates as described later in these notes.

CONSOLIDATION SCOPE AND BASIS OF CONSOLIDATION

CY4Gate S.p.A. has drafted these consolidated financial statements, which are the first to be prepared as a result of the parent's acquisition of 100% of Aurora S.p.A. on 29 March 2022. At the acquisition date, Aurora S.p.A. controlled RCS ETM Sicurezza S.p.A., Azienda Informatica Italiana S.r.l., Servizi Tattici Informativi Legali S.r.l. ("STIL"), Dars Telecom SL, Tykelab S.r.l., Aurora France S.A.S. and RCS LAB GMBH. It also has an investment in the associate SAS Foretec. In November 2022, Aurora S.p.A. reverse merged into RCS ETM Sicurezza S.p.A. ("RCS").

The RCS ETM Sicurezza Group companies (the "RCS Group") are included in these consolidated financial statements using the basis of consolidation described below.
The "Business combinations" section provides details of the effects of the acquisition recognised in accordance with IFRS 3 - Business combinations.
The separate financial statements of the parent and the financial statements of the Italian and foreign companies that it directly or indirectly controls are consolidated on a line-by-line basis.

The group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity and has the power to govern the financial and operating policies of the entity either directly or indirectly. Control is presumed to exist when the group holds directly or indirectly more than half the voting rights.
The financial statements of subsidiaries are consolidated starting from the date the parent gains control until the date it loses such control.
The financial statements of the consolidated companies, prepared for consolidation by their competent bodies, are adjusted and reclassified to comply with the group's accounting policies as described below.
The reporting date of the consolidated companies' interim financial statements is the same as that of the parent.

The following table lists the companies included in the consolidation scope and the parent's direct or indirect investment percentage.

	Address or foreign state of registered office	Share/quota capital	Investment %	Consolidation or measurement method
Subsidiaries				
CY4gate S.p.A. (parent)	Rome - Via Coponia 8	1,441,500		Line-by-line
RCS ETM Sicurezza S.p.A.	Milan - Via Caldera 21	7,000,000	100%	Line-by-line
Azienda Informatica Italiana S.r.l.	Turin - Corso Vittorio Emanuele II 74	10,000	85.75%	Line-by-line
Servizi Tattici Informativi Legali S.r.l. ("STIL")	Cuneo - Via XX settembre 2	33,333	70%	Line-by-line
Dars Telecom SL	Madrid - PASEO PINTOR ROSALES 44 - Spain	4,808	65%	Line-by-line
Tykelab S.r.l.	Rome - Via Benedetto Croce 10	10,000	90%	Line-by-line
Associates				
SAS Foretec	Andrézieux-Bouthéon - France	500,000	25%	Equity

Although it controls them, the parent elected not to consolidate Aurora France S.A.S. and RCS Lab GmbH given their immateriality due to their limited activities.

	Address or foreign state of registered office	Share capital	Investment %
Subsidiaries			
Aurora France S.A.S.	Paris - 9 Rue Parrot - France	10,000	100%
RCS LAB GMBH	Lebach - Germany	25,000	70%

The basis of consolidation used to prepare the consolidated financial statements at 31 December 2022 may be summarised as follows:

- Subsidiaries are fully consolidated and therefore:
  - their assets, liabilities, costs and revenue as per their financial statements are consolidated regardless of the parent's investment percentage;
  - the carrying amount of the investments therein is eliminated against the parent's share of their net equity;
  - intragroup transactions are eliminated, including dividends distributed within the group;
  - non-controlling interests are presented separately under equity and their share of the subsidiaries' profit or loss is also presented separately in the statement of profit or loss.

Investments in associates are measured using the equity method, whereby their carrying amount is adjusted for:

- compliance with the group's accounting policies;
- the parent's share of the associate's profit or loss since the acquisition date;
- changes in equity that are not recognised in profit or loss in line with the IFRS;
- dividends distributed by the associate;
- any differences arising on acquisition (measured using the criteria set out in the "Business combinations" section) treated in accordance with the IFRS;
- the group's share of equity-accounted investees' profit or loss, recognised in profit or loss.

Dividends, impairment gains and losses and losses on consolidated investments, the gains or losses from intragroup sales of consolidated investments and the related tax are eliminated. Profits or losses from transactions among consolidated companies that have not been directly or indirectly realised with third parties are eliminated. Unrealised intragroup losses are recognised if the underlying transaction shows evidence of impairment of the transferred asset.

BUSINESS COMBINATIONS

The group accounts for business combinations using the acquisition method when control is transferred to the group. Under this method, the consideration transferred in a business combination is measured at fair value, which is the sum of the fair values of the assets acquired and liabilities assumed by the group at the acquisition date.

Contingent consideration, considered part of the transaction price, is measured at its acquisition-date fair value and the obligation to pay contingent consideration is classified as other current or non-current financial liabilities.

Any subsequent fair value gains or losses in contingent consideration are recognised as financial income or expense in profit or loss. The identifiable net assets acquired are generally measured at fair value at the acquisition date. Any goodwill that arises, calculated as the difference between the consideration transferred and the fair value of the net assets acquired, is tested annually for impairment. Any gain on a bargain purchase is immediately recognised in profit or loss while transaction costs are expensed as incurred, except if related to the issue of debt or equity instruments.

The consideration transferred does not include gains or losses related to the settlement of pre-existing transactions.

These amounts are usually recognised in profit or loss.
If the fair value of the assets, liabilities and contingent liabilities can only be determined provisionally, the business combination is recognised on the basis of such provisional amounts. Any adjustments arising from the completion of the measurement process are recognised within 12 months of the acquisition date.

ACQUISITION OF THE RCS GROUP (FORMERLY AURORA)

On 16 December 2021, the parent signed a preliminary acquisition agreement for 100% of the RCS Group (formerly Aurora). The acquisition was closed on 29 March 2022.
This transaction was of strategic importance to the parent as it enables the group to acquire a leadership position in the Italian forensic intelligence & data analysis market.
It provided the group with longstanding partnership agreements entered into by Aurora and its group with a large number of public prosecutor offices as well as a larger customer portfolio, thanks to the acquired group’s extensive commercial offering.
The consideration transferred for the acquisition comprised:

(i) a fixed component of €75.5 million, subject to a price adjustment of €857,244 in favour of the buyer to reflect the actual net financial position and trade working capital at the calculation date (established by the parties in the acquisition agreement). In June 2022, the parties engaged PricewaterhouseCoopers S.p.A. as an independent expert to calculate the adjustment as their separate calculations of the acquired group’s net financial position were very different. On 16 March 2023, the independent expert calculated the net financial position to be €5,208,000, which leads to an adjustment of €857,244 to the fixed consideration;

(ii) a variable component to be determined on the basis of the effective 2022 enterprise value considering the 2021 enterprise value of a maximum of €15 million, the actual amount and payment of which was subject to conditions precedent but and due by 30 June 2023. As the conditions precedent were not met at 31 December 2022, this variable component was not due.

As a result, the total consideration was €74,642,756.
The fair value of the assets acquired and the liabilities assumed was determined within the period established by IFRS 3 and the difference between the consideration transferred and the fair value of the net assets acquired was recognised as goodwill.
The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Carrying amounts	Adjustments to fair value	Fair value
Non-current assets	**9,513,694**	**12,272,566**	**21,786,260**
Goodwill	491,363		491,363
Intangible assets	1,673,985	12,272,566	13,946,551
Property, plant and equipment	2,956,540	-	2,956,540
Right-of-use assets	2,494,852	-	2,494,852
Equity investments	799,021	-	799,021
Non-current financial assets	19,629	-	19,629
Deferred tax assets	221,186	-	221,186
Non-current tax assets	854,438	-	854,438
Other non-current assets	2,679	-	2,679
Current assets	**47,383,078**	**-**	**47,383,078**
Inventories	251,101	-	251,101
Contract assets	1,903,106	-	1,903,106
Trade receivables	34,193,508	-	34,193,508
Current financial assets	199,530	-	199,530
Current tax assets	945,834	-	945,834
Other current assets	2,861,142	-	2,861,142
Cash and cash equivalents	7,028,856	-	7,028,856
Non-current liabilities	**(6,992,246)**	**(3,536,953)**	**(10,529,199)**
Employee benefits - non-current	(1,707,855)		(1,707,855)
Other non-current liabilities	(112,064)		(112,064)
Non-current financial liabilities	(3,780,969)		(3,780,969)
Non-current lease liabilities	(1,128,595)		(1,128,595)
Deferred tax liabilities	(262,763)	(3,536,953)	(3,799,716)
Current liabilities	**(18,115,162)**	**-**	**(18,115,162)**
Trade payables	(3,403,316)		(3,403,316)
Current financial liabilities	(3,568,095)		(3,568,095)
Current lease liabilities	(1,284,206)		(1,284,206)
Contract liabilities	(1,485,000)		(1,485,000)
Current tax liabilities	(333,725)		(333,725)
Tax liabilities	(1,891,088)		(1,891,088)
Other current liabilities	(6,149,731)		(6,149,731)
Net assets acquired	**31,789,363**	**8,735,613**	**40,524,976**

Recognition of the RCS Group's net assets acquired at fair value led to the recognition of an intangible asset (software) of €12,272 thousand, before tax. Based on the new releases of this software, its estimated useful life is three years starting from the acquisition date.

Goodwill has been calculated as follows:

€'000	
Consideration transferred (A)	74,642
NCI (B)	1,189
Net assets acquired (C)	40,524
Goodwill (A+B-C)	**35,307**

The parent incurred transaction costs of €1.5 million, mostly related to legal, due diligence and other services. These costs have been included in the captions "Purchases" and "Personnel expense" in the statement of profit or loss for the year ended 31 December 2022 in accordance with IFRS 3 - Business combinations.

The acquisition-date net cash flows generated by the consolidation of the acquired group are as follows:

€'000	
Consideration paid for 100%	(75,500)
Cash acquired	7,028
Net cash flow used for the consolidation	**(68,472)**

The group was assisted by an independent expert for the measurement of the fair value of the assets acquired and liabilities assumed and allocation of the consideration transferred.

TYKELAB ACQUISITION

On 9 November 2021, Aurora acquired 90% of Tykelab from the other owners for a total fixed consideration of €589,416.

The fair value of the assets acquired and the liabilities assumed was determined within the period established by IFRS 3 and the difference between the consideration transferred and the fair value of the net assets acquired was recognised as goodwill.
The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Non-current assets	**494,853**
Intangible assets	25,786
Property, plant and equipment	18,453
Right-of-use assets	388,559
Non-current financial assets	16,834
Non-current tax assets	45,220
Current assets	**795,422**
Trade receivables	718,125
Current financial assets	4,194
Current tax assets	3,924
Other current assets	22,125
Cash and cash equivalents	47,055
Total assets	**1,290,275**
Non-current liabilities	**(602,002)**
Employee benefits - non-current	(261,048)
Non-current lease liabilities	(337,610)
Deferred tax liabilities	(3,344)
Current liabilities	**(579,326)**
Trade payables	(84,584)
Current financial liabilities	(2,849)
Current lease liabilities	(42,897)

Current tax liabilities	(244,383)
Other current liabilities	(204,613)

Total liabilities	**(1,181,328)**

Net assets acquired	**108,947**

Goodwill has been measured as follows:

€	
Consideration transferred (A)	589,416
NCI (B)	10,895
Net assets acquired (C)	108,947
Goodwill (A+B-C)	**491,363**

The acquisition-date net cash flows generated by the consolidation of the acquired group are as follows:

€'000	
Consideration paid for 100%	(589,416)
Cash acquired	47,055
Net cash flow used for the consolidation	**(542,361)**

The group was assisted by an independent expert for the measurement of the fair value of the assets acquired and liabilities assumed and allocation of the consideration transferred.

INTANGIBLE ASSETS (WITH A FINITE USEFUL LIFE)

Intangible assets are identifiable non-monetary assets that do not have physical substance and are held to generate future economic benefits for the group. They are recognised at acquisition and/or development cost, including the cost of bringing the assets to their working condition, net of accumulated amortisation (except in the case of assets with an indefinite useful life, which are tested for impairment as per IAS 36) and any accumulated impairment losses. Amortisation begins when the asset is available for use and is allocated on a systematic basis over the asset's useful life. The amortisation rate for the first year of use of the asset is adjusted to reflect its actual use.

Goodwill recognised under intangible assets arises on business combinations and is the difference between the consideration transferred to acquire a company or a business unit and the sum of the acquisition-date fair values of the individual assets and liabilities of the acquired company or business unit. As goodwill has an indefinite useful life, it is not amortised but is tested for impairment at least once a year. For impairment test purposes, the goodwill acquired in a business combination is allocated to each of the group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, in line with the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill related to associates, joint ventures or unconsolidated subsidiaries is included in the carrying amount of the related investments.

Industrial patents and intellectual property rights are carried at cost net of accumulated amortisation and any accumulated impairment losses.
Amortisation begins when the right, to which the group has acquired title, is available for use and is allocated over its estimated useful life (three to five years).
Licences and similar rights are carried at cost net of accumulated amortisation and any accumulated impairment losses. Amortisation begins in the year in which the group has acquired title to the right and is allocated over its useful life. Development expenditure includes the costs of applying research findings or other knowledge to a plan or design for the production of new or substantially improved applications, devices and software systems before the start of

commercial production for which it can be demonstrated that future economic benefits will flow to the group. The expenditure is amortised over the period in which the future expected revenue will materialise for the projects, estimated to be three years on the basis of the group's current projects.
Intangible assets are amortised on a straight-line basis as follows:

- development expenditure is amortised over three years (33.33%);
- industrial patents, concessions, licences, trademarks and similar rights are amortised over the shorter of their legal or contractual term and their residual possible use (20% to 30% depending on the licence term);

Other assets are amortised over the shorter of the period of their estimated useful lives and the remaining lease term, including any renewal option, if this is at the group's discretion (variable depending on the remaining lease term).

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The group tests intangible assets with an indefinite useful life and intangible assets with a finite useful life under development at least once a year.

It checks that there are no indications of impairment (events or changes in circumstances) for property, plant and equipment and intangible assets other than those with an indefinite useful life or under development.
If necessary, the group carries out the impairment test on the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units), when it is not possible to determine the recoverable amount of the individual assets.

The impairment test consists of comparing the carrying amount of the assets (or groups of assets) to their recoverable amount[1]. If the carrying amount is higher than the recoverable amount, the asset is impaired and the impairment loss is recognised in profit or loss. Should the reasons for the previously-recognised impairment loss no longer hold true, the asset is reinstated at its carrying amount and the reversal of the impairment loss is recognised in profit or loss. Impairment losses on goodwill or an intangible asset with an indefinite useful life can never be reversed.

IMPAIRMENT OF OTHER FINANCIAL INSTRUMENTS

Adoption of IFRS 9 - Financial instruments has radically changed the methods used to determine and recognise impairment losses on financial assets. It replaced the incurred loss method of IAS 39 with the forward-looking expected credit loss (ECL) method.

Under IFRS 9, regardless of the existence of a trigger event, the group determines the expected credit losses for all financial assets (except for those measured at FVTPL) using the ECL method.

The group introduced an impairment model for trade receivables and contract assets (which make up most of its credit exposure) based on the simplified approach established by IFRS 9 for this type of asset. Specifically, the group divides these financial assets into clusters based on their nature, customer rating and geographical location. The group uses the information to subsequently determine the reference parameters (PD[2], LGD[3], and EAD[4]) to calculate the lifetime expected credit losses of each cluster. The group individual impairs trade receivables from customers with a below-adequate credit rating (speculative grade, non-investment grade and high yield) that accumulate significant payment delays on the basis of the parameters identified each time. With respect to the other financial assets to be tested, the

1 Recoverable amount is the higher of fair value less costs to sell and value in use of an asset.
2 PD: Probability of Default.
3 LGD: Loss Given Default.
4 EAD: Exposure At Default.

group carries out the analyses required by the general approach under IFRS 9, by staging the impaired assets to stages and estimates the expected credit losses on the basis of the PD, LDG and EAD risk parameters. Impairment losses and gains calculated in accordance with IFRS 9 are recognised in profit or loss.

INVENTORIES

Inventories are measured at the lower of purchase and/or production cost and net realisable value.
Purchase cost includes transaction costs; production cost includes directly related costs and a portion of the indirect costs that can reasonably be allocated to the products.
Obsolete and/or slow-moving items are written down to reflect their estimated possible use or realisation by setting up an allowance account. The write-down is reversed in subsequent years if the reasons therefor are no longer valid.

FINANCIAL ASSETS

The group classifies financial assets in the following categories:

- at amortised cost;
- at fair value through profit or loss;
- at fair value through other comprehensive income.

The group determines their classification considering the business model used to manage the financial assets and their contractual cash flows.
The group initially measures financial assets at fair value plus or minus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. Trade receivables are initially measured at their transaction price, which is equal to their fair value.

At initial recognition, financial assets are classified in one of the above categories and they may only be reclassified into another category if the group changes its business model used to manage them.
The group recognises a loss allowance for expected credit losses on financial assets at amortised cost, contract assets and debt instruments at fair value through other comprehensive income. It measures the loss allowance at an amount equal to the lifetime expected credit losses. Classification as current and non-current reflects management's expectations about the assets' recovery.

Financial assets at amortised cost
This category includes financial assets held within a business model whose objective is achieved by collecting contractual cash flows (held to collect) that are solely payments of principal and interest on the principal amount outstanding. This category includes all loans and trade receivables.
These assets are measured at amortised cost using the effective interest method less impairment losses. Interest income, exchange differences and impairment losses are recognised in profit or loss as are derecognition gains or losses.

Financial assets at fair value through other comprehensive income
This category includes financial assets held within a business model whose objective is achieved by both collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding and selling financial assets (hold to collect and sell).

Financial assets at fair value through profit or loss
This category includes financial assets not classified as measured at amortised cost or fair value through other comprehensive income.
The group determines the fair value of financial assets held for trading using market prices at the reporting date or financial valuation techniques and models.

DETERMINATION OF FAIR VALUE

IFRS 13 defines fair value as a market-based measurement rather than an entity-specific measurement as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
When a price for an identical asset or liability is not observable, the group measures fair value using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

In some cases a single valuation technique will be appropriate. In other cases, multiple valuation techniques will be appropriate. If multiple valuation techniques are used to measure fair value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results.
The three most commonly used valuation techniques use are:

- **market approach:** a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities;

- **cost approach:** a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset; and

- **income approach:** a valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current amount.

In line with the availability of the relevant inputs underlying the valuation technique used, the assets and liabilities at fair value are measured and classified in accordance with the fair value hierarchy established by IFRS 13:

- **level 1 inputs**: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- **level 2 inputs**: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

- **level 3 inputs**: unobservable inputs for the asset or liability.

The fair value measurement of an asset or liability is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

Trade receivables and other financial assets, trade payables, other liabilities and loans and borrowings are measured at amortised cost.

Financial liabilities and assets are settled or measured at market rates and do not include transaction costs. The group has not reclassified financial assets or liabilities into or out of the fair value at amortised cost category.

With respect to financial assets and liabilities at amortised cost, management deems that their carrying amount is a reasonable approximation of their fair value[5].

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

The group derecognises a financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) when:

- the contractual rights to the cash flows from the financial asset expire,
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients;
- The group has transferred the contractual rights to the cash flows from the financial asset and: (a) has transferred substantially all the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all the rights and rewards of ownership of the asset, but has transferred control.

If the group has transferred the contractual rights to the cash flows from the asset and has not either transferred or retained substantially all the risks and benefits of ownership or has not lost control, it continues to recognise the asset to the extent of its continuing involvement. When its continuing involvement takes the form of guaranteeing the transferred asset, the extent of the group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the group could be required to repay.

The group removes a financial liability from its statement of financial position when, and only when, it is extinguished - i.e., when the obligation specified in the contract is discharged or cancelled or expires. If a financial liability is exchanged for another financial liability from the same lender at substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the two carrying amounts is recognised in profit or loss. When the modification or exchange of a financial liability does not result in the derecognition of that financial liability in accordance with IFRS 9, the group recalculates the carrying amount of the financial liability as the net present value of the renegotiated or modified contractual cash flows that are discounted at the financial liability's original effective interest rate. Any difference between the recalculated carrying amount and the carrying amount of the original financial liability is immediately taken to profit or loss.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank deposits or deposits with other credit institutions available for current transactions, post office accounts and other cash equivalents as well as investments maturing within three months of the acquisition date. This caption is measured at fair value which is usually equal to its nominal amount.

EQUITY

Share capital
Share capital comprises the subscribed and paid-up capital. Share issue costs are classified as a reduction in share capital when they directly relate to capital transactions.

Retained earnings (losses carried forward)

[5] IFRS 7.29

This caption includes the portion of profits or losses of previous years that have not been distributed or allocated to reserves (profits) or covered (losses).

Other reserves

These reserves include those set up for the first-time adoption of the IFRS and other equity-related reserves.

Other comprehensive income

This caption includes items of other comprehensive income recognised directly in equity in accordance with the IFRS-EU guidance about their origin and variations.

These items are presented by nature and include actuarial gains and losses on defined benefit plans determined in accordance with IAS 19.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value less transactions costs and are subsequently measured at amortised cost.

The difference between the amount received (less transaction costs) and the financial liability's nominal amount is recognised in profit or loss using the effective interest method.

Financial liabilities are classified as current liabilities unless the group has a contractual right to extinguish its obligations at least 12 months after the reporting date.

The group has not designated any financial liabilities at fair value through profit or loss.

TRADE PAYABLES AND OTHER LIABILITIES

Trade payables, with normal due dates, are not discounted and are carried at cost (which approximates their nominal amount).

INCOME TAXES

Current taxes

The group recognises current taxes for the year and previous years at the amount it expects to pay the tax authorities. The tax rates and laws used to calculate the amounts are those substantially enacted at the reporting date in the various countries where the group operates.

Deferred taxes

The group accounts for deferred taxes using the liability method applied to taxable or deductible temporary differences between the carrying amounts of assets and liabilities and their tax base.
A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);

- for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except to the extent that the group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. At the reporting date, the group reassesses unrecognised deferred tax assets. It recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the reporting date.

The group offsets deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority.

Current tax and deferred tax that relates to items that are recognised directly in equity are also recognised directly in equity.

TRANSLATION CRITERIA

Transactions in foreign currencies are translated into the group's functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Exchange differences are recognised in profit or loss.

EMPLOYEE BENEFITS

Termination benefits

Termination benefits are employee benefits payable as a result of either a group company's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The group recognises a liability and expense for termination benefits at the earlier of the following dates: (i) when the group can no longer withdraw the offer of those benefits; and (ii) when the group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. Specifically, if the benefits represent an enhancement on other post-employment benefits recognised for employees, the group measures the related liability using the guidance set out in paragraphs 50 to 60 of IAS 19 - Post-employment benefits (defined contribution plans and defined benefit plans). Otherwise, the guidance to be applied to measure termination benefits differs depending on the period of time over which the benefits will be paid:

- if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the group applies the requirements for short-term employee benefits (IAS 19.9-25);

- if the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the group applies the requirements for other long-term employee benefits (IAS 19.153-158).

Post-employment benefits

The group recognises the liability for employee benefits provided near or after termination of the employment relationship in the form of defined benefit plans when the right generated by the service provided by the employee necessary to obtain the benefit, based on actuarial assumptions and net of advances paid, vests. Third party actuaries measure the liability using the projected unit credit method.

The following items are recognised under personnel expenses in the statement of profit or loss:

- current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;

- net interest, which is the change in the period in the net defined benefit liability (asset) that arises from the passage of time; and

- past service cost or gains resulting from amendments to defined benefit plans, recognised in full in the period in which the amendments are made.

In addition, actuarial gains or losses arising from remeasurements of the net defined benefit liability are immediately are recognised under OCI in the statement of comprehensive income.

The liabilities for post-employment benefits under defined contribution plans are recognised for the amount accrued at the reporting date.

Liabilities for other employee benefits are recognised for the amount accrued at the reporting date, including on the basis of actuarial assumptions when the benefits are of a non-current nature.

Phantom stock option plan

The parent's board of directors approved a phantom stock option plan for its executive directors and key management personnel on 22 September 2022. The beneficiaries are awarded phantom stock options free of charge if certain financial objectives are met. The 2020-2022 phantom stock option plan provides for the awarding of a maximum of 2,400,000 options (the "options") and is designed to:

- peg the remuneration of the parent's key resources to the effective creation of new value for the parent in the mid term;
- align the beneficiaries' interests with those of the shareholders and investors;
- introduce retention and attraction policies to retain and attract key resources and encourage them to stay with the parent.

The plan has a medium to long-term horizon and has three cycles (2020, 2021 and 2022), each of which has annual objectives and, for 50% of the options assigned, a deferral period of 12 months.

The cost of the plan is measured at the fair value of the liabilities assumed, with a balancing entry under liabilities. Until the liability is extinguished, the group remeasures its fair value at each reporting date and recognises any fair value gains or losses in profit or loss.

In 2022, no amounts were set aside for the second vesting period provided for in the 2021-2022 phantom stock option plan's regulation approved by the parent's board of directors on 22 September 2021 as the plan objectives were not met.

PROVISIONS FOR RISKS AND CHARGES

The group recognises provisions for risks and charges when it has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure that the group would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. When the effect of the time value of money is material, the group discounts the provisions using a pre-tax discount rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

REVENUE FROM CONTRACTS WITH CUSTOMERS

The group recognises revenue from contracts with customers when it transfers control of the good of service to the customer, either at a point in time or over time.

Contracts that respect the criteria for the recognition of revenue over time are classified as "Contract assets" or "Contract liabilities" depending on the degree of satisfaction of the performance obligation by the group and the payments received from the customer. Specifically:

- net contract assets represent the group's right to consideration for the goods or services already transferred to the customer;
- contract liabilities represent the group's obligation to transfer goods or services to a customer for which it has already received (or has the right to receive) the transaction price.

When a contract has multiple performance obligations, which are a promise in a contract to transfer a good or service that is distinct (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer) to a customer, classification as contract assets or liabilities is made considering all the performance obligations as a whole.

The group recognises contract assets and liabilities using the percentage of completion method to measure satisfaction of the performance obligation (paragraphs B14-B19 of IFRS 15 "Input methods"). Under this method, the contract costs, revenue and profit or loss are recognised in line with the percentage of completion of the contract, calculated by comparing the costs incurred at the measurement date and the total amount of costs included in the contract budget. The group regularly updates the assumptions underlying the contract budget to reflect the best estimate of the accrued contract consideration and profit or loss in its consolidated financial statements.
Conversely, if the group does not meet the requirements for the recognition of contract revenue over time, it recognises revenue at a point in time, i.e., when the customer obtains control of the promised goods or services.

Contract assets are presented net of impairment losses. The group regularly updates its estimates and recognises any resulting gains or losses immediately in profit or loss.

OTHER REVENUE AND INCOME

The group recognises all other revenue and income not directly related to the group's core business and that are not contract revenue in this caption.

GOVERNMENT GRANTS

The group recognises government grants at fair value, when it is reasonably certain that it will receive them and it has complied with the related conditions. Government grants are recognised in profit or loss on a systematic basis over the periods in which the group recognises as expenses the related costs for which the grants are intended to compensate. Grants related to assets are presented by deducting their fair value from the carrying amount of the related asset. They are recognised as deferred income under liabilities when the related asset has not yet been placed in service, i.e., it is still under construction and its carrying amount is lower than the amount of the grant.

FINANCIAL INCOME AND EXPENSE

Interest is recognised on an accruals basis using the effective interest method, i.e., the rate that exactly discounts the estimated future cash payments or receipts (including any premiums, discounts, fees, etc.) of a specific transaction. Borrowing costs are capitalised when the conditions of IAS 23 are met.

DIVIDENDS

The group recognises a dividend payable when the dividend is appropriately authorised by the shareholders who have the right to receive the dividend and it is no longer at the discretion of the group. It recognises the dividend as a liability when its payment is authorised by the shareholders with any changes in the carrying amount of the dividend payable recognised in equity.

COSTS

Costs are recognised on an accruals basis assuming the group's ability to continue as a going concern.

EARNINGS PER SHARE

The group calculates basic earnings per share by dividing the profit or loss attributable to ordinary shareholders of the parent by the weighted average number of the ordinary shares outstanding in the year adjusted by treasury shares. For the purpose of calculating diluted earnings per share, the group adjusts profit or loss attributable to ordinary shareholders of the parent, and the weighted average number of shares outstanding (as defined above), for the effects of all dilutive potential ordinary shares.

SEGMENT REPORTING

The group operates in one sector - the development and marketing of cyber intelligence and cyber security products which implies that management reports and analyses its business using just one format. Therefore, in accordance with IFRS 8, the group does not provide segment reporting (assets and liabilities and/or revenue and costs) as this is not applicable.

USE OF ESTIMATES

The directors made judgements, estimates and assumptions when preparing the consolidated financial statements at 31 December 2022 in accordance with the IFRS which affect the carrying amount of assets, liabilities, revenue and costs and the related disclosures. Estimates are based on the most recent information the directors have access to when preparing the consolidated financial statements. The standards and captions that required a high level of judgement are:

- Intangible assets with indefinite useful lives: goodwill is tested for impairment once a year. This includes calculating the recoverable amount of the CGU to which goodwill has been allocated by estimating its value in use or fair value less costs to sell. If the recoverable amount is lower than the CGU's carrying amount, the goodwill is impaired. Calculation of the CGU's recoverable amount entails the use of estimates that are based on factors which may vary over time, with potential significant effects compared to the assessments made by the directors. In addition, with respect to the calculation of value in use by discounting future cash flows, this method is highly complicated and involves the use of estimates, which are by their very nature uncertain and subjective, about:

    - the CGUs' expected cash flows, calculated by taking into account the general economic performance and that of the group's sector, the actual cash flows of for past years and the projected growth rates;

    - the financial parameters used to calculate the discount rate.

- Purchase price allocation (PPA) procedure: with respect to business combinations, the group recognises the identifiable assets acquired and liabilities assumed at their acquisition-date fair value against the consideration transferred to acquire control of an acquiree (PPA procedure). The group usually determines the fair value of the assets acquired and liabilities assumed by discounting the future cash flows and calculating the royalties provided for in licence agreements. This method is highly complicated and involves the use of estimates, which are by their very nature uncertain and subjective, about:

- the expected cash flows, calculated by taking into account the investees' financial performance and the performance of their business sectors, the actual cash flows for past years and projected growth rates;
- the financial parameters used to calculate the discount rate.

- Contract assets and liabilities: in measuring contract assets and liabilities, the group determines whether revenue is to be recognised over time or at a point in time and estimates the percentage of completion based on the actual progress of the work performed.
- Impairment of non-current assets: the group tests property, plant and equipment and intangible assets with a finite useful life for impairment whenever an impairment indicator suggests that it will be difficult to recover the assets' carrying amount from their continuing use. This requires subjective judgements based on the information available within the group and on the market as well as past experience. In addition, if the group determines that an asset may be impaired, it calculates the impairment loss using suitable techniques. The correct identification of impairment indicators and the related estimates are tied to factors that may vary over time, affecting the directors' judgements and estimates.
- Fair value measurement: when measuring the fair value of an asset or a liability, the group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as described in the "Measurement of fair value" section.
- Lease liabilities: measurement of a lease liability is affected by the lease term, taken to be the non-cancellable period of a lease, together with both a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Assessment of the lease term entails the use of estimates which are tied to factors that may vary over time, with potential significant effects compared to the judgements made by the directors.
- Loss allowance: the group impairs non-performing exposures (customers with high credit risk or significant past due amounts) individually relying on past experience to estimate the expected credit losses. It revisits the estimates and assumptions regularly and any changes are recognised in profit or loss immediately.
- Defined benefit plans: the actuarial valuation of defined benefit plans requires the preparation of assumptions that may differ from actual future developments. The results are tied to the actuarial parameters used, such as the discount rate, the inflation rate, the salary increase rate and the expected employee turnover rate. The group reviews all these assumptions once a year.
- Deferred tax assets: they are recognised for all deductible temporary differences or unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be used. The group reviews the recognition of deferred tax assets based on financial projections, underpinned by estimates and assumptions which it also revisits regularly.

The actual figures for these consolidated financial statements captions for which the above estimates are used may differ from the carrying amounts presented in the consolidated financial statements at 31 December 2022 due to the inherent uncertainty in the assumptions and judgements on which they are based. The group regularly reviews the estimates and assumptions and the effects of any changes are taken to profit and loss in the period of the change.

NEW STANDARDS OR AMENDMENTS FOR 2022 AND FORTHCOMING REQUIREMENTS

As required by IAS 8 - Accounting policies, changes in accounting estimates and errors, this section sets out the new standards and interpretations as well as amendments to the existing applicable standards and interpretations that are not yet effective at the reporting date but may become applicable by the group in the future.

a) New standards and amendments issued by the IASB and endorsed by the EU, the adoption of which is mandatory from annual periods beginning on or after 1 January 2022

	Issue date	Effective date	Endorsement date	EU regulation and publication date
Annual Improvements to IFRS Standards (2018-2020 cycle) (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021
Property, plant and equipment - Proceeds before intended use (Amendments to IAS 16)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021
Onerous contracts - Cost of fulfilling a contract (Amendments to IAS 37)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021

The standards, amendments and interpretations, effective from 1 January 2022 and endorsed by the European Commission, are as follows:

- The European Commission endorsed the following documents published by the IASB on 14 May 2020 with Regulation (EU) 2021/1080 of 28 June 2021, published in the European Union's Official Journal of 2 July 2021:

  - **Reference to the Conceptual Framework (Amendments to IFRS 3)**
    The amendments update the reference to the revised Conceptual Framework in IFRS 3, without altering the requirements of the standard. Reference is to be made to the new definition of assets and liabilities in the revised Framework published in March 2018, with the sole exception of liabilities assumed in a business combination, which are recognised in accordance with IAS 37 - Provisions, contingent liabilities and contingent assets or IFRIC 21 - Levies after the acquisition date. This exception is designed to avoid the acquiror recognising a liability or a contingent liability in line with the new definition in the Framework to subsequently eliminated it by applying the measurement criteria set out in IAS 37 and IFRIC 21.

  - **Property, plant and equipment - proceeds before intended use (Amendments to IAS 16)**
    The IASB has clarified that proceeds from selling items produced while bring an asset into the location and condition necessary for it to be capable of operating in the manner intended by management shall be recognised in profit or loss. As a result, it is no longer allowed to deduct proceeds from selling items produced before the asset is ready for use, such as for example, items produced in the testing phase from the cost of an item of property, plant and equipment.

    The items produced awaiting sale shall be recognised as inventories in accordance with IAS 2 - Inventories. The production cost of items produced would not include depreciation of the item of property, plant and equipment as the latter is not yet subject to depreciation.

    The notes disclose the amount of revenue and costs related to the items produced, which are not output from ordinary activities, and the consolidated financial statements captions in which they are recognised (if not presented separately).

  - **Onerous contracts - Cost of fulfilling a contract (Amendments to IAS 37)**
    The IASB clarified that the cost of fulfilling a contract includes all directly related costs and therefore:

- incremental costs, i.e., those costs that would not have been incurred had the group not obtained the contract (for example, raw materials, direct labour costs, etc.);
- an allocation of the other costs that, although not incremental costs, are directly related to the contract (e.g., the depreciation charge for the assets used to fulfil the contract).

The IASB also confirmed that, before establishing a separate provision for an onerous contract, an entity shall recognise any impairment loss that has occurred on the non-current assets and clarified that the impairment losses shall be determined not only for the assets used in fulfilling the contract but also the other assets that are partly used to fulfil the contract.

- **Annual Improvements to IFRS Standards (2018-2020 cycle) (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)**
  These improvements are part of an annual process to resolve non-urgent issues related to inconsistencies or unclear terminology identified in the standards. This version includes an amendment to IFRS 16 that has not been endorsed by the European Union as it refers to an illustrative example that is not an integral part of that standard.

The adoption of the new amendments and improvements from 1 January 2022 has not affected the group's consolidated financial statements.

b) Standards and interpretations applicable to annual periods beginning on or after 1 January 2022 and endorsed by the European Union at 31 December 2022:

	Issue date	Effective date	Endorsement date	EU regulation and publication date
IFRS 17 – Insurance contracts (including amendments published in June 2020)	May 2017 2020 June 2021	1 January 2023	19 November 2021	(EU) 2021/2036 23 November 2021
Definition of accounting estimates (Amendments to IAS 8)	February 2021	1 January 2023	2 March 2022	(EU) 2022/357 3 March 2022
Disclosure of accounting policies (Amendments to IAS 1)[6]	February 2021	1 January 2023	2 March 2022	(EU) 2022/357 3 March 2022
Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)	May 2021	1 January 2023	11 August 2022	(EU) 2022/1392 12 August 2022
Initial Application of IFRS 17 and IFRS 9 - Comparative Information (Amendment to IFRS 17)	December 2022	1 January 2023	8 September 2022	(EU) 2022/1491 9 September 2022

- **New standard IFRS 17 - Insurance Contracts (issued on 18 May 2017); including amendments published on 25 June 2020**
  On 18 May 2017, the IASB published IFRS 17 - Insurance contracts, which replaces the current IFRS 4 - Insurance contracts.
  The European Commission endorsed IFRS 17 (version published by the IASB on 18 May 2017 and subsequently amended on 25 June 2020) with Regulation (EU) 2021/2036 of 19 November 2021.

[6] The document published by the IASB includes amendments to IFRS Practice Statement 2 - Making materiality judgements, which were not endorsed by the EU as they do not relate to a standard or an interpretation.

IFRS 17 replaces IFRS 4 and is applicable to annual periods beginning on or after 1 January 2023. Earlier application is allowed for entities that have already applied IFRS 9 - Financial instruments or that start to apply that standard before the date of first-time application of IFRS 17.

IFRS 17 introduces some new features and, specifically:

- measurement of the technical provisions at substantially current values;
- transformation of the estimated expected profit of insurance contracts into an accounting figure; IFRS 17 introduces the concept of an expected profit from insurance contracts to be recognised in profit or loss over the period of the contract term;
- introduction of the concept of a "portfolio of insurance contracts" split into "groups of insurance contracts";
- new presentation in the statement of profit or loss which is considerably different to the past and more aligned to a "profit" logic.

- **Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2: Presentation of accounting policies)**
  On 12 February 2021, the IASB issued "Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)" to indicate the accounting policies to be disclosed in financial reports. The amendments are effective for annual periods beginning on or after 1 January 2023. They provide that: (a) the notes to financial statements present the material accounting policy information rather than the significant accounting policies; (ii) disclosure about accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and (iii) disclosures of immaterial accounting policy information shall not obscure material accounting policy information. As a result of these amendments to IAS 1, the following standards were also amended to align the disclosure obligations about accounting policies with the above requirements:

    - IFRS 7 - Financial instruments: disclosures;
    - IAS 26 - Accounting and reporting by retirement benefit funds;
    - IAS 34 - Interim financial reporting.

- **Definition of accounting estimates (Amendments to IAS 8)**
  On 12 February 2021, the IASB issued "Definition of accounting estimates (Amendments to IAS 8)". These amendments, effective for annual periods beginning on or after 1 January 2023, clarify that: (i) accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty"; (ii) entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty; (iii) a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors; and (iv) a change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

- **Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)**
  On 7 May 2022, the IASB issued "Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)". The amendments, effective for annual periods beginning on or after 1 January 2023, clarify the accounting treatment of deferred tax related to assets and liabilities arising from a single transaction with carrying amounts different to their tax base.
  The IASB clarified the following:

- exemptions to the initial recognition of deferred tax assets and liabilities do not apply when an asset and a liability arising from a single transaction are recognised and give rise to equal taxable and deductible temporary differences;

- an entity shall calculate deductible and taxable temporary differences considering the asset and liability arising from a single transaction separately and not their net value. Deferred tax assets related to deductible temporary differences, determined as set out above, are only recognised when deemed recoverable.

The board also clarified that, when the taxable and deductible temporary differences related to the initial recognition of an asset or a liability arising from a single transaction are unequal, the entity shall not recognise the deferred tax assets and liabilities as their initial recognition would entail the initial adjustment of the carrying amount of the asset or liability to which they refer, making the financial statements less transparent.

- **Initial application of IFRS 17 and IFRS 9 - Comparative information (Amendment to IFRS 17)**
  On 9 December 2021, the IASB issued "Initial application of IFRS 17 and IFRS 9 - Comparative information (amendment to IFRS 17). The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. The amendment is effective for annual periods beginning on or after 1 January 2023. Earlier application is allowed.

The amendments, endorsed by the European Union, are effective for annual periods beginning on or after 1 January 2023. Earlier application is allowed.

c) Standards and interpretations applicable to annual periods beginning on or after 1 January 2022 and NOT endorsed by the European Union at 31 December 2022

At the date of approval of these consolidated financial statements, the IASB had issued standards, interpretations and amendments, some of which were still at the consultation stage, not yet endorsed by the European Union. They include:

	Date of issue by the IASB	Effective date
Classification of liabilities as current or non-current (Amendments to IAS 1) and Non-current liabilities with covenants (Amendments to IAS 1)	January 2022 July 2021 October 2022	1 January 2024
Lease liability in a sale and leaseback (Amendments to IFRS 16)	September 2022	1 January 2024

The group is assessing the impacts of the application of these new standards and amendments, which cannot reasonably be estimated at the date of preparation of these consolidated financial statements.

SEASONALITY

Most of the deliveries and collections of trade receivables in the group's business sector take place in the last quarter of the year.

This concentration of cash inflows affects both the annual cash flows and the group's debt in various periods of the year with substantial improvements in the last few months of the calendar year.

RISK MANAGEMENT

The group is exposed to financial risks and specifically:

- currency risk, arising from transactions carried out in currencies other than its presentation currency;
- liquidity risk, related to the availability of financial resources and access to the credit market;
- credit risk, related to normal commercial transactions or financial activities;
- interest rate risk, arising from the group's financial exposure.

The group carefully monitors each of the above financial risks and acts promptly to minimise them, resorting to hedging instruments when appropriate.

CURRENCY RISK

The group operates in countries outside the Eurozone and is thus exposed to the risk that exchange rates may fluctuate significantly with the risk that revenue and costs denominated in currencies other than the Euro may change in value compared to when the prices were agreed.

At the reporting date, the group does not have currency hedges as its exposure to this risk is immaterial and it only has financial liabilities denominated in Euros.

LIQUIDITY RISK

Liquidity risk refers to the risk that the group is unable to meet its financial obligations deriving from contractual commitments and, more generally, its short-term financial commitments which, in a worst case scenario, could lead to insolvency jeopardising the group's business. The main factors contributing to liquidity risk are, on the one hand, the generation and/or utilisation of cash by the group's operating and investing activities and, on the other, the due dates of its loans and borrowings and investments as well as financial markets' contingent situation. The group aims to have sufficient liquidity on hand to cover its financial requirements. It regularly monitors and manages its cash flows, financing needs and liquidity to ensure the efficient and effective deployment of its financial resources.

At the reporting date, financial liabilities, excluding lease liabilities recognised in accordance with IFRS 16, amount to €15,379,687 and include non-current and current financial liabilities of €11,744,570 and €3,635,117, respectively. Cash and cash equivalents amount to €19,885,505 at the reporting date.

CREDIT RISK

Credit risk refers to the group's exposure to the possible risk of default by its counterparties.

The group is exposed to the risk that a customer may delay or not comply with its payment obligations at the agreed terms and conditions and that its internal credit assessment and customer solvency assessment procedures are inadequate to ensure collection. Such non-collection of its trade receivables could adversely affect the group's financial position, financial performance and cash flows.

The group's exposure continues to be mostly with public sector customers. However, to mitigate this risk, it checks its customers' credit quality using internal or external credit scoring and sets credit limits which are checked regularly. Moreover, credit risk can be considered to be immaterial given that one of its customers is its ultimate parent, Elettronica S.p.A., which also belongs to the public sector.

INTEREST RATE RISK

The group takes decisions about financing and investing transactions in line with prudence and risk limitation criteria. It does not engage in speculative transactions. It hedges financial risk, and specifically interest rate risk, by entering into interest rate swaps in order to hedge the risk of fluctuations in the interest rates applied to its variable rate loans.

Hedging strategy for the group's bank loans at 31 December 2022:

€		Cash flow hedges Notional amounts at 31 December 2022	
	Nominal amount	IRS	Total
Floating rate loans	15,455,015	15,455,015	15,455,015
Fixed rate loans	630,684	-	-
	16,085,699	**15,455,015**	**15,455,015**

RUSSIA-UKRAINE WAR

The group is exposed to risks arising from the current and future global, European and Italian political-economic situation, aggravated by the outbreak of the war in Ukraine. It cannot be excluded that the occurrence and/or continuation of economic recession and/or political instability and ongoing turbulence in the financial markets caused by spiralling inflation and, therefore, interest rates, with possible future repercussions, which may be significant, on the global, European and/or domestic economy, could bring about a contraction in the group's reference markets. This could adversely affect the business and outlook as well as the financial position, financial performance and cash flows of the parent and its group. Uncertainties about the impact of the international sanctions imposed as part of the war still being fought by Russia and Ukraine at the date of preparation of this report also affect the general macroeconomic situation.

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

Reconciliation of financial asset and liability categories presented in the statement of financial position and the types of financial asset and liability identified in accordance with the IFRS requirements:

€	Fair value of hedging instruments	Financial assets/liabilities at amortised cost	Total
NON-CURRENT ASSETS	**430,275**	**44,749**	**475,024**
Non-current financial assets	430,275	44,749	475,024
CURRENT ASSETS	**303,985**	**89,027,244**	**89,331,229**
Current financial assets	303,985	1,028,328	1,332,312
Trade receivables and contract assets	-	68,113,412	68,113,412
Cash and cash equivalents	-	19,885,505	19,885,505
NON-CURRENT LIABILITIES	**-**	**13,804,368**	**13,804,368**
Non-current financial liabilities	-	11,744,570	11,744,570
Non-current lease liabilities	-	2,059,798	2,059,798
CURRENT LIABILITIES	**-**	**15,397,748**	**15,397,748**
Current financial liabilities	-	3,635,117	3,635,117
Current lease liabilities	-	1,191,346	1,191,346
Trade payables	-	10,571,285	10,571,285

FAIR VALUE HIERARCHY

€	Fair value			
	Level 1	Level 2	Level 3	Total
NON-CURRENT ASSETS	**-**	**430,275**		**430,275**
Derivatives		430,275		430,275
CURRENT ASSETS	**-**	**303,985**		**303,985**
Derivatives		303,985		303,985

NOTES TO THE STATEMENT OF PROFIT OR LOSS

1. REVENUE

(€)	2022	2021	Variation
Revenue	53,871,777	15,730,583	38,141,194
Change in contract work in progress	190,659	1,307,801	(1,117,142)
Total revenue	**54,062,437**	**17,038,384**	**37,024,053**

In 2022, revenue increased significantly by €37,024,053 to €54,062,437 as a result of i) the change in consolidation scope after acquisition of control of RCS on 1 April 2022, described in the "Business combinations" section (€33,951,468) and ii) the approximate 20% increase in revenue achieved by the parent (€3,072,585). This improvement was attained thanks to the parent's greater operating capacity in terms of order intake and deliveries to customers. The main projects that contributed to the increase in revenue relate to the sale of proprietary software licences to government bodies and corporate customers.

The change in contract work in progress of €190,659 is the sum of revenue recognised on ongoing contracts recognised over time (mostly acquired towards the end of the year) and revenue from the completion of contracts during the year.

A breakdown of revenue recognised at a point in time (i.e., with delivery of the good/licence/service) or over time is provided below:

(€)	Revenue from sales and services	Change in contract work in progress
Recognised at a point in time	21,289,386	-
Recognised over time	32,582,391	190,659
Total	**53,871,777**	**190,659**

The parameter used to decide when to recognise revenue is the performance obligation. The group recognises revenue when (or as) it satisfies each distinct performance obligation, transferring the promised good or service (i.e., the asset) to the customer. The asset is transferred when (or as) the customer acquires control.

Revenue is recognised over time for performance obligations satisfied over time and the group measures the progress towards satisfaction of the performance obligation at each reporting date. It uses the input method (cost-to-cost-method). Revenue is recognised using the inputs expended to satisfy the obligation to date compared to the total expected inputs required to satisfy the entire obligation. When the inputs are expended evenly throughout the performance period, the group recognises the revenue on a straight-line basis. In certain circumstances, when the group is unable to reasonably measure the satisfaction of the performance obligation, it recognises revenue on the basis of the costs incurred.

A breakdown of revenue by geographical segment (geographical location of the customer at the reporting date) is as follows:

	Revenue (Euro)
Italy	34,375,749
EU	7,138,329
Non-UE	12,548,359
Total	**54,062,437**

2. OTHER REVENUE AND INCOME

(€)	2022	2021	Variation
R&D tax benefit	1,858,502	732,848	1,125,654
Grants	415,436	51,588	363,849
Other	308,934	94,123	214,812
Total	**2,582,873**	**878,558**	**1,704,314**

Other revenue and income amount to €2,582,873 and mostly consist of the R&D tax benefit of €1,858,502 and the accrued portion of grants related to income of €415,436.

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section") accounted for €1,076,794 of the increase in the caption.

3. PURCHASES, SERVICES AND PERSONNEL EXPENSES

A breakdown of purchases, services and personnel expenses is as follows:

(€)	2022	2021	Variation
Raw materials, consumables, supplies and goods	2,251,173	930,275	1,320,898
Change in inventories	(459,797)	184,500	(644,297)
Total purchases	**1,791,375**	**1,114,775**	**676,601**
Consultancy services	6,203,492	1,723,121	4,480,371
Subcontractors	291,026	289,803	1,223
Commercial services	644,033	440,579	203,454
Telephone	2,189,599	-	2,189,599
Directors' fees	428,955	205,388	223,567
General and administrative services	196,029	136,601	59,427
Maintenance	994,789	-	994,789
Other costs	7,857,198	1,368,772	6,488,427
Leases and related costs	1,259,713	540,119	719,594
Total services	**20,064,833**	**4,704,383**	**15,360,449**
Wages and salaries	18,349,320	4,702,066	13,647,255
Social security contributions	5,007,942	1,448,090	3,559,852
Post-employment benefits	983,074	197,365	785,709
Pension and similar benefits	149,596	119,899	29,697
Other costs	223,987	132,651	91,335
Total personnel expenses	**24,713,919**	**6,600,071**	**18,113,848**
Capitalised development expenditure	**(3,630,164)**	**(2,865,510)**	**(764,654)**
Total	**42,939,963**	**9,553,720**	**33,386,243**

3.1 PURCHASES

This caption increased by €676,601, mostly due to the net effect of:

- costs of €1,553,540 contributed by RCS after its acquisition and inclusion in the consolidation scope starting from 31 March 2022 (see the "Business combinations" section), mostly incurred to purchase the raw materials used by the subsidiary RCS ETM Sicurezza S.p.A. to carry out its business;

- smaller costs incurred by the parent compared to the previous year, due to the greater efficiency achieved on projects in 2022 while in 2021 it recognised larger costs for these projects for the direct purchase of hardware components.

3.2 SERVICES

The increase of €15,360,449 in this caption is mostly due to both the costs of €9,171,579 related to the change in the consolidation scope (acquisition of control of RCS on 31 March 2022, described in the "Business combinations" section) and the costs of €3,668,917 incurred for the acquisition of 100% of Aurora S.p.A. (now RCS after its reverse merger therein) for technical consultancy services, and the costs of the organisational and strategic consultancy services to assist with the integration of the two companies.

The cost of the engineering consultancy services incurred as a result of the higher business volumes during the year and the costs incurred by Aurora also contributed to the increase in this caption.

The caption also includes the cost for the use of third party assets, i.e., leased assets that are not recognised in accordance with IFRS 16 as the asset is of low, value, the lease term is short or the lease includes variable payments.

3.3 PERSONNEL EXPENSES

The €18,113,848 increase in this caption is mostly due to the change in consolidation scope after the acquisition of control of RCS on 31 March 2022 (see the "Business combinations" section) (€14,764,593). In 2022, the parent took on new hires again (equal to a 20% increase in personnel expenses) for its sales department, to strengthen its footprint in strategic markets, and its technical development and delivery teams to deal with the greater business volumes.

HEADCOUNT

The following table shows the group's workforce and changes during the year:

	Managers	Junior managers	White collars	Apprentices	Other	Total
31 December 2021	8	13	68	4	0	**93**
Aurora acquisition	13	30	243	15	1	**302**
New hires (+)	3	15	75	22	0	**115**
Promotions	1	(1)				**0**
Departures (-)	(3)	(5)	(54)	(6)	0	**(68)**
31 December 2022	**22**	**52**	**332**	**35**	**1**	**442**

The average workforce for the year is as follows:

	Managers	Junior managers	White collars	Total
Average number of employees	19.43	43.93	336.59	**399.95**

3.4 CAPITALISED DEVELOPMENT EXPENDITURE

Capitalised development expenditure amounts to €3,630,164. More information is available in note 9.

4. AMORTISATION, DEPRECIATION, NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS

(€)	2022	2021	Variation
Amortisation of intangible assets	9,361,928	2,924,364	6,437,564
Depreciation of property, plant and equipment	1,144,528	244,924	899,604
Depreciation of right-of-use assets	1,595,726	226,115	1,369,611
Total depreciation and amortisation	**12,102,182**	**3,395,403**	**8,706,779**
Total impairment losses	**724,192**	**116,787**	**607,405**
Total provisions	**122,111**	**110,394**	**11,717**
Total	**12,948,485**	**3,622,584**	**9,325,902**

Amortisation of €9,361,928 mostly refers to the capitalised development expenditure for €2,598,367 and software licences for €5,658,201, of which amortisation of €3,068,142 related to software identified during the PPA procedure.

Depreciation of €1,144,528 relates to property, plant and machinery (€87,636) and industrial and commercial equipment (€102,821) used in the group's normal business operations.
The caption also includes depreciation of right-of-use assets of €1,595,726 for the group's leased offices, leased hardware used in the RCS Group's (formerly Aurora) normal business operations and leased vehicles.

The depreciation period of right-of-use assets is six years for the office building, five years for hardware and four years for the vehicles. The group elected not to include short-term leases (with a term of less than 12 months) and those with underlying assets of a low value from the scope of IFRS 16 and their lease payments are included in the caption "Purchases, services and personnel expenses".

The increase in the caption is mostly due to the change in consolidation scope following the acquisition of control of RCS on 31 March 2022 and the amortisation of software identified during the PPA procedure (see the "Business combinations" section).

Net impairment losses of €724,787 reflect management's assessments about the recoverability of financial assets recognised at the reporting date in line with the IFRS 9 guidance about impairment. The increase is due to the consolidation of the RCS Group starting from 31 March 2022.

5. OTHER OPERATING COSTS

(€)	2022	2021	Variation
Consumables	6,075	13,810	(7,736)
Contributions and membership fees	76,383	40,571	35,811
Maintenance and repairs of third party buildings	7,047	42,359	(35,312)
Other	459,039	32,769	426,270
Total	**548,543**	**129,510**	**419,033**

Other operating costs mostly consist of the costs of €386,169 arising from the change in consolidation scope after the acquisition of control of RCS on 31 March 2022 and the amortisation of software identified during the PPA procedure

(see the "Business combinations" section).
The caption also includes contributions and membership fees (€76,383) which include the cost of the Women4Cyber project.

The increase in other operating costs is mostly due to the change in consolidation scope after the acquisition of control of RCS on 31 March 2022.

6. NET FINANCIAL EXPENSE

(€)	2022	2021	Variation
Financial income	23,025	5,524	17,502
Financial expense	(913,620)	(77,984)	(835,636)
Net financial expense	**(890,595)**	**(72,461)**	**(818,134)**

Financial income includes exchange gains and interest income

Financial expense mostly consists of interest expense on loans and bank fees and charges of €756,583. More information about the group's loans at 31 December 2022 is provided in the note on "Non-current financial liabilities".

The increase in financial expense is mostly due to the change in consolidation scope after the acquisition of control of RCS on 31 March 2022 and the interest expense accrued on the loan taken out by the parent during the year.

7. INCOME TAXES

(€)	2022	2021	Variation
Current taxes	(221,847)	-	(221,847)
Taxes related to previous years	616,003	(35,000)	651,003
Deferred taxes	2,761,959	682,160	2,079,799
Total	**3,156,115**	**647,160**	**2,508,955**

This caption mostly comprises:

- the positive balance of taxes related to previous years of €616,003, which refers in part to the prior year income recognised by the subsidiary RCS ETM Sicurezza, which had recognised current taxes in 2021 without considering the Patent Box benefit as per article 6 of Decree law no. 146/2021, as subsequently amended, identified when it filed its tax return (€601,963);

- net deferred taxes of €2,761,959, mostly consisting of deferred tax assets recognised by the parent and the subsidiary RCS.

Changes in deferred tax assets and liabilities are shown below:

(€)	2021	Change in cons. Scope	Accruals (releases) to profit or loss	Accruals (releases) to other comprehensive income	2022
Deferred tax assets arising from:					
Tax losses	248,644	-	1,715,462	-	1,964,106
ACE (Aid to Economic Growth)	355,415	-	316,806	-	672,221
Taxed provisions	76,979	-	(108,122)	-	(31,143)
IFRS-EU FTA	35,659	220,112	(51,214)		204,557
Other	-	-	4,789	-	4,789
Actuarial losses	-	-	-	19,387	19,387
Deferred tax assets	**716,697**	**221,186**	**1,877,721**	**19,387**	**2,833,917**
Deferred tax liabilities arising from:					
Difference between the carrying amount and the fair value of net assets acquired as part of a business combination	-	(3,536,953)	884,238	-	(2,652,715)
IFRS-EU FTA	-	(276,677)	-	160,126	(116,551)
Fair value gains on hedging instruments	-	-	-	(168,070)	(168,070)
Deferred tax liabilities	-	**(3,813,630)**	**884,238**	**(7,944)**	**(2,937,336)**
Net deferred tax assets (liabilities)	**716,697**	**(3,593,518)**	**2,761,959**	**11,443**	**(103,419)**

The group recognised deferred tax assets mostly on tax losses, the ACE benefit not used during the year and temporary differences identified during calculation of the tax expense for the year and previous years. These deferred tax assets were recognised during the year after the directors assessed their full recoverability through future taxable profits that the group will realise over the next few years.

Deferred tax liabilities mostly arise on fair value gains allocated to software during allocation of the consideration transferred to acquire the RCS Group (see the “Business combinations” section).

The following table provides a reconciliation of the actual and theoretical tax rate:

	Total	2022
Pre-tax loss	(682,277)	
Theoretical IRES	1,520,417	24.0%
Smaller taxes		
- Other	(1,880,934)	275.7%
Higher taxes		
- Other	213,287	(31.3%)
Total current income taxes (IRES)	**53,976**	**(7.9%)**
IRAP	**18,869**	**(2.8%)**
Foreign income taxes	**189,775**	**(27.8%)**
Taxes relative to prior years	**(656,776)**	**96.3%**
Total deferred tax	**(2,761,959)**	**404.8%**
Total	**(3,156,115)**	**462.6%**

8. BASIC EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

The basic earnings per share are €0.11, calculated by dividing the profit for the year of €2,473,837 by the average number of shares outstanding in the year (21,816,047), which differs compared to the previous year due to the capital increase performed on 14 March 2022. The earnings per share are equal to the diluted earnings per share.

9. INTANGIBLE ASSETS AND GOODWILL

9.1 GOODWILL

At 31 December 2022, goodwill amounts to €35,798,628.

It refers to the business combination performed after acquisition of control of RCS for €35,307,265 and the business combination that occurred at the end of 2021 after the acquisition of control of the subsidiary Tykelab for €491,363. Information about the allocation of goodwill is provided in the “Business combinations” section.

Specifically, goodwill was allocated to the two CGUs Tykelab and the RCS Group when the group acquired control of each individual company or groups of companies.

The related recoverable amount was calculated by estimating value in use.

Group management engaged a third party expert to perform the impairment test.

Value in use was determined by applying the unlevered version of the discounted cash flow method to the forward-looking figures prepared by the parent’s directors for the five-year period from 2023 to 2027. The cash flows used were those generated by the operating activities of the RCS Group (formerly Aurora) and Tykelab and they do not include financial expense, notional income taxes and non-recurring items. They do include the investments included in the business plans and changes in cash flows attributable to working capital without considering the effects of future restructurings not yet approved by the directors or future investments designed to improve the group’s potential profitability. The directors used an explicit horizon of five years after which the cash flows were projected in perpetuity (terminal value) using a growth rate (g-rate) of 2% estimated for the group’s market and in line with the ECB’s outlook for medium to long-term inflation trends.

The directors discounted the above cash flows using a pre-tax WACC (weighted average cost of capital) of 11.26% and 15.35% for the goodwill allocated to the RCS Group and Tykelab, respectively. The difference between the two rates reflects the additional risk of the Tykelab CGU due to its small size (small size premium).

The boards of directors of the subsidiaries RCS and Tykelab and the parent approved the plans used for the impairment tests.

No indication of impairment was identified.

The group also performed a sensitivity analysis:

- for the RCS Group CGU, assuming a change of between 11.26% and 12.39% in the WACC and between 2% to 1% in the g-rate. No impairment loss would have been necessary;

- for the Tykelab CGU, assuming a change of between 15.35% and 16.89% in the WACC and between 2% to 1% in the g-rate. No impairment loss would have been necessary.

9.2 INTANGIBLE ASSETS

(€)	31/12/2022	31/12/2021	Variation
Development expenditure	5,106,822	3,833,161	1,273,661
Industrial patents and intellectual property rights	6,233,802	3,580,758	2,653,044
Concessions, licences, trademarks and similar rights	10,436,374	66,680	10,369,694
Assets under development and payments on account	1,729,000	-	1,729,000
Other	2,327,665	44,339	2,283,326
Total	**25,833,664**	**7,524,938**	**18,308,726**

At 31 December 2022, intangible assets amount to €25,833,664, showing a net increase of €18,308,726 on the previous year end, mostly due to:

- investments of €26,016,458, principally related to the change in consolidation scope after the acquisition of control of RCS on 31 March 2022 (€1,648,914), recognition of the fair value gain on software identified during the PPA procedure for the RCS Group (€12,272,566), recognition of industrial patents (€4,896,283) to acquire licences, development expenditure (€3,715,427), the increase in assets under development and payments on account (€1,729,000) for advances paid to third party suppliers for intangible assets related to incomplete projects, and other intangible assets (€2,500,000) after recognition of the payment made for the non-compete agreement to the sellers of the RCS Group (formerly Aurora), valid for three years from the acquisition date;

- amortisation of €9,361,928 as shown in the table below.

The reporting-date carrying amount of development expenditure of €5,106,822 (€10,583,837 net of accumulated amortisation of €5,477,015) mostly relates to the cost of developing four projects and of the employees and external technical consultants involved directly in the development activities.
After carrying out the necessary checks, the directors deemed that this expenditure met the criteria for capitalisation. It is amortised over the period of time estimated necessary to recoup the investments made.

Changes in intangible assets during the year are as follows:

(€)	Historical cost at 31 Dec. 2021	Net acc. amort. at 31 Dec. 2021	Carrying amount at 31 Dec. 2021	Increases Acquisition of Aurora Group	2022 increases	2022 decreases Acc. amortisation	Historical cost at 31 Dec. 2022	2022 amortisation	Net acc. amort. at 31 Dec. 2022	Carrying amount at 31 Dec. 2022
Start-up and capital costs	-	-	-	(0)	2,393	-	2,393	(2,393)	(2,393)	-
Development expenditure	6,656,308	(2,823,147)	3,833,161	212,101	3,715,427	-	10,583,837	(2,653,867)	(5,477,015)	5,106,822
Industrial patents	4,923,068	(1,342,310)	3,580,758	-	4,896,283	-	9,819,350	(2,243,238)	(3,585,548)	6,233,802
Concessions, licences, trademarks and similar rights	200,000	(133,320)	66,680	688,292	13,173,354	-	14,061,646	(3,491,952)	(3,625,272)	10,436,374
Avviamento e differenza di consolidamento:	-	-	-	-	-	-	-	-	-	-
Assets under development and payments on account	-	-	-	-	1,729,000	-	1,729,000	-	-	1,729,000
Other	80,692	(36,353)	44,339	748,521	2,500,000	(5,282)	3,329,214	(970,477)	(1,001,548)	2,327,665
Total	**11,860,069**	**(4,335,131)**	**7,524,938**	**1,648,914**	**26,016,458**	**(5,282)**	**39,525,441**	**(9,361,928)**	**(13,691,776)**	**25,833,664**

10. PROPERTY, PLANT AND EQUIPMENT

(€)	31/12/2022	31/12/2021	Variation
Plant and machinery	259,501	26,236	233,265
Industrial and commercial equipment	2,405,307	105,406	2,299,901
Other assets	2,068,027	577,600	1,490,427
Assets under construction and payments on account	-	-	-
Total	**4,732,835**	**709,242**	**4,023,593**

At 31 December 2022, this caption amounts to €4,732,835 with a net increase of €4,023,593 on the previous year end, mostly due to the inclusion of property, plant and equipment of the RCS Group (€3,594,491), of which industrial and commercial equipment of €2,355,659 (mainly electronic equipment owned by the subsidiary RCS ETM Sicurezza S.p.A.).

Other assets of €2,068,027 include €1,020,319 related to the RCS Group and €1,047,709 to the parent. They principally consist of office furniture, fittings and equipment.
Changes in this caption during the year are as follows:

(€)	Historical cost at 31 Dec. 2021	Net acc. depr. at 31 Dec. 2021	Carrying amount at 31 Dec. 2021	Increases Acquisition of Aurora Group	2022 increases	2022 decreases Historical cost	2022 decreases Acc. depreciation	Historical cost at 31 Dec. 2022	2022 amortisation	Net acc. depr. at 31 Dec. 2022	Carrying amount at 31 Dec. 2022
Plant and machinery	53,292	(27,056)	26,236	255,318	38,252	-	-	1,403,777	(60,306)	(1,144,276)	259,501
Industrial and commercial equipment	406,900	(301,494)	105,406	2,161,934	877,538	(637,843)	(532,514)	13,660,666	(634,242)	(11,255,360)	2,405,307
Other assets	1,047,067	(469,468)	577,600	564,359	1,385,418	(182,919)	(173,551)	8,627,082	(449,981)	(6,559,055)	2,068,027
Assets under construction and payments on account	-	-	-	-	-	-	-	-	-	-	-
Total	**1,507,259**	**(798,018)**	**709,242**	**2,981,611**	**2,301,208**	**(820,763)**	**(706,065)**	**23,691,525**	**(1,144,528)**	**(18,958,690)**	**4,732,835**

11. RIGHT-OF-USE ASSETS

(€)	31/12/2022	31/12/2021	Variation
Building	1,934,643	1,829,548	105,095
Hardware	827,162	122,386	704,776
Vehicles	430,955	80,582	350,373
Total	**3,192,760**	**2,032,516**	**1,160,244**

At 31 December 2022, right-of-use assets amount to €3,192,760 and relate to the group's leased offices (€1,934,643) and hardware used as part of the RCS Group's (formerly Aurora) normal business activities (€827,162).

The depreciation period of right-of-use assets is six years for the office building, five years for hardware and four years for the vehicles. The group elected not to include short-term leases (with a term of less than 12 months) and those with underlying assets of a low value from the scope of IFRS 16 and their lease payments are included in the caption "Purchases, services and personnel expenses".

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €1,803,933 of the increase in this caption.

12. CURRENT AND NON-CURRENT FINANCIAL ASSETS

(€)	31/12/2022		31/12/2021		Variation	
	Current	Non-current	Current	Non-current	Current	Non-current
Guarantee deposits	146,507	45,060	-	6,000	146,507	39,060
Derivatives	303,985	430,274	-	-	303,985	430,274
Policies on active contracts	26,492	-	-	-	26,492	-
Other financial assets	857,244	-	-	-	857,244	-
Loss allowance	(1,914)	(310)	-	-	(1,914)	(310)
Total	**1,332,313**	**475,024**	**-**	**6,000**	**1,332,313**	**469,024**

Financial assets mostly consist of guarantee deposits of €191,567, mostly given for the leased office buildings by the subsidiary RCS, the hedging derivatives of €734,259 entered into to hedge interest rate risk on the parent's loan taken out in 2022 and RCS's existing loans and other financial assets of €857,244 related to the price adjustment provided for in the acquisition agreement for RCS (see the "Business combinations" section).

The increase is mostly due to the change in consolidation scope after acquisition of control of RCS on 31 March 2022 (€302,748) as described in the "Business combinations" section, other financial assets for the price adjustment mentioned above (€857,244) and the derivatives entered into to hedge interest rate risk on the loan taken out by the parent during the year (€626,345).

The table shows the type of derivatives entered into, their notional amount, the hedged loan and fair value at the reporting date:

€ Derivative	Hedged item	Notional amount	Maturity date	Interest rate received	Interest rate paid/Strike price	Fair value31/12/2022	Fair value 31/12/2021
IRS	Syndicate loan – Line A	7,500,000	29/03/2028	6M Euribor	1.60%	382,505	-
IRS	Syndicate loan – Line A	5,000,000	29/03/2028	6M Euribor	1.60%	243,840	-
IRS	Intesa loan	1,880,015	25/03/2025	3M Euribor	-0.675%	84,772	-
IRS	Intesa loan	575,000	15/12/2023	6M Euribor	-0.12%	12,874	-
Interest rate cap/floor	Unicredit loan	500,000	31/12/2023	3M Euribor	-0.45%	10,268	-
Total interest rate hedges						**734,259**	**-**

13. EQUITY-ACCOUNTED INVESTMENTS

(€)	31/12/2022	31/12/2021	Variation
Equity-accounted investees	566,451	-	566,451
Total	**566,451**	**-**	**566,451**

This caption of €566,451 includes the investment in the associate SAS Foretec held by RCS and measured using the equity method.

14. NON-CURRENT TAX ASSETS

(€)	31/12/2022	31/12/2021	Variation
R&D tax benefit	1,485,135	590,794	894,341
Tax benefit for assets used in operations	316,517	30,405	286,112
Other	4,623	-	4,623
Total	**1,806,275**	**621,199**	**1,185,076**

Non-current tax assets mostly comprise the R&D tax benefit (€1,485,135) and the tax benefit under Law no. 178/2020 for the purchase of assets used in operations for the amount to be netted starting from 2024 (€316,517) in accordance with the ruling tax legislation.

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €1,117,995 of the increase in this caption.

15. INVENTORIES

(€)	31/12/2022	31/12/2021	Variation
Finished goods and products	777,399	66,500	710,899
Total	**777,399**	**66,500**	**710,899**

Finished goods and products amount to €777,399 and comprise third party licences used for sales contracts and inventories of RCS ETM Sicurezza S.p.A. (mostly external hard disks and other similar products used in its business).

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €744,149 of the increase in this caption in addition to the reduction in inventories compared to the previous year end (€33,250).

16. CONTRACT ASSETS AND LIABILITIES

Contract assets: €3,625,192 (€1,542,489)

Contract liabilities: €4,582,279 (€65,252)

Contract assets include the net value of projects carried out for amounts greater than the advances received from customers. Similarly, contract liabilities include the opposite situation (when the advances received from customers exceed the value of the projects performed).

When advances have not been received at the reporting date, they are recognised under trade receivables.
The net balance of contract assets comprises:

(€)	31/12/2022	31/12/2021	Variation
Contract assets (gross)	4,189,610	1,846,938	2,342,673
Contract liabilities	(545,450)	(300,000)	(245,450)
Loss allowance	(18,968)	(4,449)	(14,520)
A. Contract assets (net)	**3,625,192**	**1,542,489**	**2,082,703**
Contract liabilities (gross)	(4,598,300)	(309,008)	(4,289,292)
Contract assets	16,021	243,756	(227,735)
B. Contract liabilities (net)	**(4,582,279)**	**(65,252)**	**(4,517,027)**
(A - B). Net contract assets (liabilities)	**(957,087)**	**1,477,237**	**(2,434,325)**

The increase in contract assets is mostly due to the change in consolidation scope after acquisition of control of RCS on 31 March 2022 (€946,665), as described in the "Business combinations" section, and progress made on the decision and forensic intelligence parts of the B2G contracts.

The increase in contract liabilities is chiefly a result of the change in consolidation scope after acquisition of control of RCS on 31 March 2022 (€4,194,000), as described in the "Business combinations" section, due to the collection of the entire advance of 100% of the consideration paid for an important foreign forensic intelligence contract at the reporting date.

17. TRADE RECEIVABLES

(€)	31/12/2022	31/12/2021	Variation
Customers	60,237,826	19,428,119	40,809,707
Parents	5,524,590	4,464,820	1,059,770
Subsidiaries	8,017	-	8,017
Loss allowance	(1,282,214)	(307,333)	(974,880)
Total	**64,488,220**	**23,585,605**	**40,902,615**

Trade receivables of €64,488,220 (including invoices to be issued of €26,677,967) include €60,237,826 due from customers and €5,524,590 from the ultimate parent, Elettronica s.p.A.. The caption also includes a loss allowance of €1,282,214, which includes the accumulated impairment losses estimated in accordance with IFRS 9. Another section of these note provides information about the management of credit risk.

The increase in trade receivables is mostly due to the change in consolidation scope after acquisition of control of RCS on 31 March 2022 (€35,245,191), as its trade receivables portfolio almost entirely relates to its core products and services provided mainly to the public administration, and to the parent's higher revenue.

At 31 December 2022, the group's trade receivables amount to €58,955,613, net of the loss allowance, including invoices to be issued of €26,677,967, trade receivables not yet due of €13,257,610, trade receivables past due by less than 90 days of €15,016,690 and trade receivables past due by more than 90 days of €4,689,510.

18. CURRENT TAX ASSETS

(€)	31/12/2022	31/12/2021	Variation
VAT	1,736,378	457,210	1,279,168
IRES - IRAP	404,949	30,283	374,666
R&D tax benefit	1,574,502	346,511	1,227,991
Tax benefit for assets used in operations	286,112	85,067	201,045
Other	158,632	10,281	148,351
Total	**4,160,573**	**929,351**	**3,231,222**

This caption mostly consists of VAT (€1,736,378), the current part of the R&D tax benefit (€1,574,502) recognised for investments made and the tax benefit for assets used in operations (€286,112).

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €2,240,706 of the increase in this caption.

19. OTHER CURRENT ASSETS

(€)	31/12/2022	31/12/2021	Variation
Payments on account for transaction costs	-	900,684	(900,684)
Other assets	356,513	58,519	297,995
Prepayments	2,387,046	284,763	2,102,283
Loss allowance	(3,012)	(909)	(2,103)
Total	**2,740,548**	**1,243,057**	**1,497,491**

Other current assets mainly comprise payments on account to suppliers and prepaid maintenance instalments for software licences used on internal infrastructure, as well as prepaid consultancy services and insurance policies.

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €1,923,971 of the increase in this caption in addition to the reduction in the payment on account for transaction costs recognised in the previous year.

20. CASH AND CASH EQUIVALENTS

(€)	31/12/2022	31/12/2021	Variation
Bank and postal deposits	19,820,142	2,296,631	17,523,511
Cheques on hand	-	-	-
Cash-in-hand and cash equivalents	66,201	1,276	64,926
Loss allowance	(838)	(49)	(789)
Total	**19,885,505**	**2,297,858**	**17,587,647**

The reporting-date balance is mostly comprised of net cash inflows for the year.
The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €9,118,231 of the increase in this caption as did the more efficient management of the group's liquidity and the unused proceeds from the capital increase made to service the RCS acquisition. The group's cash and cash equivalents are not restricted.

21. EQUITY

(€)	31/12/2022	31/12/2021
Share capital	1,441,500	481,500
Share premium	108,539,944	19,499,944
Other reserves	8,926,237	5,087,568
Profit for the year	2,209,462	5,185,828
Equity attributable to the owners of the parent	**121,117,142**	**30,254,839**
Share capital and reserves attributable to non-controlling interests	1,158,273	-
Profit attributable to non-controlling interests	264,375	-
Equity	**122,539,790**	**30,254,839**

At 31 December 2022, the parent's subscribed and paid-up share capital amounts to €1,441,500 and it consists of 23,571,428 shares as follows:

- 9,045,912 ordinary shares, subscribed at their nominal amount of €553,248 by Elettronica S.p.A., plus a premium of €13,803,783;
- 3,809,524 ordinary shares, subscribed at their nominal amount of €232,946 by TEC Cyber S.p.A., plus a premium of €39,573,335;
- 10,715,992 ordinary shares listed on the Euronext Growth Milan (formerly AIM Italia) segment of the Milan Stock Exchange, subscribed at their nominal amount of €655,306 plus a premium of €55,162,824 held by other shareholders on the market.

The share premium amounts to €108,539,944.

During the year, the parent completed the capital increase of €90 million necessary to allow it to acquire the RCS Group (formerly Aurora) by issuing 8,571,428 shares at a price per share of €10.5, of which €0.112 recognised as an increase in share capital and €10,388 as the share premium. The transaction costs were accounted for as a deduction from equity in accordance with IAS 32.

The other reserves amount to €8,926,237 at the reporting date.

22. CURRENT AND NON-CURRENT EMPLOYEE BENEFITS

Employee benefits - non-current (€)	31/12/2022	31/12/2021	Variation
Post-employment benefits	2,894,479	326,481	2,567,998
Total	**2,894,479**	**326,481**	**2,567,998**

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €2,381,255 of the increase in this caption.

Employee benefits include post-employment benefits, which correspond to the group's estimated obligation, calculated using actuarial techniques, of the amount to be paid to its employees upon termination of the employment relationship. The Italian budget law and its implementing decrees introduced significant changes to the Italian post-employment benefits (TFR), including the employee's right to choose where to allocate their accruing benefits, starting from 1 January 2007. Specifically, benefits accruing after that date are transferred either to a third party pension fund or are kept by the employer which has to transfer them to a treasury fund set up by INPS (the Italian social security institution).

Changes in the group's liability for post-employment benefits:

	2022	2021
Opening net liability	**326,481**	**242,470**
Change in consolidation scope - Acquisition of Aurora	1,707,855	
Current service cost	599,620	196,905
Interest cost	21,597	1,087
Payments of benefits	(447,652)	(17,750)
Net actuarial (gains) losses	686,579	(96,231)
Closing net liability	**2,894,479**	**326,481**

The actuarial assumptions applied at the reporting date are summarised below:

Assumptions	CY4GATE GROUP
Discount rate	3.65%
Inflation rate	2.70%
Nominal rate of wage growth	2.70%
Workers	2.70%
White collars	2.70%
Junior managers	2.70%
Executives	2.70%
Managers	2.70%
Labour turnover rate	14.50%
Probability of request of advances of TFR	0.70%
Percentage required in case of advance	70.00%
Life table - Male	M2019
Life table - Female	F2019

The sensitivity analyses are shown in the next table:

Sensitivity Analysis – DBO		CY4GATE GROUP
Main assumptions	€	**2,893,433**
Discount rate (+0.5%)	€	2,810,188
Discount rate (-0.5%)	€	2,981,527
Rate of payment increases (+0.5%)	€	2,897,332
Rate of payment decreases (-0.5%)	€	2,899,345
Rate of price inflation increases (+0.5%)	€	2,929,671
Rate of price inflation decreases (-0.5%)	€	2,857,057
Rate of salary increases (+0.5%)	€	2,921,835
Rate of salary decreases (-0.5%)	€	2,866,015

Employee benefits – current

(€)	31/12/2022	31/12/2021
Phantom stock option plan	-	271,875
Total provisions for risks - current	**-**	**271,875**

Current employee benefits include the phantom stock option plan. This incentive plan for management does not provide for the assignment or purchase of the parent's shares but solely the payment of a cash bonus when the objectives defined by the board of directors at the start of the year are met.
The related provision was used in full during the year to pay the bonus to managers who exercised their options for the first vesting period.
In 2022:

- no amounts were set aside for the second vesting period provided for in the 2020-2022 phantom stock option plan's regulation approved by the parent's board of directors on 22 September 2020 as the plan objectives were not met;
- no amounts were set aside for the third vesting period as, based on the current macroeconomic situation, management has estimated a fair value equal to zero and does not expect the objectives set by the parent's board of directors for 2022 to be met.

23. PROVISIONS - CURRENT AND NON-CURRENT

(€)	31/12/2022		31/12/2021		Variation	
	Non-current	Current	Non-current	Current	Non-current	Current
Provisions	-	122,111	32,952	267,793	- 32,952	- 145,682
Total	**-**	**122,111**	**32,952**	**267,793**	**- 32,952**	**- 145,682**

The provisions include a warranty provision related to the sale of licences which have a legal warranty and/or a warranty of the proper performance of the licences sold.

24. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

(€)	31/12/2022		31/12/2021		Variation	
	Non-current	Current	Non-current	Current	Non-current	Current
Bank loans and borrowings	11,513,784	3,384,224	-	-	11,513,784	3,384,224
Other loans and borrowings	230,786	58,594	-	-	230,786	58,594
Other bank facilities	-	192,300	-	2,005,878	-	- 1,813,578
Total	**11,744,570**	**3,635,117**	**-**	**2,005,878**	**11,744,570**	**1,629,239**

A breakdown of each loan is provided below:

€	Lender	Interest rate	Maturity date	Nominal amount	Carrying amount	Non-current portion	Current portion
Syndicate loan - Line A[1]	Crédit Agricole, ICCREA	6M Euribor + 225 b.p.	29/03/2028	12,500,000	11,281,026	10,104,841	1,176,185
Intesa San Paolo loan[2]	Intesa San Paolo	3M Euribor + 90 b.p.	25/06/2025	1,880,015	1,873,031	1,121,008	752,022
Unicredit loan[2]	Unicredit	3M Euribor + 50 b.p.	31/12/2023	500,000	499,612	-	499,612
Intesa San Paolo loan[2]	Intesa San Paolo	6M Euribor + 132 b.p.	15/12/2023	575,000	573,119	-	573,119
Banca Popolare di Sondrio loan	Banca Popolare di Sondrio	1.04%	01/01/2024	675,000	671,220	287,935	383,285
				16,130,015	**14,898,009**	**11,513,784**	**3,384,224**

[1] Spread subject to change in line with the contractually-defined NFP/EBITDA ratio

[2] Floor at 0 on 6M/3M Euribor

Non-current financial liabilities mostly comprise the portion of the loan repayable after 12 months disbursed by Crédit Agricole Italia S.p.A., the agent of a bank syndicate. The loan has a maximum drawdown amount of €45,000,000 and, at the reporting date, the parent had only used the portion earmarked for the partial financing of the acquisition of the RCS Group (formerly Aurora) (Line A) of €12,500,000 recognised at an amortised cost of €10,104,841.

The loan agreement establishes that repayment of Line A principal is to take place in 11 six-monthly instalments as per the agreed repayment plan. The parent will also pay the interest accrued on the amounts drawn down and not repaid during each interest period at the 6M/360 Euribor plus a spread of 225 bps. The parent has entered into a hedge for the interest rate risk on the entire amount.

The spread added to the interest rate for each facility may increase or decrease every six months in line with changes in the net financial position/EBITDA (NFP/EBITDA) ratio, calculated using the consolidated financial statements or the condensed interim consolidated financial statements, starting with a base ratio of 2x (the “financial covenant”). The parent agreed to comply with the financial covenant and accepted that the lending banks and the agent bank may take the contractually-provided measures and remedies (including demanding repayment of outstanding amounts and interest) should it not comply.

Compliance with the financial covenant is checked every six months on a rolling basis (i.e., considering the figures for the previous 12 months) starting from those for the year ended 31 December 2022. The covenant has been respected.

In addition, the loan agreement establishes limitations to the parent’s distribution of profits and/or dividends. Specifically, it may not distribute profits and/or dividends or pay any amount for whatsoever reason or in whatsoever form to its shareholders, except for payments due under commercial agreements and/or employment contracts (including, for example, as repayments of principal, interest or other charges on shareholder loans, including bond issues, or as a fee for services rendered and/or management fees) (each transaction is a “distribution”), unless all of the following conditions are met:

- the first distribution takes place after approval of the parent’s separate financial statements at 31 December 2022;
- throughout the term of the loan agreement, each distribution shall not exceed 50% (fifty percent) of the

accounting profit reported in the parent's separate financial statements for the year immediately preceding that in which the distribution is to be made;

- at the distribution date, no significant event has taken place and the distribution is not in itself a significant event (as defined in the loan agreement).

The remainder of the loan, which has not yet been drawn down, comprises the following credit facilities:

- a medium to long-term acquisition/capex cash facility of up to €25,000,000.00 (twenty-five million,00 euro) to be used for future investments and M&A transactions;

- a medium to long-term revolving cash facility of up to €7,500,000 (seven million, five hundred thousand,00 euro) to finance cash requirements of the parent and its group.

The current financial liabilities include the portion due within one year of the long-term credit facility provided by Crédit Agricole (€1,176,185), commented on above. In addition, at the reporting date, the group has financial liabilities of €2,308,039 with Banca Intesa, Unicredit and Banca Popolare di Sondrio for the RCS Group's (formerly Aurora) loan agreements. In the first half of the year, the group repaid the short-term invoice facility (roughly €2 million).

The group takes decisions about financing and investing transactions in line with prudence and risk limitation criteria. It has not entered into speculative transactions. It hedges financial risk, and specifically interest rate risk, by entering into interest rate swaps in order to hedge the risk of fluctuations in the interest rates applied to its loans.

25. NON-CURRENT AND CURRENT LEASE LIABILITIES

(€)	31/12/2022		31/12/2021		Variation	
	Non-current	Current	Non-current	Current	Non-current	Current
Lease liabilities	2,059,798	1,191,346	1,563,517	443,078	496,281	748,268
Total	**2,059,798**	**1,191,346**	**1,563,517**	**443,078**	**496,281**	**748,268**

The caption comprises non-current lease liabilities for office buildings, hardware and vehicles.
Current lease liabilities are recognised under current financial liabilities.
The increase in the caption is mostly due to:

- the change in consolidation scope for €1,862,057, including €863,945 which is current and €998,112 which is non-current, after the acquisition of control of RCS on 31 March 2022 (see the "Business combinations" section); and

- lease payments made in 2022 as per the contracts signed by the parent.

A breakdown of financial liabilities at 31 December 2022 by contractual maturity is as follows:

€	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	After 5 years	Carrying amount at 31/12/2022
Bank loans and borrowings	3,384,224	2,728,541	2,622,378	2,306,170	3,856,695	-	**14,898,008**
Other loans and borrowings	58,594	230,786	-	-	-	-	**289,379**
Lease liabilities	1,191,346	1,071,676	528,145	276,560	56,259	127,157	**3,251,144**
Other bank facilities	192,300	-	-	-	-	-	**192,300**
Total	**4,826,463**	**5,019,125**	**2,622,378**	**2,306,170**	**3,856,695**	**-**	**18,630,831**

26. TRADE PAYABLES

(€)	31/12/2022	31/12/2021	Variation
Suppliers	9,876,475	4,068,230	5,808,245
Parents	694,810	262,427	432,383
Total	**10,571,285**	**4,330,658**	**6,240,628**

Trade payables amount to €10,571,285 and include invoices to be received of €2,170,332 and payments on account of €902,671. Trade payables to related parties relate to services rendered by the ultimate parent mainly for canteen services and lease-related services for the leased building housing the parent's offices.

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €3,730,850 of the increase in this caption.

27. CURRENT TAX LIABILITIES

(€)	31/12/2022	31/12/2021	Variation
VAT	279,681	-	279,681
IRPEF	44,372	262,625	(218,253)
IRAP	206,381	-	206,381
Other tax liabilities	920,589	317,636	602,953
Total	**1,451,024**	**580,261**	**870,763**

Current tax liabilities of €1,451,024 mostly comprise VAT of €279,681, IRPEF (personal income tax) of €44,372 and IRAP (regional production tax) of €206,381. "Other tax liabilities" principally consists of withholdings on employee remuneration (€731,575).

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €1,130,902 of the increase in this caption in addition to the payment of the IRPEF withholdings.

28. OTHER CURRENT LIABILITIES

(€)	31/12/2022	31/12/2021	Variation
Advances on grants	342,994	503,563	(160,569)
Other liabilities	4,355,365	478,266	3,877,099
Accrued expenses and deferred income	3,579,144	151,038	3,428,106
Total	**8,277,503**	**1,132,867**	**7,144,637**

Other current liabilities include advances of €342,994 received for projects funded by the European Commission. The main project is ECYSAP (European Cyber Situational Awareness Platform), whose objective is to develop and implement innovative theoretical foundations, methods and research prototypes integrated towards providing a European operational platform for enabling real-time cyber situational awareness.

The caption also comprises other liabilities of €4,355,365, including €1,098,064 related to the parent and €3,257,301 to the RCS Group (formerly Aurora). These other liabilities mostly refer to accrued holidays (€2,609,502).

Accrued expenses and deferred income amount to €3,579,144, including €498,370 related to the parent and €3,080,744 to the RCS Group, mostly related to deferred revenue.

The change in consolidation scope after the acquisition of RCS on 31 March 2022 (see the "Business combinations" section) accounted for €6,338,075 of the increase in this caption.

29. COMMITMENTS AND RISKS

At 31 December 2022, commitments and risks amount to €2,157,480 and include bank sureties given to third parties on behalf of the group companies to guarantee the correct performance of commercial agreements. A surety of €1,185,000 was extinguished in August 2022.
The liens on equity investments given (or to be given) pursuant to the loan agreement signed on 29 March 2022 by the parent and RCS ETM Sicurezza S.p.A. and a bank syndicate managed by Crédit Agricole Italia S.p.A. are described below.

RCS Group (formerly Aurora): on 29 March 2022, the parent, as grantor, pledged 100% of the share capital of Aurora S.p.A. to Crédit Agricole Italia S.p.A., Creval S.p.A., ICCREA Banca S.p.A. and Banca di Credito Cooperativo di Milano - Soc. Coop. (the "lending bank") to guarantee the correct, complete and timely compliance with all the present and/or future monetary obligations of itself and RCS ETM Sicurezza S.p.A. with the lending banks arising from the loan agreement signed on 29 March 2022 by the parent and RCS ETM Sicurezza S.p.A. with the lending banks. This lien was transferred to RCS after the reverse merger completed on 15 November 2022;

RCS ETM Sicurezza lien: on 29 March 2022, Aurora S.p.A., as grantor, pledged 100% of RCS ETM Sicurezza S.p.A. to Crédit Agricole Italia S.p.A., Creval S.p.A., ICCREA Banca S.p.A. and Banca di Credito Cooperativo di Milano - Soc. Coop. (the "lending banks") to guarantee the correct, complete and timely compliance with all the monetary obligations (to the extent specified in the related lien deed) of the parent and RCS ETM Sicurezza S.p.A. with the lending banks arising from the loan agreement signed on 29 March 2022 by the parent and RCS ETM Sicurezza S.p.A. with the lending banks;

Dars Telecom SL lien: in May 2022, the pledging of a lien by the parent and RCS ETM Sicurezza S.p.A., as grantors to Crédit Agricole Itali S.p.A., Creval S.p.A., ICCREA Banca S.p.A. and Banca di Credito Cooperativo di Milano - Soc. Coop. (the "lending banks") was finalised. The lien consists of all their investments held directly and indirectly in the subsidiary Dars Telecom SL.

30. RELATED PARTY TRANSACTIONS

The group carries out transactions with related parties and, specifically, the ultimate parent, which has a 38.3% investment in the parent. These transactions are not atypical and/or unusual, take place at normal market conditions and comply with the related contract terms and payment terms.
The group's related party transactions are shown below:

(€)	31/12/2022	31/12/2021
Non-current financial assets	6,000	6,000

Contract assets	1,295,339	599,102
Trade receivables	5,524,590	4,464,820
Total	**6,825,928**	**5,069,922**
Percentage of total assets	**5%**	**12%**

(€)	31/12/2022	31/12/2021
Trade payables	694,810	262,428
Contract liabilities	165,279	10,000
Current lease liabilities	233,171	296,614
Non-current lease liabilities	964,971	1,509,436
Total	**2,058,231**	**2,078,478**
Percentage of total liabilities	**1%**	**5%**

(€)	2022	2021
Revenue	3,368,827	4,263,880
Percentage of revenue	6%	24%
Purchases, services and personnel expenses	(661,844)	(531,820)
Percentage of operating costs	2%	6%
Total	**2,706,983**	**3,732,060**

Current financial assets (€6,000) relate to a guarantee deposit paid for the lease of the building where the parent's offices are located. Contract assets (€1,295,339) and trade receivables (€5,524,590) relate to sales-related activities carried out by the parent with Elettronica S.p.A. and not yet paid for at the reporting date.

Current and non-current lease liabilities (€233,171 and €964,971, respectively) relate to the lease payments for the office buildings leased from the ultimate parent. Contract liabilities (€165,279) represent the net balance of progress payments in excess of the services rendered by the group, shown under liabilities in accordance with the IFRS. Trade payables (€694,810) mostly relate to the recharging of costs for unpaid services.
The revenue and costs are the balancing entries of the above assets and liabilities.

Fees of the directors, statutory auditors and independent auditors
The directors' fees include amounts received for their duties shown in the following table. Note 21 provides information about the incentive plan.

(€)	2022	2021
Statutory auditors' fees	52,000	50,450
Directors' fees	262,410	205,388

The independent auditors' fees amount to €102,730 for their audit services and €41,000 for other audit services (review of the condensed interim consolidated financial statements, audit of the reporting package for Elettronica's consolidation purposes and other attestation services).

31. LEGAL AND ARBITRATION PROCEEDINGS

At the date of preparation of this report, the group is not involved in significant administrative, judicial or arbitration proceedings that could have or have had in the recent past significant adverse effects on the financial position and financial performance of the parent and/or the group.

In the first half of 2021, the public prosecutors at the courts of Naples and Florence commenced an investigation into the directors of RCS at the time of the disputed events and the then engineer of the subsidiary, respectively. This investigation had not been concluded at the reporting date and covers the telematic interception activities carried out on behalf of the Perugia public prosecutor by the subsidiary RCS and, specifically, the storage of the captured data on a transit server in Naples owned by RCS before their definitive transfer to another service used by the competent public prosecutor in Rome.

At the date of preparation of this report, the investigation is still underway and none of the group companies has received the notice of investigation as per article 57 of Legislative decree no. 231. However, the suspension ordered as a precaution by the Naples public prosecutor on the assignment of new service contracts to RCS for passive and active telematic interception activities is still in place although the subsidiary continues to provide the public prosecutor with the other services under contract. The directors of the parent and RCS have assessed the risk that the proceedings will generate contingent liabilities for either company as remote, based also on the opinions of their legal advisors.

32. EVENTS AFTER THE REPORTING DATE

As the conditions precedent were met, on 30 January 2023, the parent signed the closing documents for the acquisition of 55.33% of DIATEAM for €5.5 million, including any earn-out, thus extending its cyber security product portfolio to include cyber digital twin products. It funded the acquisition by using €3.2 million of the acquisition facility. The acquisition agreement includes put and call options to allow the parent to acquire 100% of DIATEAM by 2026.

On 9 February 2023, the parent signed an important foreign three-year contract worth €9 million to provide decision intelligence systems to major institutional customers.

On 14 February 2023, the parent was awarded contracts for the supply of its proprietary SIEM RTA model and for its verticalisation and integration to protect both government bodies and companies. These contracts are worth approximately €1.3 million.

On 2 March 2023, the parent was awarded three important contracts by institutional customers in Italy and abroad worth roughly €5.7 million.

ON BEHALF OF THE BOARD OF DIRECTORS

(Domitilla Benigni)

(Emanuele Galtieri)

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(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
CY4Gate S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of CY4Gate S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of CY4Gate S.p.A. as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The company's directors are responsible for the preparation of a directors' report at 31 December 2022 and for the consistency of such report with the related separate financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the company's separate financial statements at 31 December 2022 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's financial statements at 31 December 2022 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, 12 April 2023

KPMG S.p.A.

(signed on the original)

Marco Mele
Director of Audit

SEPARATE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED
31 DECEMBER 2022

STATEMENT OF PROFIT OR LOSS

€	Note	2022	2021
Revenue	(1)	25,095,873	17,038,384
of which: with related parties		*7,891,210*	*4,263,880*
Other revenue and income	(2)	1,664,321	878,558
Revenue		**26,760,194**	**17,916,942**
Purchases, services and personnel expenses	(3)	(16,171,627)	(9,553,720)
of which: with related parties		*(661,844)*	*(531,820)*
Amortisation, depreciation, net impairment losses on financial assets and provisions	(4)	(6,637,612)	(3,622,584)
Other operating costs	(5)	(162,374)	(129,510)
Costs		**(22,971,612)**	**(13,305,814)**
Operating profit		**3,788,582**	**4,611,128**
Net financial expense	(6)	(776,924)	(72,461)
Pre-tax profit		**3,011,658**	**4,538,667**
Income taxes	(7)	1,516,430	647,161
Profit for the year		**4,528,088**	**5,185,828**

STATEMENT OF COMPREHENSIVE INCOME

(€)	Note	2022	2021
Profit for the year		**4,528,088**	**5,185,828**
Net actuarial gains (losses) on defined benefit plans		(80,779)	96,231
Related tax		19,387	(23,095)
Items that will not be reclassified subsequently to profit or loss	**(7, 21)**	**(61,392)**	**73,136**
Fair value gains on cash flow hedges		626,345	-
Related tax		(150,323)	-
Items that may be reclassified subsequently to profit or loss	**(7, 11)**	**476,022**	**-**
Comprehensive income		**4,942,718**	**5,258,964**

STATEMENT OF FINANCIAL POSITION

€	Note	31/12/2022	31/12/2021
Intangible assets	(8)	14,375,191	7,524,937
Property, plant and equipment	(9)	1,138,344	709,242
Right-of-use assets	(10)	1,388,827	2,032,516

Non-current financial assets	(11)	451,274	6,000
of which: with related parties		*6,000*	*6,000*
Equity investments	(12)	76,162,412	-
Non-current tax assets	(13)	688,279	621,199
Deferred tax assets	(7)	2,238,472	716,696
Non-current assets		**96,442,800**	**11,610,589**
Inventories	(14)	33,250	66,500
Contract assets	(15)	2,678,527	1,542,489
of which: with related parties		*1,295,339*	*599,102*
Trade receivables	(16)	33,548,360	23,585,605
of which: from related parties		9,559,843	4,464,820
Current tax assets	(17)	1,919,867	929,351
Other current assets	(18)	816,577	1,243,057
Current financial assets	(11)	1,053,314	-
Cash and cash equivalents	(19)	10,767,274	2,297,858
Current assets		**50,817,170**	**29,664,860**
Total assets		**147,259,970**	**41,275,450**

€	Note	31/12/2022	31/12/2021
Share capital		1,441,500	481,500
Share premium		108,539,944	19,499,944
Other reserves		9,300,528	5,087,568
Profit for the year		4,528,088	5,185,828
Equity	(20)	**123,810,059**	**30,254,839**
Employee benefits - non-current	(21)	513,224	326,481
Provisions - non-current	(22)	-	32,952
Other non-current liabilities		242,665	-
Non-current financial liabilities	(23)	10,104,841	-
Non-current lease liabilities	(24)	1,061,686	1,563,517
of which: with related parties		*964,971*	*1,509,436*
Deferred tax liabilities	(7)	150,323	-
Non-current liabilities		**12,072,738**	**1,922,950**
Employee benefits - current	(21)	-	271,875
Provisions - current	(22)	122,111	267,793
Trade payables	(25)	7,084,179	4,330,658
of which: to related parties		*938,553*	*262,428*
Current financial liabilities	(23)	1,195,652	2,005,878
Current lease liabilities	(24)	327,401	443,078
of which: with related parties		*233,171*	*296,614*
Contract liabilities	(15)	388,279	65,252
of which: with related parties		*165,279*	*10,000*
Current tax liabilities	(26)	320,122	580,261
Other current liabilities	(27)	1,939,428	1,132,867
Current liabilities		**11,377,172**	**9,097,661**
Total liabilities		**147,259,970**	**41,275,450**

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	IFRS FTA reserve	Legal reserve	Reserve for capital increase transaction costs	Other comprehensive income	Retained earnings	Profit for the year	Total equity
Balance at 1 January 2021	**481,500**	**19,499,944**	**(96,039)**	**92,590**	**(1,172,651)**	**(41,664)**	**950,214**	**5,281,981**	**24,995,875**
Allocation of previous year profit	-	-	-	3,710	-	-	5,278,271	(5,281,981)	**-**
Net actuarial gains	-	-	-	-	-	73,136	-	-	**73,136**
Profit for the year	-	-	-	-	-	-	-	5,185,828	**5,185,828**
Balance at 31 December 2021	**481,500**	**19,499,944**	**(96,039)**	**96,300**	**(1,172,651)**	**31,472**	**6,228,485**	**5,185,828**	**30,254,839**
Allocation of previous year profit	-	-	-	259,292	-	-	4,926,538	(5,185,830)	-
Net actuarial losses	-	-	-	-	-	(61,389)	-	-	(61,389)
Capital increase transaction costs	-	-	-	-	(1,387,500)	-	-	-	(1,387,500)
Other changes	960,000	89,040,000	-	-	-	-	-	-	90,000,000
Net fair value gains on cash flow hedges	-	-	-	-	-	476,022	-	-	476,022
Profit for the year	-	-	-	-	-	-	-	4,528,088	4,528,088
Balance at 31 December 2022	**1,441,500**	**108,539,944**	**(96,039)**	**355,592**	**(2,560,151)**	**446,105**	**11,155,023**	**4,528,085**	**123,810,059**

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	2022	2021
Profit for the year	**4,528,088**	**5,185,828**
Income taxes	(1,516,430)	(647,161)
Pre-tax profit	**3,011,658**	**4,538,667**
Adjustments for:		
• Non-monetary items		
Amortisation and depreciation	6,211,963	3,395,403
Impairment losses	303,538	116,787
Service costs for post-employment benefits and defined benefit plans	220,110	206,356
Employee incentive plans	-	(93,750)
Accruals to provisions for risks and charges	122,111	110,394
Net interest expense	776,924	72,461
Sub total	**7,634,646**	**3,807,651**
Cash flows from operating activities before changes in net working capital	**10,646,304**	**8,346,318**
Changes in net working capital		
Trade receivables	(10,266,293)	(8,099,800)
of which: from related parties	*(5,095,023)*	*(2,155,147)*
Inventories	33,250	184,500
Contract assets	(1,136,038)	(934,332)
of which: with related parties	*(696,237)*	*(431,741)*
Trade payables	2,753,521	2,500,437
of which: to related parties	*465,546*	*85,167*
Provisions for risks and charges	(178,634)	60,745
Contract liabilities	323,027	(1,612,218)
of which: with related parties	*155,279*	*131,921*
Other current assets	(764,875)	(1,082,183)
Other current liabilities	939,411	776,178
Payment of post-employment benefits and defined plan benefits	(387,510)	(289,625)
Sub total	**(8,684,140)**	**(8,496,298)**
Cash flows generated by (used in) operating activities	**1,962,163**	**(149,979)**
Interest paid	(514,727)	(40,707)
Taxes paid	(96,381)	(120,634)
A) Net cash flows generated by (used in) operating activities	**1,351,055**	**(311,320)**
Net investments in intangible assets	(9,895,447)	(6,729,136)
Investments in property, plant and equipment	(756,144)	(314,883)
Acquisition/sale of subsidiaries	(79,519,655)	(900,684)
B) Cash flows used in investing activities	**(90,171,246)**	**(7,944,703)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital increase	88,612,500	-
Net (repayments) utilisations of credit facilities	9,294,616	(850,000)
of which: with related parties	-	*(700,000)*
Change in other financial liabilities	(617,509)	1,830,326
Finance lease payments	-	(237,119)
Other changes	-	(171,603)
C) Cash flows generated by financing activities	**97,289,607**	**571,604**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**8,469,416**	**(7,684,420)**
OPENING CASH AND CASH EQUIVALENTS	**2,297,858**	**9,982,277**
CLOSING CASH AND CASH EQUIVALENTS	**10,767,274**	**2,297,858**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

GENERAL INFORMATION

CY4Gate S.p.A. (the "company") is a company limited by shares with its registered office at Via Coponia 8, Rome (Italy). It has been listed on the Euronext Growth Milan segment of the Milan Stock Exchange since June 2021.

The company is controlled by Elettronica S.p.A. (the "parent"), with registered office in Rome, which prepares consolidated financial statements of the largest group of companies to which the company belongs. As required by article 2724.22-quinquies of the Italian Civil Code, it is noted that the parent has deposited a copy of its consolidated financial statements at its registered office at Via Tiburtina 13,700.

The company has a term until 31 (thirty-first) December 2050 (two thousand and fifty), which may be extended once or more than once as resolved by its shareholders.

At the date of preparation of these separate financial statements, the company is not managed and coordinated by any of its shareholders as its board of directors can independently and autonomously take all decisions about its management.

The board of directors approved these draft separate financial statements on 23 March 2023.

BASIS OF PREPARATION AND COMPLIANCE WITH THE IFRS-EU

These separate financial statements have been prepared in accordance with International Financial Reporting Standards and the International Accounting Standards (together the "IFRS") issued by the International Accounting Standards Board ("IASB") and the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and the Standing Interpretations Committee ("SIC"), endorsed by the European Union with Regulation (EC) no. 1606/2022 and effective at the reporting date. The above standards and interpretations are identified as "IFRS-EU" in these notes.

BASIS OF PRESENTATION

The separate financial statements at 31 December 2022 comprise:

- statement of profit or loss;
- statement of comprehensive income;
- statement of financial position;
- statement of cash flows;
- statement of changes in equity;
- these notes.

The company has elected to present the statement of profit or loss and other comprehensive income as two separate statements as allowed by IAS 1.81. Therefore, these separate financial statements include a statement of profit or loss for the year, which presents the profit or loss items for the year, and a statement of comprehensive income, which starts with the profit or loss for the year and adds or deducts other comprehensive income or expense items.

Income and expense items are recognised in the statement of profit or loss according to their nature. This approach complies with the company's management reporting format and is deemed the most suitable presentation method rather than using the presentation by destination method, as it provides more reliable and useful information about the company.

Assets and liabilities are presented in the statement of financial position as current or non-current in line with paragraph 60 and following paragraphs of IAS 1.
The company presents cash flows from operating, investing and financing activities separately in the statement of cash flows. Cash flows from operating activities are reported using the indirect method.

The company's presentation of the statement of changes in equity, which includes comprehensive income, complies with the requirements of IAS 1.

The company has prepared the separate financial statements on the basis of its best knowledge of the IFRS-EU and more reliable theory. It will incorporate future guidance and updates in subsequent years using the methods envisaged by the relevant standards from time to time.
The company's functional currency is the Euro, which is also its presentation currency and the currency used in the countries where the company mostly operates. All the amounts in the tables in these notes are expressed in Euros unless stated otherwise.
The separate financial statements comprise a statement of financial position, a statement of profit or loss, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes. Specifically:

- the statement of financial position is presented by classifying assets as current or non-current with separate indication of any assets and liabilities classified as held for sale or included in a disposal group classified as held for sale;

- the statement of profit or loss is presented by classifying costs by nature with separate indication of the profit or loss from continuing operations to that from discontinued operations;

- the statement of comprehensive income shows the profit or loss for the year and other changes in equity arising from non-owner transactions;

- the statement of changes in equity shows the profit or loss for the year and all other changes not recognised in profit or loss separately;

- the statement of cash flows is presented by showing cash flows from operating activities using the indirect method.

The separate financial statements are accompanied by a directors' report which is part of the annual report.
The directors have prepared the separate financial statements on a going concern basis as they have assessed the inexistence of any financial, operating or other indicators that could cast significant doubt as to the company's ability to meet its obligations in the near future and especially in the next 12 months. Information about how the company manages financial risks is provided in the "Risk management" section.

The separate financial statements have been prepared using the historical cost method, except for those items that, in accordance with the IFRS, are mandatorily measured at fair value.
By "current" is meant the period of 12 months after the reporting date while "non-current" means periods 12 months after the reporting date.

ACCOUNTING POLICIES

The accounting policies applied to prepare the separate financial statements at 31 December 2022 are the same as those adopted to draw up the consolidated financial statements, to which reference should be made, except for the recognition and measurement of equity investments.

Investments in subsidiaries and associates are measured at cost, including directly related costs, and adjusted for impairment, identified as described in the section on the impairment of property, plant and equipment and intangible assets in the notes to the consolidated financial statements. Impairment losses are recognised in profit or loss and are reversed when the reasons therefor cease to exist.

Subsidiaries are all those companies over which CY4Gate S.p.A. has the power to directly or indirectly determine the financial and operating policies so as to obtain benefits from their activities.

If indicators of impairment exist, the company tests the equity investments and recognises any impairment losses in profit or loss. This includes calculating the recoverable amount of the equity investment by estimating its value in use or fair value less costs to sell. If the recoverable amount is lower than the CGU's carrying amount, the goodwill is impaired. Calculation of the equity investment's recoverable amount entails the use of estimates that are based on factors which may vary over time, with potential significant effects compared to the assessments made by the directors. In addition, with respect to the calculation of value in use by discounting future cash flows, this method is highly complicated and involves the use of estimates, which are by their very nature uncertain and subjective, about:

- the expected cash flows, calculated by taking into account the financial performance of the investees and their business sectors, the actual cash flows for past years and projected growth rates;

- the financial parameters used to calculate the discount rate.

RISK MANAGEMENT

The company is exposed to financial risks and specifically:

- currency risk, arising from transactions carried out in currencies other than its presentation currency;
- liquidity risk, related to the availability of financial resources and access to the credit market;
- credit risk, related to normal commercial transactions or financial activities;
- interest rate risk, arising from the group's financial exposure.

The company carefully monitors each of the above financial risks and acts promptly to minimise them, resorting to hedging instruments when appropriate.

CURRENCY RISK

The company operates in countries outside the Eurozone and is thus exposed to the risk that exchange rates may fluctuate significantly with the risk that revenue and costs denominated in currencies other than the Euro may change in value compared to when the prices were agreed.

At the reporting date, the company does not have currency hedges as its exposure to this risk is immaterial and it only has financial liabilities denominated in Euros.

LIQUIDITY RISK

Liquidity risk refers to the risk that the company is unable to meet its financial obligations deriving from contractual commitments and, more generally, its short-term financial commitments which, in a worst case scenario, could lead to insolvency jeopardising the group's business. The main factors contributing to liquidity risk are, on the one hand, the generation and/or utilisation of cash by the company's operating and investing activities and, on the other, the due dates of its loans and borrowings and investments as well as financial markets' contingent situation. The company aims to have sufficient liquidity on hand to cover its financial requirements. It regularly monitors and manages its cash flows, financing needs and liquidity to ensure the efficient and effective deployment of its financial resources.

At the reporting date, financial liabilities, excluding lease liabilities recognised in accordance with IFRS 16, amount to €11,300,494 and include non-current and current financial liabilities of €10,104,841 and €1,195,652, respectively. Cash and cash equivalents amount to €10,767,274 at the reporting date.

CREDIT RISK

Credit risk refers to the company's exposure to the possible risk of default by its counterparties.

The company is exposed to the risk that a customer may delay or not comply with its payment obligations at the agreed terms and conditions and that its internal credit assessment and customer solvency assessment procedures are inadequate to ensure collection. Such non-collection of its trade receivables could adversely affect the company's financial position, financial performance and cash flows.

The company's exposure continues to be mostly with public sector customers. However, to mitigate this risk, it checks its customers' credit quality using internal or external credit scoring and sets credit limits which are checked regularly. Moreover, credit risk can be considered to be immaterial given that one of its customers is its parent, Elettronica S.p.A., which also belongs to the public sector.

INTEREST RATE RISK

The company takes decisions about financing and investing transactions in line with prudence and risk limitation criteria. It does not engage in speculative transactions. It hedges financial risk, and specifically interest rate risk, by entering into interest rate swaps in order to hedge the risk of fluctuations in the interest rates applied to its variable rate loans.

Hedging strategy for the company's bank loans at 31 December 2022:

€		Cash flow hedges Notional amounts at 31 December 2022	
	Nominal amount	IRS	Total
Floating rate loans	12,500,000	12,500,000	12,500,000
	12,500,000	**12,500,000**	**12,500,000**

RUSSIA-UKRAINE WAR

The company is exposed to risks arising from the current and future global, European and Italian political-economic situation, aggravated by the outbreak of the war in Ukraine. It cannot be excluded that the occurrence and/or continuation of economic recession and/or political instability and ongoing turbulence in the financial markets caused by spiralling inflation and, therefore, interest rates, with possible future repercussions, which may be significant, on the global, European and/or domestic economy, could bring about a contraction in the company's reference markets. This could adversely affect the business and outlook as well as the company's financial position, financial performance and cash flows. Uncertainties about the impact of the international sanctions imposed as part of the war still being fought by Russia and Ukraine at the date of preparation of this report also affect the general macroeconomic situation.

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

Reconciliation of financial asset and liability categories presented in the statement of financial position and the types of financial asset and liability identified in accordance with the IFRS requirements:

€	Fair value of hedging instruments	Financial assets/liabilities at amortised cost	Total
NON-CURRENT ASSETS	**430,275**	**20,999**	**451,274**
Non-current financial assets	430,275	20,999	451,274
CURRENT ASSETS	**196,071**	**47,851,405**	**48,047,476**
Current financial assets	196,071	857,244	1,053,314
Trade receivables and contract assets	-	36,226,888	36,226,888
Cash and cash equivalents	-	10,767,274	10,767,274
NON-CURRENT LIABILITIES	**-**	**11,300,494**	**11,300,494**
Non-current financial liabilities	-	10,104,841	10,104,841
Non-current lease liabilities	-	1,195,652	1,195,652
CURRENT LIABILITIES	**-**	**8,607,232**	**8,607,232**
Current financial liabilities	-	1,195,652	1,195,652
Current lease liabilities	-	327,401	327,401
Trade payables	-	7,084,179	7,084,179

FAIR VALUE HIERARCHY

IFRS 13 establishes a fair value hierarchy that classifies the inputs of the valuation techniques adopted to measure fair value. The hierarchy gives maximum priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1 inputs) and minimum priority to unobservable inputs (level 3 inputs).

Fair value hierarchy for the company's financial assets and liabilities:

€	Fair value			
	Level 1	Level 2	Level 3	Total
NON-CURRENT ASSETS	**-**	**430,275**	**-**	**430,275**
Other financial assets excluding derivatives	-	-	-	-
Derivatives	-	430,275	-	430,275
CURRENT ASSETS	**-**	**196,071**	**-**	**196,071**
Other financial assets excluding derivatives	-	-	-	-
Derivatives	-	196,071	-	196,071
NON-CURRENT LIABILITIES	**-**	**-**	**-**	**-**
Non-current financial liabilities	-	-	-	-
Non-current lease liabilities	-	-	-	-
CURRENT LIABILITIES	**-**	**-**	**-**	**-**
Current financial liabilities	-	-	-	-
Current lease liabilities	-		-	

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1 Revenue: €25,095,873 (€17,038,384)

(€)	2022	2021	Variation
Revenue	24,422,465	15,730,583	8,691,882
Change in contract work in progress	673,407	1,307,801	(634,394)
Total	**25,095,873**	**17,038,384**	**8,057,489**

Revenue increased to €8,057,489 (+47%), driven by the company's high operating capacity in terms of order intake and deliveries to customers. The main projects that contributed to the increase in revenue relate to the sale of proprietary software licences to government bodies and corporate customers.

The €673,407 increase in contract work in progress relates to progress on contracts mostly acquired in the last quarter of the year and not yet invoiced.

A breakdown of revenue recognised at a point in time (i.e., with delivery of the good/licence/service) or over time is provided below:

€	Revenue from sales and services	Change in contract work in progress
Recognised at point in time	19,145,520	-
Recognised over time	5,276,945	673,407
Total	**24,422,465**	**673,407**

The parameter used to decide when to recognise revenue is the performance obligation. The company recognises revenue when (or as) it satisfies each distinct performance obligation, transferring the promised good or service (i.e., the asset) to the customer. The asset is transferred when (or as) the customer acquires control.

Revenue is recognised over time for performance obligations satisfied over time and the company measures the progress towards satisfaction of the performance obligation at each reporting date. It uses the input method (cost-to-cost-method). Revenue is recognised using the inputs expended to satisfy the obligation to date compared to the total expected inputs required to satisfy the entire obligation. When the inputs are expended evenly throughout the performance period, the company recognises the revenue on a straight-line basis. In certain circumstances, when the company is unable to reasonably measure the satisfaction of the performance obligation, it recognises revenue on the basis of the costs incurred.

A breakdown of revenue by geographical segment (geographical location of the customer at the reporting date) is as follows:

Revenue (Euro)	
Italy	19,360,873
EU	700,000
Non-UE	5,035,000
Total	**25,095,873**

2022 contract consideration of contracts in progress allocated to the unsatisfied performance obligations amounts to €7,585,118 and the company expects to reclassify it to revenue in future years based on its current projections.

2 Other revenue and income: €1,664,321 (€878,558)

(€)	2022	2021	Variation
R&D tax benefit	936,201	732,848	203,353
Grants	406,244	51,588	354,657
Other	321,877	94,123	227,754
Total	**1,664,321**	**878,558**	**785,763**

Other revenue and income mostly consist of the R&D tax benefit of €936,201 and grants related to income of €406,244 related to projects funded by the European Commission. "Other" of €321,877 principally comprises prior gain income on the release of accruals to provisions made in 2021 and the tax benefit of €38,609 for the purchase of assets used in operations as per Law no. 178/20 recognised using the indirect method.

3 Purchases, services and personnel expenses: €16,171,627 (€9,553,720)

A breakdown of purchases, services and personnel expenses is as follows:

(€)	2022	2021	Variation
Raw materials, consumables, supplies and goods	443,286	930,275	(486,989)
Change in inventories	33,250	184,500	(151,250)
Total purchases	**476,536**	**1,114,775**	**(638,239)**
Consultancy services	6,504,917	1,723,121	4,781,796
Subcontractors	291,026	289,803	1,223
Commercial services	759,977	440,579	319,398
Directors' fees	262,410	205,388	57,022
General and administrative services	187,029	136,601	50,427
Other costs	2,508,190	1,368,772	1,139,418
Leases and related costs	893,041	540,119	352,922
Total services	**11,406,589**	**4,704,383**	**6,702,206**
Wages and salaries	5,490,135	4,702,066	788,069
Social security contributions	1,834,838	1,448,090	386,748
Post-employment benefits	220,110	197,365	22,745
Pension and similar benefits	149,596	119,899	29,697
Other costs	223,987	132,651	91,335
Total personnel expenses	**7,918,666**	**6,600,071**	**1,318,594**
Capitalised development expenditure	**(3,630,164)**	**(2,865,510)**	**(764,654)**
Total	**16,171,627**	**9,553,720**	**6,617,907**

3.1 PURCHASES: €476,536 (€1,114,775)

The cost of purchasing raw materials decreased by €638,239 in line with the company's business performance: in 2021, its direct purchases of hardware components to be used on certain specific projects were significant. If these projects are excluded, purchases as a percentage of revenue are substantially in line with the company's historical trend.

3.2 SERVICES: €11,406,589 (€4,704,383)

This caption shows an increase of €6,702,206 on the previous year, mostly due to the higher consultancy fees (up €4,781,796) reflecting the higher business volumes and activities performed for development projects. The increase is also partly due to the cost incurred to acquire and integrate the RCS Group (the acquisition took place in March 2022). The caption mainly consists of costs for engineering consultancy services availed of to deliver projects (€3,643,981), strategic and organisational consultancy services (e1,948,029), commercial services (€759,977), third party supplier services for specific contracts (€291,026) and directors' fees (€262,410).

The caption also includes the cost for the use of third party assets, i.e., leased assets that are not recognised in accordance with IFRS 16 as the asset is of low, value, the lease term is short or the lease includes variable payments.

Finally, the caption comprises audit fees of €74,000 for the audit of the separate financial statements and the review of the interim financial statements and the fees of €14,150 for tax attestation services, also provided by the independent auditors.

3.3 PERSONNEL EXPENSES: €7,918,666 (€6,600,071)

The €1,318,594 increase in this caption is a result of the new hires taken on during the year for the sales department, to strengthen its footprint in strategic markets, and the technical development and delivery teams to deal with the greater business volumes.

3.3.1 HEADCOUNT

The following table shows the company's workforce:

	Managers	Junior managers	White collars	Apprentices	Other	Total
31.12.2021	8	13	68	4	0	**93**
New hires (+)	2	13	34	16	0	**65**
Promotions	1	-1				**0**
Departures (-)		-2	-24	-2	0	**-28**
31.12.2022	**11**	**23**	**78**	**18**	**0**	**130**

The average workforce for the year is 115.42 resources.

	Managers	Junior managers	White collars	Total
Average number	**10.4**	**16.67**	**88.71**	**115.42**

3.4 CAPITALISED DEVELOPMENT EXPENDITURE: €3,630,164 (€2,865,510)

Capitalised development expenditure amounts to €3,630,164. More information is available in note 9.

4 AMORTISATION, DEPRECIATION, NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS: €6,637,612 (€3,622,584)

(€)	2022	2021	Variation
Amortisation of intangible assets	5,545,194	2,924,364	2,620,830
Depreciation of property, plant and equipment	327,041	244,924	82,117
Depreciation of right-of-use assets	339,728	226,115	113,613
Total amortisation and depreciation	**6,211,963**	**3,395,403**	**2,816,560**
Impairment losses	**303,538**	**116,787**	**186,751**
Provisions	**122,111**	**110,394**	**11,717**
Total	**6,637,612**	**3,622,584**	**3,015,028**

Amortisation of €5,545,194 mostly refers to the capitalised development expenditure (€2,598,367) and software licences (€2,233,236). More information is available in note 9.

Depreciation of €327,041 relates to office electronic equipment (€219,045) and equipment (€57,914) used in the company's normal business operations.

The caption also includes depreciation of right-of-use assets of €339,728 in accordance with IFRS 16.

The provision for product warranties was increased by €122,111 for licence contracts that include a legal warranty. The company estimates the provision based on past experience of the work expected to be carried out by its employees on software products sold to customers. The increase is in line with the business volumes for products that have a contract warranty.

Net impairment losses of €303,538 reflect management's assessments about the recoverability of financial assets recognised at the reporting date in line with the IFRS 9 guidance about impairment. The increase is due to the upswing in the company's revenue and related trade receivables compared to the previous year.

5 OTHER OPERATING COSTS: €162,374 (€129,510)

(€)	2022	2021	Variation
Consumables	6,075	13,810	(7,736)
Contributions and membership fees	76,383	40,571	35,811
Maintenance and repairs of third party buildings	7,047	42,359	(35,312)
Other	72,870	32,769	40,101
Total	**162,374**	**129,510**	**32,864**

Other operating costs mostly comprise "Other" (€72,870) and contributions and membership fees (€76,383). The latter fees include the cost of the Women4Cyber project, which is the Italian chapter of the European Women4Cyb Foundation, set up in January 2020 by the ESCO - European Cybersecurity Organisation, to narrow the gender gap in the European cyber security sector.

6 NET FINANCIAL EXPENSE: €776,924 (€72,461)

(€)	2022	2021	Variation
Financial income	680	5,524	(4,844)
Financial expense	(777,604)	(77,984)	(699,619)
Net financial expense	**(776,924)**	**(72,461)**	**(704,463)**

Financial expense mostly consists of bank fees and charges (€167,514) and interest expense (€463,451) on the loan disbursed by Crédit Agricole Italia S.p.A., as agent of a bank syndicate. The loan has a maximum drawdown amount of €45,000,000 and, at the reporting date, the company had only used the portion earmarked for the partial financing of the acquisition of the RCS Group (formerly Aurora) (Line A) of €12,500,000 recognised using the amortised cost method.

7 INCOME TAXES: €1,516,430 (€647,161)

(€)	2022	2021	Variation
Current taxes	(14,040)	35,000	(49,040)
Deferred taxes	(1,502,390)	(682,161)	(820,229)
Total	**(1,516,430)**	**(647,161)**	**(869,269)**

The company made a tax loss for the year and, therefore, it did not recognise current IRES (corporate income tax) or IRAP (regional production tax) taxes. The positive balance of €14,040 includes excess IRAP tax provided for in 2021, compared to that calculated for the tax return.

Deferred taxes relate to the IRES tax loss for the year of approximately €4,951, the ACE (Aid to Economic Growth) benefit not used at year end and taxed provisions.

Net deferred tax assets are made up as follows:

(€)	31 December			
	2021	Accruals (releases) to profit or loss	Accruals (releases) to other comprehensive income	2022
Deferred tax assets arising from:				
Tax losses	248,644	1,288,915		1,537,559
ACE (Aid to Economic Growth)	355,415	316,806		672,221
Taxed provisions	76,979	(108,122)		(31,143)
IFRS-EU FTA	35,659			35,659
Other	-	4,789		4,789
Actuarial losses	-		19,387	19,387
Deferred tax assets	**716,696**	**1,502,389**	**19,387**	**2,238,472**
Deferred tax liabilities arising from:				
Fair value gains on hedging instruments	-	-	(150,323)	(150,323)
Deferred tax liabilities	**-**	**-**	**(150,323)**	**(150,323)**
Net deferred tax assets	**716,696**	**1,502,389**	**(130,936)**	**2,088,149**

The company recognised deferred tax assets at 31 December 2022 as management is reasonably certain they will be recovered in future years.

8 INTANGIBLE ASSETS: €14,375,191 (€7,524,937)

(€)	2022	2021	Variation
Development expenditure	4,864,958	3,833,161	1,031,797
Industrial patents and intellectual property rights	6,233,802	3,580,758	2,653,044
Concessions, licences, trademarks and similar rights	-	66,680	(66,680)
Assets under development and payments on account	1,369,000	-	1,369,000
Other	1,907,431	44,339	1,863,092
Total	**14,375,191**	**7,524,937**	**6,850,253**

At 31 December 2022, intangible assets rose by a net €6,850,253 on the previous year, being the net balance of increases of €12,395,447 and amortisation of €5,545,193. The additions include development expenditure of €3,630,164 and industrial patents and intellectual property rights of €4,896,283.

The following table shows changes in this caption during the year:

CHANGES IN 2022

(e)	Historical cost at 31 Dec. 2021	Net acc. amort. at 31 Dec. 2021	Carrying amount at 31 Dec. 2021	2022 increases	Historical cost at 31 Dec. 2022	2022 amortisation	Net acc. amort. at 31 Dec. 2022	Carrying amount at 31 Dec. 2022
Development expenditure	6,656,308	(2,823,147)	3,833,161	3,630,164	10,286,472	(2,598,367)	(5,421,514)	4,864,958
Industrial patents	4,923,068	(1,342,310)	3,580,758	4,896,283	9,819,350	(2,243,238)	(3,585,548)	6,233,802
Concessions, licences, trademarks and similar rights	200,000	(133,320)	66,680	-	200,000	(66,680)	(200,000)	-
Assets under development and payments on account	-	-	-	1,369,000	1,369,000	-		1,369,000
Other	80,692	(36,353)	44,339	2,500,000	2,580,692	(636,908)	(673,261)	1,907,431
Total	**11,860,069**	**(4,335,131)**	**7,524,938**	**12,395,447**	**24,255,515**	**(5,545,193)**	**(9,880,324)**	**14,375,191**

Intangible assets mostly comprise:

- development expenditure of €4,864,958 (€7,463,325 net of amortisation of €2,598,367): this expenditure refers to four projects. After carrying out the necessary checks, the directors deemed that it met the criteria for capitalisation. Development expenditure includes the cost of the employees and external technical consultants involved directly in the development activities (€3,630,164). It is amortised over the period of time estimated necessary to recoup the investments made;

- industrial patents and intellectual property rights of €6,233,802 (€8,477,040 net of amortisation of €2,243,238), which increased as a result of the purchase of software licences during the year;

- assets under development and payments on account of €1,369,000, which include advances paid to third party suppliers for intangible assets related to incomplete projects;

- other assets of €1,097,431 (€2,580,692 net of amortisation of €673,261), mostly consisting of the payment made for the non-compete agreement to the sellers of the RCS Group (formerly Aurora), valid for three years from the acquisition date.

9 PROPERTY, PLANT AND EQUIPMENT: €1,138,344 (€709,242)

(€)	31/12/2022	31/12/2021	Variation
Plant and machinery	40,989	26,236	14,752
Industrial and commercial equipment	49,647	105,406	(55,759)
Other assets	1,047,709	577,600	470,109
Total	**1,138,344**	**709,242**	**429,102**

At 31 December 2022, this caption amounts to €1,138,344 with a net increase of €429,102 on the previous year end, due to costs incurred for necessary upgrades of IT infrastructure and digital laboratories used for product development, as well as the purchases of computers for new hires taken on during the year, less depreciation of €327,041.

The following table shows changes in this caption during the year:

(€)	Historical cost at 31 Dec. 2021	Net acc. depr. at 31 Dec. 2021	Carrying amount at 31 Dec. 2021	2022 increases	Historical cost at 31 Dec. 2022	2022 depreciation	Net acc. depr. at 31 Dec. 2022	Carrying amount at 31 Dec. 2022
Plant and machinery	53,292	(27,056)	26,236	29,400	82,692	(14,648)	(41,704)	40,989
Industrial and commercial equipment	406,900	(301,494)	105,406	2,155	409,055	(57,914)	(359,408)	49,647
Other assets	1,047,067	(469,468)	577,600	724,588	1,771,655	(254,479)	(723,947)	1,047,709
Total	**1,507,259**	**(798,018)**	**709,242**	**756,144**	**2,263,403**	**(327,041)**	**(1,125,059)**	**1,138,344**

10 RIGHT-OF-USE ASSETS: €1,388,827 (€2,032,516)

(€)	31/12/2022	31/12/2021	Variation
Building	1,193,325	1,829,548	(636,223)
Hardware	78,489	122,386	(43,897)
Vehicles	117,012	80,582	36,430
Total	**1,388,827**	**2,032,516**	**(643,689)**

At 31 December 2022, right-of-use assets amount to €1,388,827 and mainly relate to the leased building which houses the company's offices in Rome (€1,193,325).

The depreciation period of right-of-use assets is six years for the office building, five years for hardware and four years for the vehicles.

The company elected not to include short-term leases (with a term of less than 12 months) and those with underlying assets of a low value in this caption and their lease payments are included in the caption "Purchases, services and personnel expenses".

11 CURRENT FINANCIAL ASSETS: €1,053,314 (€0)

Non-current financial assets: €451,274 (€6,000)

Financial assets (current and non-current)				
(€)	31/12/2022		31/12/2021	
	Current	Non-current	Current	Non-current
Guarantee deposits	-	21,000	-	6,000
Derivatives	196,071	430,274	-	-
Policies on active contracts	-	-	-	-
Other financial assets	857,244	-	-	-
Loss allowance	-	-	-	-
Total	**1,053,314**	**451,274**	**-**	**6,000**

Financial assets mostly consist of hedging derivatives entered into to hedge interest rate risk on the company's loan and guarantee deposits for the leased office buildings. Other financial assets of €857,244 relate to the price adjustment in the company's favour to reflect the actual net financial position and trade working capital at the calculation date, as agreed in the acquisition agreement by the parties.

The table shows the type of derivatives entered into, their notional amount, the hedged loan and fair value at the reporting date:

€ Derivative	Hedged item	Notional amount	Maturity date	Interest rate received	Interest rate paid/Strike price	Fair value 31/12/2022	Fair value 31/12/2021
IRS	Syndicate financing - Line A	7,500,000	29/03/2028	6M Euribor	1.60%	382,505	-
IRS	Syndicate financing - Line A	5,000,000	29/03/2028	6M Euribor	1.60%	243,840	-
Total interest rate hedges						**626,345**	**-**

12 EQUITY INVESTMENTS: €76,162,412 (€0)

(€)	31/12/2022	31/12/2021	Variation
Investments in subsidiaries	76,162,412		76,162,412
Total	**76,162,412**	**-**	**76,162,412**

This caption comprises the company's 100% investment in RCS.
On 16 December 2021, the company signed a preliminary acquisition agreement for 100% of the Aurora Group (now RCS Group following Aurora's reverse merger into RCS after the initial optimisation of its organisation structure).The acquisition was closed on 29 March 2022.

This transaction was of strategic importance to the company as it enables it to acquire a leadership position in the Italian forensic intelligence & data analysis market.

It provided the company with longstanding partnership agreements entered into by Aurora and its group with a large number of public prosecutor offices as well as a larger customer portfolio, thanks to the acquired group's extensive commercial offering.
The consideration transferred for the acquisition comprised:

(i) a fixed component of €75.5 million, subject to a price adjustment of €857,244 in favour of the buyer to reflect the actual net financial position and trade working capital at the calculation date (established by the parties in the acquisition agreement). In June 2022, the parties engaged PricewaterhouseCoopers S.p.A. as an independent expert to calculate the adjustment as their separate calculations of the acquired group's net financial position were very different. On 16 March 2023, the independent expert calculated the net financial position to be €5,208,000, which leads to an adjustment of €857,244 to the fixed consideration;

(ii) a variable component to be determined on the basis of the effective 2022 enterprise value considering the 2021 enterprise value of a maximum of €15 million, the calculation and payment of which is subject to conditions precedent but is to take place by 30 June 2023. As the conditions precedent were not met at 31 December 2022, this variable component was not due.

As a result, the total consideration was €74,642,756, to be supplemented by the transaction costs.

During the year, the company tested the equity investment for impairment and calculated its recoverable amount by estimating its value in use.
Company management engaged a third party expert to perform the impairment test.
Value in use was determined by applying the unlevered version of the discounted cash flow method to the forward-looking figures prepared by the directors of the subsidiary and the company for the five-year period from 2023 to 2027. The cash flows used were those generated by the operating activities of the RCS Group (formerly Aurora) and they do not include financial expense, notional income taxes and non-recurring items.

They do include the investments included in the business plans and changes in cash flows attributable to working capital without considering the effects of future restructurings not yet approved by the directors or future investments designed to improve the group's potential profitability. The directors used an explicit horizon of five years after which the cash flows were projected in perpetuity (terminal value) using a growth rate (g-rate) of 2% estimated for the RCS Group's (formerly Aurora) market and in line with the ECB's outlook for medium to long-term inflation trends.

The directors discounted the above cash flows using a pre-tax WACC (weighted average cost of capital) of 11.26%.
The board of directors approved the plans used for the impairment tests.
No indication of impairment was identified.
The company also subsequently performed a sensitivity analysis.
Specifically, it assumed a change of between 11.26% and 12.39% in the WACC and between 2% to 1% in the g-rate. No impairment loss would have been necessary.

13 NON-CURRENT TAX ASSETS: €688,279 (€621,199)

(€)	31/12/2022	31/12/2021	Variation
R&D tax benefit	648,857	590,794	58,063
Tax benefit for assets used in operations	39,422	30,405	9,017
Total	**688,279**	**621,199**	**67,080**

Non-current tax assets mostly comprise the R&D tax benefit (€648,279) and the tax benefit under Law no. 178/20 for the purchase of assets used in operations for the amount to be netted starting from 2024 (€39,422) in accordance with the ruling tax legislation.

14 INVENTORIES: €33,250 (€66,500)

(€)	31/12/2022	31/12/2021	Variation
Finished goods and products	33,250	66,500	(33,250)
Total	**33,250**	**66,500**	**(33,250)**

Finished goods and products amount to €33,250 and comprise third party licences used for sales contracts.

15 CONTRACT ASSETS AND LIABILITIES
CONTRACT ASSETS: €2,678,527 (€1,542,489)
CONTRACT LIABILITIES: €388,279 (€65,252)

Contract assets include the net value of projects carried out for amounts greater than the advances received from customers. Similarly, contract liabilities include the opposite situation (when the advances received from customers exceed the value of the projects performed).

When advances have not been received at the reporting date, they are recognised under trade receivables.

The net balance of contract assets comprises:

(€)	31/12/2022	31/12/2021	Variation
Contract assets (gross)	2,748,081	1,846,938	901,143
Contract liabilities	(65,000)	(300,000)	235,000
Loss allowance	(4,553)	(4,449)	(104)
A. Contract assets (net)	**2,678,527**	**1,542,489**	**1,136,038**
Contract liabilities (gross)	(404,300)	(309,008)	(95,292)
Contract assets	16,021	243,756	(227,735)
B. Contract liabilities (net)	**(388,279)**	**(65,252)**	**(323,027)**
(A - B). Net contract assets	**2,290,248**	**1,477,237**	**813,011**

The increase in contract assets is mostly due to progress made on contracts acquired and in progress.

16 TRADE RECEIVABLES: €33,548,360 (€23,585,605)

(€)	31/12/2022	31/12/2021	Variation
Customers	24,599,560	19,428,119	5,171,441
Parents	5,524,590	4,464,820	1,059,770
Subsidiaries	4,035,254		4,035,254
Loss allowance	(611,043)	(307,333)	(303,710)
Total	**33,548,360**	**23,585,605**	**9,962,755**

Trade receivables of €33,548,360 are due from Italian customers (€20,895,982, including €4,035,254 from the subsidiary RCS), foreign customers (€7,127,790) and the parent, Elettronica S.p.A. (€5,524,590). The caption also includes a loss allowance of €611,043, which includes the accumulated impairment loses estimated in accordance with IFRS 9. The section on risk management provides information about the management of credit risk.

The increase in trade receivables is a direct consequence of the rise in revenue, as explained in the earlier note to revenue.

At 31 December 2022, the company's trade receivables amount to €24,599,560, including invoices to be issued for €6,758,338, trade receivables not yet past due of €13,257,610, trade receivables past due by less than 90 days of €3,763,500 and trade receivables past due by more than 90 days of €820,112.

17 Current tax assets: €1,919,867 (€929,351)

(€)	31/12/2022	31/12/2021	Variation
VAT	803,141	457,210	345,931
IRES - IRAP	1,029	30,283	(29,254)
R&D tax benefit	880,816	346,511	534,306
Tax benefit for assets used in operations	93,136	85,067	8,069
Other	141,745	10,281	131,465
Total	**1,919,867**	**929,351**	**990,516**

This caption mostly consists of the R&D tax benefit (€880,816) recognised for investments made, VAT (€803,141) and tax benefits for assets used in operations (€93,136).

18 OTHER CURRENT ASSETS: €816,577 (€1,243,057)

(€)	31/12/2022	31/12/2021	Variation
Payments on account for transaction costs	-	900,684	(900,684)
Other assets	297,849	58,519	239,330
Prepayments	518,728	284,763	233,964
Loss allowance	0	(909)	909
Total	**816,577**	**1,243,057**	**(426,480)**

Other current assets include prepayments (€518,728) for consultancy services, insurance policies and licences for software used on internal infrastructure.

19 CASH AND CASH EQUIVALENTS: €10,767,274 (€2,297,858)

(€)	31/12/2022	31/12/2021	Variation
Bank and postal deposits	10,767,162	2,296,631	8,470,531
Cash-in-hand and cash equivalents	794	1,276	(482)
Loss allowance	(682)	(49)	(633)
Total	**10,767,274**	**2,297,858**	**8,469,416**

The reporting-date balance is mostly comprised of net cash inflows for the year. The increase in this caption is due to the unused proceeds from the capital increase made to service the RCS Group (formerly Aurora) acquisition.

The company's cash and cash equivalents are not restricted.

20 Equity: €123,810,059 (€30,254,839)

(€)	31/12/2022	31/12/2021
Share capital	1,441,500	481,500
Share premium	108,539,944	19,499,944
Other reserves	9,300,528	5,087,568
Profit for the year	4,528,088	5,185,828
Total equity	**123,810,059**	**30,254,839**

At 31 December 2022, the company's subscribed and paid-up share capital amounts to €1,441,500 and it consists of 23,571,428 shares as follows:

- 9,045,912 ordinary shares, subscribed at their nominal amount of €553,248 by Elettronica S.p.A., plus a premium of €13,803,783;
- 3,809,524 ordinary shares, subscribed at their nominal amount of €232,946 by TEC Cyber S.p.A., plus a premium of €39,573,335;
- 10,715,992 ordinary shares listed on the Euronext Growth Milan (formerly AIM Italia) segment of the Milan Stock Exchange, subscribed at their nominal amount of €655,306 plus a premium of €55,162,824 held by other shareholders on the market.

The share premium amounts to €108,539,944.

In March 2022, the company completed the capital increase of €90 million necessary to allow it to acquire the RCS Group (formerly Aurora) by issuing 8,571,428 shares at a price per share of €10.5, of which €0.112 recognised as an increase in share capital and €10,388 as the share premium. The transaction costs were accounted for as a deduction from equity in accordance with IAS 32.

The other reserves amount to a negative €1,854,497 at the reporting date as follows:

- the IFRS-EU FTA reserve of a negative €96,039, comprising the adjustments made for the first-time application of the IFRS;
- the legal reserve of €355,591, which was increased by allocation of 5% of the profit for 2021 (€259,291);
- the reserve for capital increase transaction costs of a negative €2,560,151, which includes the transaction costs incurred to list the company on the Euronext Growth Milan segment of the Milan Stock Exchange in June 2020 and the transaction costs related to the capital increase and the issue of new shares in March 2022. The reserve increased by €1,387,500 on the previous year end;
- the hedging reserve of €476,022, set up for the changes in fair value of the derivatives hedging interest rate risk on the variable rate loan. The fair value gains recognised in the reserve are shown net of deferred tax;
- other comprehensive expense of €29,920, including the net actuarial losses on post-employment benefits in accordance with IAS 19.

The following table shows the availability and possible use of the reserves as per article 2427-bis of the Italian Civil Code:

(€)	Amount	Possible use	Available portion
Share capital	1,441,500		1,441,500
Share premium	108,539,944	A-B-C	108,539,944
Legal reserve	355,592	B	355,592
Actuarial reserve	-29920	-	-
IFRS-EU FTA reserve	-96,039	A	-
Reserve for capital increase transaction costs	-2,560,151	-	-
Other reserves	476,022	-	-
Retained earnings	11,155,025	A-B-C	11,155,025
Total	**119,281,973**		**121,492,061**

KEY:

A - capital increase

B - to cover losses

C - for distributions to shareholders

21 CURRENT AND NON-CURRENT EMPLOYEE BENEFITS: €513,224 (€598,356)

	31 December	
(€)	2022	2021
Phantom stock option plan	-	271,875
Post-employment benefits	513,224	326,481
Total	**-**	**598,356**
of which: current	-	271,875
of which: non-current	513,224	326,481
Total	**513,224**	**598,356**

The liability for the phantom stock options decreased by €271,875 as a result of the benefits paid to the plan beneficiaries who exercised the options for the first vesting cycle. No amounts were set aside in 2022 for the second vesting period provided for in the 2021-2022 phantom stock option plan's regulation approved by the company's directors on 22 September 2021 as the plan objectives were not met.

Employee benefits also include the post-employment benefits, which correspond to the company's estimated obligation, calculated using actuarial techniques, of the amount to be paid to its employees upon termination of the employment relationship. The Italian budget law and its implementing decrees introduced significant changes to the Italian post-employment benefits (TFR), including the employee's right to choose where to allocate their accruing benefits, starting from 1 January 2007. Specifically, benefits accruing after that date are transferred either to a third party pension fund or are kept by the employer which has to transfer them to a treasury fund set up by INPS (the Italian social security institution).

The actuarial assumptions applied are summarised below:

Assumptions	CY4GATE
Discount rate	3.65%
Inflation rate	2.70%
Nominal rate of wage growth Blue collars White collars Junior managers Executives Managers	2.70% 2.70% 2.70% 2.70% 2.70% 2.70%
Labour turnover rate	14.50%
Probability of request of advances of TFR	0.70%
Percentage required in case of advance	70.00%
Life table - Male	M2019
Life table - Female	F2019

Changes in the company's liability for post-employment benefits:

	2022	2021
Opening net liability	**326,481**	**242,470**
Current service cost	217,950	196,905
Interest cost	3,649	1,087
Payments of benefits	(115,635)	(17,750)
Net actuarial (gains) losses	80,779	(96,231)
Closing net liability	**513,224**	**326,481**

The sensitivity analyses are shown in the next table:

Sensitivity Analysis – DBO		CY4GATE
Main assumptions	€	**513,224**
Discount rate (+0.5%)	€	497,834
Discount rate (-0.5%)	€	527,800
Rate of payment increases (+0.5%)	€	513,166
Rate of payment decreases (-0.5%)	€	511,583
Rate of price inflation increases (+0.5%)	€	518,070
Rate of price inflation decreases (-0.5%)	€	506,691
Rate of salary increases (+0.5%)	€	518,437
Rate of salary decreases (-0.5%)	€	506,548

22 PROVISIONS - CURRENT AND NON-CURRENT: €122,111 (€300,745)

	31 December	
(€)	2022	2021
Provision for product warranties	122,111	300,745
Other provisions	-	-
Total	**122,111**	**300,745**
of which: current	122,111	267,793
of which: non-current	-	32,952
Total	**122,111**	**300,745**

The provisions include accruals to the provision for product warranties, mostly related to the sale of licences which have a legal warranty.

Changes in the provisions are as follows:

(€)	
31 December 2021	**300,745**
Accruals (+)	122,111
Releases (-)	(224,867)
Utilisations (-)	(75,878)
31 December 2022	**122,111**

The decrease is due to the utilisations and releases of the provisions during the year in line with the costs incurred for work performed under warranty or expired warranties.

23 NON-CURRENT FINANCIAL LIABILITIES: €10,104,841 (€0) CURRENT FINANCIAL LIABILITIES: €1,195,652 (€2,005,878)

(€)	31/12/2022		31/12/2021		31/12/2021	
	Non-current	Current	Non-current	Current	Variation	
Bank loans and borrowings	10,104,841	1,176,185	-	-	10,104,841	1,176,185
Other bank facilities	-	19,468	-	2,005,878	-	(1,986,410)
Total	**10,104,841**	**1,195,652**	**-**	**2,005,878**	**10,104,841**	**(810,326)**

Current financial liabilities nearly entirely comprise the credit lines to be repaid within one year and agreed with the lending banks in order to acquire 100% of RCS (more information is available below).
Non-current financial liabilities mostly comprise the portion of the loan repayable after 12 months disbursed by Crédit Agricole Italia S.p.A., the agent of a bank syndicate. The loan has a maximum drawdown amount of €45,000,000 and, at the reporting date, the company had only used the portion earmarked for the partial financing of the acquisition of the RCS Group (formerly Aurora) (Line A) of €12,500,000 recognised at an amortised cost of €11,281,926, of which €10,694,076 recognised under non-current financial liabilities and €1,176,185 recognised under current financial liabilities.

The loan agreement establishes that repayment of Line A principal is to take place in 11 six-monthly instalments as per the agreed repayment plan. The company also pays the interest accrued on the amounts drawn down and not repaid during each interest period at the 6M/360 Euribor plus a spread of 225 bps. The company has entered into a hedge for

the interest rate risk on the entire amount.
The spread added to the interest rate for each facility may increase or decrease every six months in line with changes in the net financial position/EBITDA (NFP/EBITDA) ratio, calculated using the consolidated financial statements or the interim consolidated financial statements, starting with a base ratio of 2x (the “financial covenant”). The company agreed to comply with the financial covenant and accepted that the lending banks and the agent bank may take the contractually-provided measures and remedies (including demanding repayment of outstanding amounts and interest) should it not comply.

Compliance with the financial covenant is checked every six months on a rolling basis (i.e., considering the figures for the previous 12 months) starting from those for the year ended 31 December 2022. The covenant has been respected.

In addition, the loan agreement establishes limitations to the company’s distribution of profits and/or dividends. Specifically, it may not distribute profits and/or dividends or pay any amount for whatsoever reason or in whatsoever form to its shareholders, except for payments due under commercial agreements and/or employment contracts (including, for example, as repayments of principal, interest or other charges on shareholder loans, including bond issues, or as a fee for services rendered and/or management fees) (each transaction is a “distribution”), unless all of the following conditions are met:

- the first distribution takes place after approval of the company’s separate financial statements at 31 December 2022;
- throughout the term of the loan agreement, each distribution shall not exceed 50% (fifty percent) of the accounting profit reported in the company’s separate financial statements for the year immediately preceding that in which the distribution is to be made;
- at the distribution date, no significant event has taken place and the distribution is not in itself a significant event (as defined in the loan agreement).

The remainder of the loan, which has not yet been drawn down, comprises the following credit facilities:

- a medium to long-term acquisition/capex cash facility of up to €25,000,000.00 (twenty-five million,00 euro) to be used for future investments and M&A transactions;
- a medium to long-term revolving cash facility of up to €7,500,000 (seven million, five hundred thousand,00 euro) to finance cash requirements of the company and its group.

The company takes decisions about financing and investing transactions in line with prudence and risk limitation criteria. It has not entered into speculative transactions. It has hedged financial risk, and specifically interest rate risk, by entering into two interest rate swaps in order to hedge the risk of fluctuations in the interest rates applied to its loans. The section on financial risk management provides more information about its hedges.

24 NON-CURRENT LEASE LIABILITIES: €1,061,686 (€1,563,517)

Current lease liabilities: €327,401 (€443,078)

(€)	31/12/2022		31/12/2021		31/12/2021	
	Non-current	Current	Non-current	Current	Variation	
Lease liabilities	1,061,585	327,401	1,563,517	443,078	(501,932)	(115,677)
Total non-current lease liabilities	**1,061,585**	**327,401**	**1,563,517**	**443,078**	**(501,932)**	**(115,677)**

The caption comprises non-current lease liabilities for office building, hardware and vehicles.

Current lease liabilities are recognised under current financial liabilities. More information is available in note 32 “Leases”.

A breakdown of all the financial liabilities at 31 December 2022 by contractual maturity is as follows:

€	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	After 5 years	Carrying amount at 31/12/2022
Bank loans and borrowings	1,176,185	1,698,599	2,243,376	2,306,170	3,856,695	-	**11,281,026**
Lease liabilities	327,401	576,084	269,447	216,154	-	-	**1,389,086**
Other bank facilities	19,468	-	-	-	-	-	**19,468**
Total	**1,523,053**	**2,760,285**	**2,243,376**	**2,306,170**	**3,856,695**	**-**	**12,689,580**

25 TRADE PAYABLES: €7,084,179 (€4,330,658)

(€)	31/12/2022	31/12/2021	Variation
Suppliers	6,145,625	4,068,230	2,077,395
Parents	694,810	262,427	432,383
Subsidiaries	243,743	0	243,743
Total	**7,084,179**	**4,330,658**	**2,753,521**

Trade payables include amounts due from Italian and foreign suppliers (€5,054,809 and €1,301,395, respectively). The balance comprises invoices to be received of €1,956,769 and payments on account of €1,113,250. Trade payables to parents refer to services provided by Elettronica S.p.A. mainly for canteen services and lease-related services for the leased building housing the company’s offices.

26 CURRENT TAX LIABILITIES: €320,122 (€580,261)

(€)	31/12/2022	31/12/2021	Variation
IRPEF	-	262,625	(262,625)
Other tax liabilities	320,122	317,636	2,486
Total	**320,122**	**580,261**	**(260,139)**

The decrease in this caption is due to the payment of the IRPEF (personal income tax) withholdings of €262,625 during the year.

27 OTHER CURRENT LIABILITIES: €1,939,428 (€1,132,867)

Other current liabilities include advances of €342,994 received for projects funded by the **European Commission**. The main project is ECYSAP (European Cyber Situational Awareness Platform), whose objective is to develop and implement innovative theoretical foundations, methods and research prototypes integrated towards providing a European operational platform for enabling real-time cyber situational awareness.

The caption also comprises other liabilities of €1,098,064, mostly consisting of amounts due to employees and directors' fees and revenue of €498,370 collected in 2022 but pertaining to future years.

28 GUARANTEES AND COMMITMENTS

At 31 December 2022, the company has the following guarantees and commitments:

- an advance bond of €70,000 issued by Creval in September 2018 for a contract with an end user in a Middle East country;

- a bid bond of €30,000 issued by Creval in October 2021 for participation in a call for tenders in a Middle East country.

The liens on equity investments given (or to be given) pursuant to the loan agreement signed on 29 March 2022 by the company and RCS ETM Sicurezza S.p.A. and a bank syndicate managed by Crédit Agricole Italia S.p.A. are described below.

- **RCS Group (formerly Aurora):** on 29 March 2022, the company, as grantor, pledged 100% of the share capital of Aurora S.p.A. to Crédit Agricole Italia S.p.A., Creval S.p.A., ICCREA Banca S.p.A. and Banca di Credito Cooperativo di Milano - Soc. Coop. (the "lending banks") to guarantee the correct, complete and timely compliance with all the present and/or future monetary obligations of itself and RCS ETM Sicurezza S.p.A. with the lending banks arising from the loan agreement signed on 29 March 2022 by the company and RCS ETM Sicurezza S.p.A. with the lending banks. This lien was transferred to RCS after the reverse merger completed on 15 November 2022;

- **RCS ETM Sicurezza lien:** on 29 March 2022, Aurora S.p.A., as grantor, pledged 100% of RCS ETM Sicurezza S.p.A. to Crédit Agricole Italia S.p.A., Creval S.p.A., ICCREA Banca S.p.A. and Banca di Credito Cooperativo di Milano - Soc. Coop. (the "lending banks") to guarantee the correct, complete and timely compliance with all the monetary obligations (to the extent specified in the related lien deed) of the company and RCS ETM Sicurezza S.p.A. with the lending banks arising from the loan agreement signed on 29 March 2022 by the company and RCS ETM Sicurezza S.p.A. with the lending banks;

- **Dars Telecom SL lien:** in May 2022, the pledging of a lien by the company and RCS ETM Sicurezza S.p.A., as grantors to Crédit Agricole Itali S.p.A., Creval S.p.A., ICCREA Banca S.p.A. and Banca di Credito Cooperativo di Milano - Soc. Coop. (the "lending banks") was finalised. The lien consists of all their investments held directly and indirectly in the subsidiary Dars Telecom SL.

In addition, on 30 September 2022, the following guarantees related to a contract with an end user in Pakistan extinguished by the foreign bank in November 2022 expired:

- letter of patronage for €2,000,000 issued by Elettronica S.p.A. in December 2018 for a credit line covering commercial sureties given to Unicredit S.p.A.;

- letter of patronage issued by Expert System S.p.A. to Unicredit S.p.A. in December 2018, confirmed by the deed of November 2020, for credit lines covering commercial sureties of €2,000,000 given to Unicredit S.p.A.;
- advance bond of €1,198,000 issued by Unicredit in December 2018 for a contract with an end user in a Central Asian country.

29 RELATED PARTY TRANSACTIONS

The company carries out transactions with related parties and, specifically, its parent and the RCS Group. These transactions are not atypical and/or unusual, take place at normal market conditions and comply with the related contract terms and payment terms.

The company's related party transactions are shown below:

(€)	31/12/2022	31/12/2021
Non-current financial assets	6,000	6,000
Contract assets	1,295,339	599,102
Trade receivables	9,559,843	4,464,820
Total	**10,861,182**	**5,069,922**
Percentage of total assets	**7%**	**12%**

Specifically, current financial assets (€6,000) relate to guarantee deposits for the lease contract. Contract assets (€1,295,339) and trade receivables (€9,559,843) relate to sales-related activities carried out with the parent (€5,524,590) and the RCS Group (€4,035,253) not yet collected at the reporting date. The increase of €5,791,260 is closely tied to the upsurge in business volumes seen by the company during the year.

(€)	31/12/2022	31/12/2021
Trade payables	938,553	262,428
Contract liabilities	165,279	10,000
Current lease liabilities	233,171	296,614
Non-current lease liabilities	964,971	1,509,436
Total	**2,301,974**	**2,078,478**
Percentage of total liabilities	**2%**	**5%**

Current and non-current lease liabilities (€233,171 and €964,971, respectively) relate to the lease payments for the office buildings leased from the parent. The contract liabilities (€165,279) represent the balance of progress payments in excess of the services rendered by the company, shown under liabilities in accordance with the IFRS. Trade payables (€938,553) mostly relate to the services provided by the parent (€649,810) and the RCS Group companies (€243,743).

(€)	2022	2021
Revenue	7,891,210	4,263,880
Percentage of **revenue**	14%	24%
Purchases, services and personnel expenses	(661,844)	(531,820)
Percentage of **costs**	2%	6%

The revenue and costs with the parent and the RCS Group are the balancing entries of the above assets and liabilities.

Fees of the directors, statutory auditors and independent auditors
The directors' fees include amounts received for their duties shown in the following table. Note 21 provides information about the incentive plan.

(€)	2022	2021
Statutory auditors' fees	52,000	50,450
Directors' fees	262,410	205,388

The independent auditors' fees amount to €40,000 for their audit services and €41,000 for other audit services (review of the condensed interim separate financial statements, audit of the reporting package for Elettronica's consolidation purposes and other attestation services)

30 LEASES

30.1 LEASES AS THE LESSEE

The company is a lessee in lease contracts as defined by IFRS 16.

RIGHT-OF-USE ASSETS

Right-of-use assets include:

(€)	31/12/2022	31/12/2021
Building	1,193,325	1,829,548
Hardware	78,489	122,386
Vehicles	117,012	80,582
Total	**1,388,827**	**2,032,516**

LEASE LIABILITIES

(€)	31 December	
	2022	2021
Due within one year	329,417	443,078
Due between one and five years	1,061,436	1,563,517
Total present value	**1,390,852**	**2,006,595**

AMOUNTS RECOGNISED IN PROFIT OR LOSS

(€)	2022	2021
Interest expense on lease liabilities	8,254	2,522
Depreciation	339,728	234,530
Total present value	**347,982**	**237,052**

AMOUNTS RECOGNISED IN THE STATEMENT OF CASH FLOWS

(€)	2022	2021
Finance lease payments	44,633	243,900
Total	**44,633**	**243,900**

EXTENSION OPTIONS

Some lease contracts include extension options that can be exercised by the company and/or the lessors. At the commencement date, the company assesses whether it is reasonably certain to exercise an extension option and reassesses this upon the occurrence of either a significant event or a significant change in circumstances.

30.2 LEASES AS THE LESSOR

The company has not agreed any lease contracts as the lessor.

31 OTHER INFORMATION

31 AUTHORISATION FOR PUBLICATION

The company's board of directors authorised the publication of these separate financial statements in its meeting of 23 March 2023. It also resolved to propose that the shareholders authorise the allocation of the entire profit for the year of €4,528,087 to retained earnings, as the threshold for the legal reserve has been reached.

32 EVENTS AFTER THE REPORTING DATE

As the conditions precedent were met, on 30 January 2023, the company signed the closing for acquisition of 55.33% of DIATEAM for €5.5 million, including any earn-out, thus extending its cyber security product portfolio to include cyber digital twin products. It funded the acquisition by using €3.2 million of the acquisition facility.

The acquisition agreement includes put and call options to allow the company to acquire 100% of DIATEAM by 2026.

On 9 February 2023, the company signed an important foreign three-year contract worth €9 million to provide decision intelligence systems to major institutional customers.
On 14 February 2023, the company was awarded contracts for the supply of its proprietary SIEM RTA model and for its verticalisation and integration to protect both government bodies and companies. These contracts are worth approximately €1.3 million.
On 2 March 2023, the company was awarded three important contracts by institutional customers in Italy and abroad worth roughly €5.7 million.

ON BEHALF OF THE BOARD OF DIRECTORS

(Domitilla Benigni)

(Emanuele Galtieri)