



ANNUAL ACCOUNTS 2018

Financial Statements

ENGINEERING INGEGNERIA INFORMATICA

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Deloitte & Touche S.p.A.
Via della Camilluccia, 589/A
00135 Roma
Italia

Tel: +39 06 367491
Fax: +39 06 36749282
www.deloitte.it

**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010**

**To the Sole Shareholder of
Engineering Ingegneria Informatica S.p.A.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Engineering Ingegneria Informatica S.p.A. ("Company"), which comprise the statement of financial position as at December 31, 2018, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the 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 Directors and the Board of Statutory Auditors for the Financial Statements

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 International Standards on Auditing (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 financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 management's 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 auditor's report to the related disclosures in the 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 auditor's 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as 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 art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of Engineering Ingegneria Informatica S.p.A. are responsible for the preparation of the report on operations of Engineering Ingegneria Informatica S.p.A. as at December 31, 2018, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Engineering Ingegneria Informatica S.p.A. as at December 31, 2018 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the financial statements of Engineering Ingegneria Informatica S.p.A. as at December 31, 2018 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Giovanni Cherubini
Partner

Rome, Italy
April 1, 2019

This report has been translated into the English language solely for the convenience of international readers.

Directors' report on the Financial Statements as of December 31, 2018

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I. Corporate Governance and Corporate Bodies

CORPORATE GOVERNANCE

The Company's Corporate Governance system and the Bodies and Offices are established to achieve maximum equilibrium between the needs for flexibility and timeliness in decision making, a high degree of transparency in dealings between the various centres of responsibility and the external entities, and the exact identification of roles and consequent responsibilities.

Since August 4, 2016, with resolution taken by the Company's Extraordinary Shareholders' Meeting, the Company adopted the traditional system instead of the one-tier one.

BOARD OF DIRECTORS

On August 4, 2016, after the resolution of the Company's Ordinary Shareholders' Meeting and following the resolution of the Board of Directors held on the same day, a new Board of Directors and a new Board of Statutory Auditors were elected and will remain in office until the approval of the financial statements as of December 31, 2018. The composition of Corporate Bodies is as follows:

Michele Cinaglia	Chairman
Paolo Pandozy	Chief Executive Officer
Armando Iorio	Director
Gabriele Cipparrone	Director
Giancarlo Rodolfo Aliberti	Director
Marco Bonaiti	Director
Emilio Voli	Director
Fabio Cosmo Domenico Cané	Director
Stefano Bontempelli	Director
Michele Quaranta	Director
Fabrizio Pagani	Director

BOARD OF STATUTORY AUDITORS

Rocco Corigliano	Chairman
Massimo Porfiri	Statutory Auditor
Patrizia Paleologo Oriundi	Statutory Auditor

DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Paolo Pandozy

SUPERVISORY BOARD

Roberto Fiore	Chairman
Spartaco Pichi	Member
Annalisa Quintavalle	Member

INDEPENDENT AUDITORS

Deloitte & Touche S.p.A.

II. Introduction and general information on operations

■ INTRODUCTION

The financial statements as of December 31, 2018 of the Company Engineering Ingegneria Informatica S.p.A. (hereafter “Engineering” or simply the “Company”) have been prepared, as they have since 2005, in compliance with the recognition and measurement criteria established under International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS), in addition to the IFRIC (International Financial Reporting Interpretations - Interpretation Committee) and previously named SIC (Standing Interpretation Committee) interpretations issued by the IASB (International Accounting Standards Boards) and endorsed by the European Union.

A number of estimates and assumptions were used in preparing these accounts and were consistently applied for all comparative periods presented, which affect the financial values reported therein. Where, based on management’s best estimate, these estimates and assumptions differ in the future from the actual situation, they will be changed in the period in which the circumstances arise. The above-stated valuations are founded on the reasonableness principle and take account of market practice, historic experience, the involvement of external consultants and market conditions.

The data relating to the net financial position is compared with that at the end of the previous year. Unless specified otherwise, the monetary quantities in the statements in the report are exposed in millions of Euros, the accounting ones and the ones in the note in full.

■ ALTERNATIVE PERFORMANCE MEASURES

The detailed description of the accounting principles, assumptions and estimates adopted is provided in the Explanatory Notes to the financial statements as of December 31, 2018, to which reference should be made. This report uses a number of alternative performance measures (APMs) not envisaged by IFRS accounting standards. These APMs are deemed as significant for measuring the operating performance and allow for a better comparability over time of the same results, albeit they are not a substitute to measures envisaged by the international accounting standards.

In particular, the following is highlighted:

- **Reported EBITDA** (“reported Earnings Before Interest, Taxes, Depreciation and Amortization”): alternative performance measures (APM), calculated by the Company as performance for the year, adjusted by the following items: (i) taxes, (ii) net financial income (charges) (including, inter alia, gains and losses on exchange rates), (iii) amortisation/depreciation, allocations (including, but not limited to the allocation to bad debt provision and to the provision for risks and charges, comprising allocations made for probable future losses on some orders). It is noted that reported EBITDA is not identified as accounting measure within the IFRS standards adopted by the European Union. As a consequence, the calculation criterion adopted by the Company and the Group might not be consistent with criteria adopted by other groups. Therefore, the balance obtained by the Company might not be comparable with the one calculated by the latter.
- **Adjusted EBITDA**: the APM calculated by the Company as reported EBITDA, adjusted by non-recurring income and charges that have a significant impact on the reported EBITDA. It is noted that adjusted EBITDA is not identified as accounting measure within the IFRS standards adopted by the European Union. As a consequence, the calculation criterion adopted by the Company might not be consistent with criteria adopted by other groups. Therefore, the balance obtained by the Company might not be comparable with the one calculated by the latter.
- **Standardised EBITDA**: the APM utilised by the Company for determining the covenants.
- **EBIT** (“Earnings before interest and taxes”): the APM, calculated by the Company as a result of the year, including the following items in the income statement: (i) “Net financial income (charges)” (including, inter alia, gains and losses on exchange rates) and (ii) “Taxes”. The Company deems that this is a useful indicator on its capacity to generate profit before financial management and tax effects.
- **Net Capital Employed** discloses the net total amount of non-financial assets and liabilities.
- **Net Working Capital** discloses the net total amount of non-financial, current assets and liabilities. It permits to evaluate the ability of the Company and of the Group to fulfil short-term commercial commitments through

current trade assets and, together with net fixed assets and the net capital employed, it also permits to evaluate the balance between utilisations and financing sources.

For a correct interpretation of APMs used by the Company, it is noted that they are determined based on financial statements and data analyses made in compliance with general and managerial accounts. The determination of the APMs is not governed by the reference accounting standards related to the preparation of Company and Group financial statements and, albeit they are inferred from financial statements, they are not subject to audit. Therefore, the APMs must not be considered as a replacement of indicators envisaged by the reference accounting standards. Moreover, by reason of the fact that they are not inferred from the reference accounting standards for the preparation of the financial statements, the methods to determine the APMs, used by the Group and the Company, might not be consistent with the methods adopted by other companies and therefore might not be comparable.

III. Market overview

■ ECONOMIC OVERVIEW

The IMF update on the world economy forecasts, issued in January 2019, stated that global expansion has weakened. Global growth in 2018 was estimated around 3.7 per cent, as envisaged in forecasts of the Ocean Economic Outlook (WEO) in October 2018, despite the weaker results in some economies, especially in Europe and Asia. The global economy should grow by 3.5% in 2019 and 3.6% in 2020, 0.2 and 0.1 percentage points below projections of last October.

Forecasts of global growth for 2019 and 2020 had already been reviewed downwards in the last WEO, partly due to the negative impact of tariff increases in the United States and in China, at the beginning of the year.

The International Monetary Fund reduced by 0.6%, from 1% in October, growth forecasts for Italy in 2019, maintaining a 0.9% growth for the following year. Estimates were reviewed downwards and are identical to those indicated in the economic bulletin of the Bank of Italy, 0.4% percentage points below estimates issued by the Government and already reviewed downwards in December. The cutback of IMF is included in the WEO update. Moreover, amongst the main global risk factors the report included not only Brexit, but also the Italian financial situation.

In the document, Italy is defined, together with Germany, as one of the factors that led, with the slowdown at end 2018, to review growth estimates downwards for the Eurozone and involved a 2% depreciation of the Euro between October and January. In 2019, in fact, the IMF reduced expectations not only for Italy, but for the entire Eurozone to 1.6% (from 1.9%) and maintained a 2.7% rate for the year 2020. Conversely, in the USA, growth estimates are 2.5% this year and 1.8% next year, by reason of the fact that, against a drop reported because the fiscal stimulus is failing and Fed rates are rising, estimates are supported by a “strong domestic demand”. The slowdown in the Italian and German GDP (1.3% for 2019) and in the French GDP (1.5%), amongst the protests of the yellow vests, affected the Eurozone.

■ THE ITALIAN ECONOMY

The slowdown in the international economy continued even in the last part of last year, especially hitting the industrial sector and the international demand.

In 2018, the Italian economy grew by 0.9%, a clear slowdown compared to +1.6% recorded in 2017. These data were highlighted by Istat which, according to more detailed figures, revised downwards GDP preliminary estimates (1%).

In January 2019, Istat stated that, in the fourth quarter of 2018, the Italian GDP showed a worsening for the second consecutive time, due to a new drop in domestic demand.

The labour market confirmed the framework of substantial employment stability, featuring slight improvements as regards unemployment.

The price deceleration trend is confirmed, conditioned by reductions in energy costs. The delta, with inflation in the Eurozone, started to widen again.

In 2018, the growth trend is confirmed for the IT segment, as already highlighted in Italy and in the world over the last two years. This is what is inferable from the Assinform “The 2018 digital in Italy” report:

“A generalized increase in demand is reported, even if with different thrusts in the various technological sectors. The components of Devices and Systems continued to grow at a lower speed than the market average (+1.5%), albeit with a strong resilience compared to the previous years. The Data Center systems recorded the lowest growth, slowed down by the migration to other software-defined platforms and Cloud architectures. The weight of the most innovative components grew; they are called Digital Enablers just because they allow to make new things. IoT, Cybersecurity, Cloud, Big Data, Web Services and Mobile Business had a double-digit growth, driving the entire market, starting from software and services”.

The ICT market is expected to reach Euro 55.6 billion in 2019, with a +0.4% growth in 2018 compared to the previous year and +0.8% growth in 2019, and is substantially in line with macroeconomic forecasts on the GDP performance in Italy (+1%).

IT market trends by product/service 2017 - 2019E - Values in Euro million and % change

	55,019.8	+0.4%	55,324.0	+0.8%	55,650.6		
TLC	20,607.0	-2.0%	20,193.4	-1.8%	19,820.9	TLC	
33,760.0	13,153.0	+1.0%	13,283.7	+1.6%	13,493.0	33,313.9	
	6,159.5	+6.3%	6,549.4	+6.5%	6,973.3		Mobile TLC
	3,501.4	+2.3%	3,582.4	+2.9%	3,684.6		Fixed TLC
	5,003.3	+0.2%	5,013.4	+0.5%	5,039.7		Management services
	6,595.6	+0.2%	6,611.8	+0.4%	6,639.1		Development services
							Software
							Hardware
IT						IT	
21,259.8						22,336.7	
	2017		2018 E		2019 E		

- Mobile TLC
- Fixed TLC
- Management services
- Development services
- Software
- Hardware

Analysis of the ICT market in Italy – Source Sirmi 2018

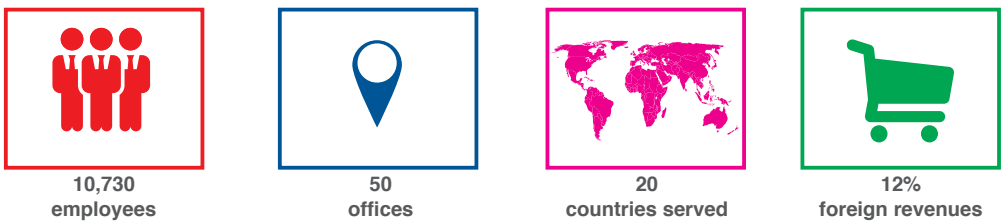
In evaluating Sirmi's analysis in detail, the IT market has an overall value of around Euro 22.3 billion in 2019. A growth is expected in both 2018 (+2.3%) and 2019 (+2.7% compared to the previous year), albeit with different dynamics, according to the various segments of products and services, involving all components.

IV. Group activities and operations

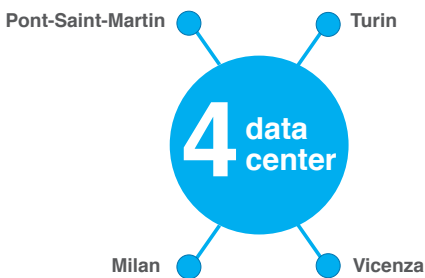
The company Engineering Ingegneria Informatica S.p.A. was established in Padua on June 6, 1980 and it is the Parent Company of a Group operating in Software and IT Services. Engineering is the leading Italian player of Digital Transformation.



With a network of 10,700 employees (including 6,900 Engineering Italia only), around 50 offices throughout Italy, the EU (Spain, Germany, Belgium, Serbia) and Latin America and 3 companies in the United States, the Group offers services, products and consultancy. The Group generates approx. 12% of revenues abroad and manages IT initiatives in over 20 countries with projects for the Industry, Telecommunications, Utilities, Finance and Public Administration sectors.



It is a player of primary importance in the markets of outsourcing and Cloud Computing, through an integrated network of four data centres located in Pont-Saint-Martin (AO), Turin, Vicenza and Milan. This is a system of services and technological infrastructures that ensure the highest standards for safety, reliability and efficiency.



an integrated **NETWORK**
for more than **400** clients

The Engineering's market consists of medium-large clients, both in the private (banks, insurance companies, industry, services and telecommunications) and in the public sector (Healthcare, local and central Public Administration and Defence).

Engineering plays a leadership role, at European level, in software research, coordinating a number of national and international projects through a network of scientific partners and universities across Europe. It develops Cloud computing solutions and operates in the Open Source community.

Engineering is the main software manufacturer for the Italian market, with a significant presence of its solutions at international level.

The Group applicative solutions cover a wide area of public and private markets:

- management of risk and compliance (GRACE);
- credit management (ELISE);
- corporate banking (INBIZ);
- bank insurance (EBAAS);
- billing and CRM for Utilities (Net@Suite);
- integrated solutions in the Health Care segment (AREAS);
- management system for documents and procedures (AURIGA);
- administration, accounting and personnel systems for Local PA (SICER);
- Mobile Payments platforms (MPAY);
- business intelligence analytics systems (KNOWAGE);
- predictive maintenance systems for manufacturing (DIVE).

These are object of continuous investments aimed at the adoption of the latest technologies and the upgrading of business models in relation to the markets, to which they are intended.

Around 30% of the revenues result from the sale of licences of its products in relation to maintenance and implementation contracts.

The Group's products are available under usage licences or service modalities based on Engineering's Cloud platform. This strong presence of proprietary solutions permits Engineering to stand out in the market and this is one of the main strong points with respect to competitors.

V. Operational overview

■ RESEARCH AND INNOVATION ACTIVITY

Engineering strongly believes that the main driver for the development of competition lies in Technological Innovation and Research. For this reason, since its establishment, it created a R&D Division able to support all market areas. This model is still applied today.

In 2018, the issue of Artificial Intelligence strongly affirmed itself and it is considered as an empowering component in any market. In particular, we are even more convinced that this issue should be faced with greater energy. Therefore, the projects submitted remarkably increased, as well as the collaboration agreements with the main research institutes that operate in this area. Moreover, we have promoted the attendance of one of our managers to the expert board on Artificial Intelligence, established by the Ministry of Economic Development.

The emphasis on Artificial Intelligence has not affected innovation roadmap priorities already defined, both at EU and national level. In this sense, R&D continues to be present in all emerging and potentially interesting fields for the Company; this in view of guaranteeing the development of skills and solutions supporting the future competition ability.

From an operational point of view, in 2018 we received the results of the participation in tenders issued at the end of 2017 by the Ministry of Education, University and Research, especially regarding the notice for the presentation of

industrial research projects and experimental development in the 12 specialization areas identified by the 2015-2020 PNR. All proposals of the Engineering Group were considered eligible and over 60% of these projects will be funded.

At European level, we participated to the EIT-Digital tender with around 15 proposals. The results of the tender confirmed the quality and interest of the proposals submitted. Engineering, in fact, resulted as the company with the greater amount of financing obtained and the success rate (over 50%) was better than the sector average.

Throughout the year, in line with the objectives set, the activities related to European PPPs, in which we are particularly active, continued. In particular, as regards FIWARE, over the year many members of the Foundation, including our Company, made their best efforts to commercially enhance the platform. This led to the commercial prospects and offers "FIWARE-based", both in Europe and in the rest of the world. As regards our Company, the most important pre-sales initiatives concerned important customers (Telco and Energy) in Uruguay and Lithuania. The Company also succeeded in making the city of Genoa a member of the Foundation and submitting the application of the city to host the FIWARE Summit in Spring 2019. During the year we have also taken part and won the PCP Select4Cities with our solution "FIWARE-based" called CityEnabler. The CityEnabler solution continued to be developed and it achieved an operating maturity and offer level to be included in the commercial proposals of Engineering. This initiative was not concluded; it is in fact in line with statements made on Artificial Intelligence. The next step will be the one of equipping the infrastructure with a "smart" drive, while maintaining its "FIWARE-based" nature.

The Company took part in various tenders with the submission of over 70 new project proposals. For both types of tender, in line with the outcome of the last few years that confirm the excellence of our proposals and the Company's recognition and credibility in the research field, we expect success rates higher than the average both at National and European level.

The participation to the tender launched by the Ministry of Economic Development and called "Fabbrica intelligente, Agrifood e Scienze della Vita" is worth mentioning. It envisaged collaboration projects, for the amount of Euro 5-40 million, where an interesting collaboration might be possible with the Region, with the aim of signing an agreement between Ministry, Regional Administration and companies.

Lastly, in 2018, a financing application was filed for funds assigned to support innovation of the European Investment Bank. The application, starting from projects with greater innovative value that are currently underway and/or are envisaged by the Company, consists in a detailed investment plan which, for the 2018-2020 three-year period, has an overall economic value of over Euro 120 million.

MARKET PERFORMANCE

■ FINANCE

The results, achieved in 2018, will confirm the growth trend over the last few years, in terms of volumes and profitability. The basic elements in this consolidated trend are:

- the prompt interpretation of dynamics linked to regulatory and economic scenarios;
- the proactive offer of solutions that meet regulatory and business requirements, even more careful to the evolution of relations between incumbent and fintech, as well as the respect of rights of final users;
- the operating efficiency, resulting from a proximity model to customers, which will benefit from specialistic skills, sleek organization and standardised processes.

In terms of business strategy, the Finance General Management accelerated the adoption of the bi-modal IT model, in view of combining the continuity of traditional activities with the thrust in terms of innovation.

This model was applied in various contexts:

- Tradition
 - implementation of a number of project initiatives, including those related to:
 - new standards, like Anacredit and IFRS 9;
 - integration of proprietary solutions in the Credit area with leading national customers;
 - completion of the evolution of the Corporate Performance Management;
 - acquisition of important development opportunities on the market of insurance companies.

- Innovation
 - consolidation of innovative application architectures, which enable the development of scalable and flexible solutions, as well as the streamlining of development, operating and maintenance costs;
 - implementation of natively digital solutions in fields including Corporate Banking, Payment Systems and Data Governance;
 - optimization of transformation processes of legacy solutions, in micro-service applications, through the selection of the best architectural patterns;
 - elaboration of specific proposals concerning RPA and Machine Learning, in collaboration with corporate centres;
 - start-up of a preparatory phase for the definition of a competitive offer regarding Advising.

In the general strategy framework, the role that the Solutions & Services Management plays in managing the relations with Supervisory Boards and Authorities is particularly relevant. The management supervises the portfolio of proprietary solutions, coordinates the supply of the main application services and actively participates in discussion tables on issues related to architectural, applicative and business innovation.

■ PUBLIC ADMINISTRATION

The Company operates in the PA market both at central and local level (Group companies) and in the Healthcare segment, with a wide range of leading solutions in the market.

As regards Public Administration, the challenge is to continue and promote Impresa 4.0 programmes, boost digitalization in PAs, launch new programmes at local level to fill up the gap of digital competences, strengthen start-ups and, given SMEs' occupational and productive importance, foster their digitalization in order to allow them to be part of increasingly solid and competitive chains. Public Administration is undoubtedly a complex machine, but the design and digitalization of processes are the only way to perform a real spending review and achieve real efficiency.

The Public Administration Digital projects have started, but they are not yet in line with the expected digital identity, open data, e-government, cancellation of digital divide, electronic payments, digital health and justice, education & research, smart cities, digital platform: these are the main elements that are required to evolve towards Digital PAs. Less than two years from the main time target (2020), the progress of the various fields is very heterogeneous, i.e. SPID (Digital Identity system), Open Data, ANPR, FSE (Health-electronic folder). During 2018, the Division successfully performed various vertical commercial campaigns in the Health segment and on specific issues such as GDPR and SIOPE+, which allowed to remarkably improve the performance of the management and will continue also the next year.

Moreover, the foundations have been laid for becoming suppliers for the two RTI partners of the main Consip framework agreements that affect the Health market (SGI and SPCCloud), thus opening further perspectives for 2019.

Various customers consolidated their partnership relations with Engineering through multiannual contract renewals and by winning important tenders for the remaking of IT systems.

As regards successful commercial actions, it is worth noting the transition to Cloud of ASL BAT (Puglia) IT systems and, as regards the Campania region, of INT Pascale and SIRES 118.

As regards innovative technologies, cloud and data analytics services will report the main growth, which might be around 11% of the overall business in 2019.

CENTRAL PUBLIC ADMINISTRATION

The year 2018 was characterised by a good performance; the contribution margin target was centred. This result was achieved thanks to the efficient delivery and quality in the production of software on projects. This allowed for the successful and rapid overcome of final tests. All activities, concerning both application and infrastructures, were carried out with almost unanimous satisfaction by customers. The adoption of new technologies (multi-cloud, micro-service architecture, Agile development and Design Thinking) has become more and more important for the projects underway.

2018 witnessed another year of increase, compared to the previous year, continuing the consolidation of the Company's position in this market.

After a year of great difficulties, the Northern area underwent a relevant reorganization of the commercial structure, with the entrance of 3 new Trade Operators. Last year's results reported a good performance, which allowed for overcoming the budget in terms of both first margin and contribution margin.

In the Veneto region, Engineering won the tender for the realization of the Rete Oncologica Veneta (Oncological Network of the Veneto Region), which foresees the implementation of the centralized, regional IT system, aimed at managing the diagnostic, therapeutic and care course of the oncologic patient.

Moreover, the changing needs of the market are more evident and the types of tenders launched shows a centralization of the solutions at regional level. Cloud technologies are less and less scaring, and design solutions are evolving in this sense.

Always within the SGI Consip Convention and in the first months of 2019 already, concrete founding has been cast that will allow Engineering to gain a positioning in hospitals not yet included in the Company's customers portfolio (new names such as ASL Viterbo for the realization of the new Administrative-Accounting System and Policlinico Umberto I in Rome concerning the re-engineering process of IT systems).

All installations already present on the territory are still maintained, together with the gradual further implementation of specific solutions for hospitals.

In Southern Italy regions, the market reported the same trends recorded in the rest of the country, characterised by the consolidation of customers, through important renewals and the enlargement of the installations thanks to an important upselling campaign.

For this purpose, while continuing initiatives started the year before on the transfusion market, with the migration of customers to the new version of the Eliot software, the year 2018 was characterized by the winning of the tender launched by the Basilicata Region for the new transfusion information system of customers within the SSR.

■ INDUSTRY & SERVICES

Digitalization also characterized the Industry & Services market. To this purpose many technological investments were addressed to all the various areas of the corporate business development cycle.

Over the last two years, Industry & Services envisaged significant investments to complete the range of products and, given our managerial competence accrued at production and plant levels, we are able to offer the market an integrated view of the wide range of digitalization-related projects.

Investments, in fact, allowed us to complete the offer, also with proprietary solutions which, together with an even greater "cultural" awareness and favoured by organizational initiatives on our structure, started a transformation of our "approach" to customers. Our approach is no longer that of a technological system integrator, but rather a partner in transformation, based on our implementation capacities.

This transformation has already led, in 2018, to an increase in revenues and to the first positive effect on profitability as well, which will continue in the future.

Another positive sign is the growth, in quantity and quality, of international projects. In this area, we have continued to accompany our customers in the projects abroad, but above all we have proven our ability to acquire new customers directly from abroad, as competitors of the main international players. Our presence in various regions, above all United States and Brazil, represent a sure advantage for this process.

The automotive segment has given a special growth contribution to the market in which, despite difficulties reported in this segment, we have achieved a stable and effective presence, above all in the manufacturing area. In the infrastructure area, we have cast the basis for even more qualified international projects, also thanks to the increased trust relation with the main partners that are operating abroad to build and manage large infrastructures dedicated to transportation.

In 2018, the Telco & Media Division grew beyond expectations, overcoming the targets of revenues and contribution margin.

All offer of business line areas reported a growth:

- Revenue Sharing services, including Mobile Payment, Centro Stella, Premium and Cloud Gaming services;
- Application Development & Maintenance services, thanks to the start-up of activities for the areas DWH, ERP and Portals for the TIM customer and the start-up of BSS and OSS activities for the new Sparkle customer;
- System Integration projects for the realization and integration:
 - platforms concerning TIM per-paid services to enable the migration to the new Huawei-based Rating & Charging system;
 - micro-service, multichannel back-end platform within the BSS digital transformation for TIM customers;
 - Data Retention and Portale Magistratura platform for the Tiscali customer;
 - insurance and Billing OSS platform for the Open Fiber customer.
- Network Operations services, thanks to the significant growth regarding the Vodafone customer, due to the winning of some important tenders.

The Division has strived to foster growth in 2019 as well, and obtained the following successes:

- award of the Open Fiber's tenders on Application Development & Maintenance;
- award of the tender on Application Management in BT Italia;
- start-up of some pilot projects for the transformation and consolidation of TIM's Data Centers.

■ UTILITIES

In 2018, the Energy & Utilities market of the Engineering Group reported a 7% growth in volumes, thus confirming itself as one of the main players in this market thanks to the success of its Net@ and OverIT proprietary solutions, that have been available for a year now in the Cloud version, and to the increased volumes in the projects related to Enel. The completion of investments on the Net@2A product also enabled the start-up of a campaign for the projects in the water service segment.

The year 2018 also witnessed Engineering as selected primary partner to support customers in the digital transformation and innovation processes. The Division widened the support activities to customers in the digitalization process, while completing projects based on Cloud and Big Data instruments.

The consolidated experience of utilities personnel permitted to confirm the presence, in all sectors of the energy production segment, while widening the excellence areas on Billing, Meter-to-Cash, Work Order Management, Field Force Management and CRM processes.

The strict collaboration and synergy implemented on all Group companies (primarily with Engineering D.HUB S.p.A., OverIT S.p.A. and WebResults S.r.l.) allowed to complete the positioning on the market with cutting-edge solutions in the Managed Services, Sales and Client Management areas.

VI. Personnel

■ WORKFORCE AND TURNOVER

As of December 31, 2018, the Company workforce with indefinite-term contracts numbered 6,907, of which only 91 with temporary contracts.

The turnover recorded in overall 1,193 hirings, including 585 persons from mergers, occurred during the first half 2018, of the two subsidiaries Infogroup – Informatica e Servizi Telematici S.p.A. (477 employees) and Infinity Technology Solutions S.p.A. (108 employees), while dismissals amounted to 358.

Some detailed figures are provided below, related to 2018, with reference to the Company workforce:

- graduated people total 58%;
- women totalling 33.37%;
- the average age is 43.95;
- the number of executives was equal to 4.4%;
- employees with Super Management/Management qualifications total 23.64%.

■ TRAINING

During 2018, 384 different editions of training courses were held in the classrooms of the IT & Management Engineering Academy “Enrico Della Valle”, an increase of 6.9% with respect to 2017.

The educational activities involved about 4,804 participants, totalling 16,323 man-days of classroom training (+11.5% compared to 2017).

Thanks to the corporate Learning Management System (LMS) FORENG, the various initiatives of remote training through wbt and webinars, available to Group employees are to be mentioned. This led to over 4,500 accesses to the various e-learning training courses and over 1,500 hours of webinars.

This important figure proves the evolution of the Group training model aiming at a better integration between training in class and e-learning, in view of better employing distinctive characteristics of each educational modality.

Amongst the number of training initiatives performed during the year, the following are worth mentioning:

- the start-up of 4 full immersion residential training courses, of around 8 weeks each, aimed at hiring 80 new university leavers within specializations of Java Developers, Healthcare Consultant Specialists, Business Analysts and Microsoft System Administrator Specialists. These training paths were characterized by an innovative educational methodology, which envisaged a theoretical treatment of topics, constantly accompanied and completed by practical laboratory training and illustrations of use cases and existing projects. Weekly meetings with the Company's senior engineers were also organized, who presented the pupils real cases and best practices in use in the Company's projects with a high degree of technological innovation;
- the production and dissemination, through the corporate LMS, of e-learning training courses, addressed to all Group employees on statutory and general interest topics such as the adoption of the new communication, collaboration and sharing tools and the corporate Quality System, declination of the Model called “Law 231”, the legislative novelties on Privacy. These educational programmes are usable at any time, thus permitting to support the organisational change of the Company, and ensuring the effective wide spreading of key contents;
- the didactic activities, integrated by training in class, were aimed at obtaining professional certificates for the Group staff on the main technologies and methods in the IT world. Through these training actions, in 2018, Group employees successfully passed over 600 exams and obtained prestigious certifications such as PMP, ITIL, SCRUM, Amazon, CBAP, Prince2, Microsoft, Oracle, SAP, Cisco, VMware and others. These results were possible due to the accreditation of the School of Ferentino as official Testing Center and the continual refinement of the specific intensive exam preparation processes;
- the company induction program which benefits the young new employees with training contracts and structured into specifically residential training courses whose objective is to illustrate the history, values and foundational principles of the “Engineering” culture in addition to developing interpersonal and teamwork skills. In 2018, 380 people took part in the initiative, which envisaged training courses during the first and second year of apprenticeship;
- of particular note was the training activity completed within the external entities, which involved over 360 participating employees within training courses and conferences in Italy and the EU; its themes were Methodological, Technological, Project Management and foreign languages.

VII. Outlook

The results for the year 2018, with all strongly growing economic indicators, overcame the budget forecast indicated by the management and have laid foundations for the strengthening of the Company in all the markets in which it operates.

The issues that will drive the growth within the Company in 2019 will include:

- projects acquired in the second half of 2018, in the Local Public Administration;
- enhancement in the Smart city market of acquisitions made between two years (INF.OR. S.r.l. and Municipia Mobilità S.r.l.);
- development of our digital platform (Digital Enabler);
- the leadership acquired with recent acquisitions in the field of safety and management identity;
- trading of our main solutions in the cloud modalities;
- the even stronger positioning with projects and solutions in the market of utilities;
- the acquisition of new important customers in the Telco area in Italy and Brazil;
- the strong growth in the manufacturing market, especially in the design (PLM) and automation (MES) areas;
- an increasing positioning in the automation and safety area for transportation and infrastructures.

VIII. Financial highlights

The main financial data related to the year 2018 are show hereunder compared with the restated previous year, as described hereunder.

■ KEY RESULTS

Description	31.12.2018	31.12.2017	(in millions of Euros)	
			Delta yoy	
			Absolute	%
Total revenues	897.3	767.4	129.9	+16.9
Net revenues	867.1	736.9	130.2	+17.7
Adjusted EBITDA (*)	97.4	76.3	21.2	+27.7
% of net revenues	+11.2	+10.4		
EBITDA	87.9	67.2	20.7	+30.8
% of net revenues	+10.1	+9.1		
EBIT	53.0	48.2	4.8	+10.0
% of net revenues	+6.1	+6.5		
Net profit	35.5	34.2	1.2	+3.5
% of net revenues	+4.1	+4.6		
Shareholders' equity	616.5	572.4	44.1	+7.7
Net debt	(86.0)	(153.0)	67.0	-43.8
% debt/equity	+13.95	+26.7		
ROE % (N.P/N.E.)	+5.8	+6.0		-3.9
ROI % (EBIT/N.C.E.)	+7.5	+6.6		+13.6
No. of employees	6,907	6,072	+835	+13.8

(*) Adjusted EBITDA refers to the EBITDA results gross of Stock Option costs.

Total revenues came to Euro 897.3 million, a 16.9% increase compared to 2017 (Euro 767.4 million).

Net revenues, equal to Euro 867.1 million, reported 17.7% increase compared to 2017 (Euro 736.9 million).

Adjusted EBITDA stood at Euro 97.4 million, up by Euro 21.1 million compared to the previous year (Euro 76.3 million). It decreased to Euro 87.9 million (reported EBITDA) after accounting of non-recurring charges related to the figurative cost of Stock Options, equal to Euro 9.5 million, pursuant to the IFRS 2 standard.

EBIT stood at Euro 53 million, recording an increase of Euro 4.8 million compared to 2017, and included both amortisation/depreciation amounting to Euro 29 million, and allocations totalling Euro 5.9 million, both increased with respect to the previous year. The analysis of item "Amortisation and depreciation" will be described in further detail hereunder.

Net profit amounted to Euro 35.5 million as of December 31, 2018.

The net financial position as of December 31, 2018 reports a total balance of Euro -86 million, with an improvement of Euro 67 million compared to 2017, year in which the total amount was Euro -153 million. The reasons for this change are better described in the following paragraphs herein and in the Explanatory Notes. The Alternative Performance Measures, reported EBITDA and adjusted EBITDA, are calculated as follows:

(in millions of Euros)

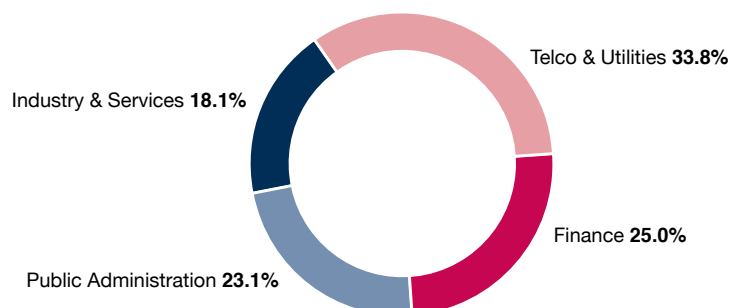
Description	31.12.2018	31.12.2017
Net profit/(loss)	35.5	34.2
Taxes	16.4	4.2
Financial income/(expenses) from investments	1.1	9.8
Amortisation/depreciation and write-downs	34.9	19.0
Reported EBITDA	87.9	67.2
Non-recurring expenses related to figurative costs of Stock Options	9.5	9.0
Adjusted EBITDA	97.4	76.3

The detail of revenues, apportioned by market, are shown hereunder. Direct revenues and costs are allocated according to the relevant sector. Other revenues or income and central structural costs, not specifically identifiable to markets, are allocated in relation to the contribution margin.

(in Euros)

Description	31.12.2018		31.12.2017		change
	%		%		%
Total revenues					
Finance	216,577,272	25.0%	142,348,637	19.3%	+52.1
Public Administration	199,972,705	23.1%	199,411,417	27.1%	+0.3
Industry & Services	156,598,717	18.1%	140,041,710	19.0%	+11.8
Telco & Utilities	293,916,453	33.8%	255,080,294	34.6%	+15.2
Net revenues	867,065,147	100.0%	736,882,058	100.0%	+17.7
Other revenues	30,244,918		30,482,299		-0.8
Total revenues	897,310,065		767,364,357		+16.9

■ NET REVENUES 2018



■ OPERATING EXPENSES

(in Euros)

Description	31.12.2018	31.12.2017	Delta yoy	
			Absolute	%
Personnel costs	401,321,532	349,457,747	51,863,785	+14.8
Service costs	392,184,617	336,437,630	55,746,987	+16.6
Raw materials and consumables	12,005,514	9,528,056	2,477,458	+26.0
Depreciation, amort. and allocations	34,948,004	19,078,307	15,869,697	+83.2
Other costs	3,882,910	4,709,701	(826,790)	-17.6
Total operating expenses	844,342,577	719,211,441	125,131,136	+17.4

Overall operating expenses increased by approx. Euro 125.1 million, compared to 2017, to be attribute primarily to:

- the increase of personnel costs, in the amount of Euro 51.8 million (+14.8%);
- service costs of Euro 55.7 million (+16.6%).

Personnel costs increased due to the hiring, less leaves, of 835 resources, including 585 from subsidiaries merged during the year. For further details on personnel, reference is made to paragraph VI of this section on personnel.

Service costs refer mainly to professional resources used in our production cycle, as flexibility element, and they increased proportionally to the increase in revenue.

The increase in costs for raw materials and consumables is strictly connected to resale activities.

The increase in item “Depreciation, amort. and allocations” is due primarily to depreciation/amortisation recorded in the Assets, identified following measurements at fair value of assets and liabilities of companies acquired and merged into Engineering, pursuant to IFRS 3, whose details are reported in section 1.2 of the Explanatory Notes and partly to the allocation (Euro 5.1 million) to reorganisation and restructuring transactions that envisage the dismissal of employees.

■ OPERATING PROFIT AND NET PROFIT

(in Euros)

Description	31.12.2018	31.12.2017	Delta yoy %
Operating profit after depreciation/amortisation (EBIT)	52,967,488	48,152,916	+10.0
Financial income (expenses)	(848,103)	(8,675,273)	-90.2
Income (expenses) from investments	(225,475)	(978,112)	-76.9
Profit before taxes	51,893,910	38,499,531	+34.8
% of net revenues	+6.0%	+5.2%	
Income taxes	16,428,328	4,249,601	+286.6
Tax rate	+31.7%	+11.0%	
Net profit	35,465,582	34,249,930	+3.5
% of net revenues	+4.1%	+4.7%	

The profit before taxes, amounting to Euro 51.9 million, includes the item “Financial income/(charges)” and “Income/(charges) from investments”. For details, reference is made to paragraphs 40 and 41 of the Explanatory Notes.

The net profit, following the allocation of taxes, was equal to Euro 35.5 million.

The tax rate stood at 31.7%. We recall that last year the tax rate was much less due to the fact that the claim on ACE, resulting from the reverse merger of Mic Bidco S.p.A., was upheld.

IX. Statement of financial position

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The cash flow statement presented below shows the cash flows for the Company according to the direct method. The cash flow statement is presented, as established by IAS 7, considering the assets and the liabilities of the companies acquired and/or sold and allocated to the relevant investing activity cash flow accounts. Only current cash and cash equivalents are thus shown.

(in Euros)		
Description	31.12.2018	31.12.2017
Cash flow from operating activities		
Revenues from sales of products /services - third parties	911,969,301	905,663,459
Revenues from sales of products /services - Group	7,924,576	15,318,208
Purchase for goods and services - third parties	(347,686,257)	(343,114,082)
Purchase for goods and services - Group	(87,999,300)	(57,980,105)
Personnel costs	(401,246,701)	(356,930,534)
Interest received from operating activities	374,812	241,659
Interest paid for operating activities	(76,051)	(233,156)
Exchange differences	(12,033)	(68,404)
Income tax payments and reimbursements	(13,001,525)	(63,060,277)
Cash pooling	(1,281,266)	(14,102,520)
A) Total cash flow from operating activities	68,965,556	85,734,249
Cash flow from investing activities		
Sale of tangible fixed assets	57,463	944
Purchase of tangible fixed assets	(3,079,561)	(3,249,400)
Purchase of intangible fixed assets	(962,200)	(1,732,832)
Purchase of investments in subsidiaries	(5,251,458)	(96,721,424)
Monetary contribution from merger	8,418,958	85,659
Sale of investments in subsidiaries	246,843	
Purchase of business unit	(616,629)	(456,695)
Purchase of other investments and securities	(837,560)	(423,126)
Sale of other investments and securities		20,431
Dividends received	18,750	49,048
B) Total cash flow from investing activities	(2,005,393)	(102,427,396)
Cash flow from financing activities		
New borrowings	55,100,327	292,341,446
Repayment of borrowings	(147,356,972)	(384,389,861)
Loans disbursed/received to/from Group companies	(1,550,000)	(3,923,000)
Loans repaid/collected by Group companies	329,312	1,600,000
Interest received for financing activities	122,173	
Interest paid for financing activities	(2,790,900)	(4,762,200)
C) Total cash flow from financing activities	(96,146,061)	(99,133,614)
D) = (A+B+C) change in cash and cash equivalents	(29,185,898)	(115,826,761)
E) Cash and cash equivalents at beginning of year	181,943,568	297,770,328
F) = (D+E) cash and cash equivalents at end of year	152,757,670	181,943,568

(in Euros)		
Reconciliation of cash and cash equivalents	31.12.2018	31.12.2017
Net cash at beginning of year	181,943,568	297,770,328
Cash and cash equivalents	181,949,682	297,784,780
Bank overdrafts	(6,114)	(14,452)
Net cash at year end	152,757,670	181,943,568
Cash and cash equivalents	152,757,720	181,949,682
Bank overdrafts	(50)	(6,114)

At year end, cash and cash equivalents amounted to Euro 153 million, with a decrease of Euro 30 million, compared to the previous year. The cash flow from operating activities (Euro +69 million) entirely covered investment requirements for the period (Euro -2.1 million) and partly covered the negative cash flows from financing activities (Euro -96.1 million), mainly due to the balance between the disbursement of loans and the repayments of the credit lines used.

■ NET FINANCIAL POSITION

The net financial position stood at Euro -86 million, up compared to the end of 2017 (Euro -153 million).

(in Euros)		
Description	31.12.2018	31.12.2017
Cash	14,772	11,761
Other liquid assets	152,742,898	181,931,807
Cash and cash equivalents	152,757,670	181,943,568
Current financial receivables	0	0
Current bank payables	(50)	(6,114)
Current borrowing	(52,874,803)	(92,196,979)
Other current financial payables	(11,871,370)	(13,114,626)
Current borrowing	(64,746,223)	(105,317,719)
Net current financial position	88,011,447	76,625,849
Non-current borrowing	(166,043,961)	(220,271,499)
Other non-current payables	(7,980,210)	(9,339,139)
Non-current borrowing	(174,024,171)	(229,610,638)
Net financial position	(86,012,724)	(152,984,789)

■ CENTRALISED TREASURY

The presence of important credit lines, the now consolidated adoption of cash-pooling and an appropriate management of liquid funds have ensured adequate coverage of financial needs.

Subsidiaries under the cash pooling regime used this instrument when, during the year, they had to cover financial commitments that exceeded their liquidity. The other companies acted independently or, for special situations, they used loans granted on a direct line by the Parent Company. In all cases, these companies had the chance to have facilitated access to the liquidity of the Parent Company at rates which could not have been achieved independently on the market. The Group's good rating (I6) and the ongoing dialogue and discussion with the various banks allowed us to take advantage of the best conditions offered based on real need and to keep financial charges as low as possible. All this was translated into the optimal allocation of financial resources within the Group and the maximised efficiency in managing the working capital, as well as into reduced financial charges.

The cyclical trends in cash inflows, which characterizes the current management together with periodical non-recourse factoring transactions, limited short-term procurement transactions. In particular, hot money transactions were agreed in the first half-year, for which a weighted annual interest rate, of 0.0514%, was paid against an average short-term exposure of around Euro 23 million. Receivables factored through non-recourse factoring transactions, completed every quarter, amounted to a total of around Euro 156 million. Factoring companies were granted an average rate of 0.2950% for commissions and interest related to these transactions.

No other requests or supplies of new medium/long-term loans were filed, despite some companies were acquired and technological investments were made. The loans in place were repaid for a total amount of around Euro 47.2 million for principal and around Euro 2.7 million for interests at an average rate of 0.9013%. As at December 31, 2018, the residual amount totalled Euro 222.3 million, with around Euro 52.9 million that will be reimbursed in 2019.

The above also shows the Company's care and attention cast in management of resources, as well as inflows and outflows to maintain an efficient structure of the working capital, and confirms its ability to generate cash flows that are not only sufficient to remunerate and repay the debt, but that also indicate the ability for sustainable development and are one of the objective units to measure its performance.

■ WORKING CAPITAL

The net working capital increased by Euro 13.1 million compared to 2017 (+8.2%), amounting to Euro 173.9 million.

The current assets increased by 10.7% while current liabilities increased by 11.6% due to improved management of payment terms for trade payables.

Compared to the previous year, the item "Deferred contract costs" was reported pursuant to IFRS 15 "Revenue Recognition".

(in Euros)

Description	31.12.2018	31.12.2017	Change	
			Absolute	%
Current assets				
Inventories and work in progress	133,119,480	112,119,795	20,999,685	+18.7
Deferred contract costs	3,076,943		3,076,943	+0.0
Trade receivables	483,990,269	430,976,988	53,013,281	+12.3
Other current assets	40,367,791	53,651,863	(13,284,073)	-24.8
Total	660,554,483	596,748,647	63,805,836	+10.7
Current liabilities				
Trade payables	(355,568,776)	(321,264,117)	(34,304,660)	+10.7
Other current liabilities	(131,004,135)	(114,645,609)	(16,358,526)	+14.3
Total	(486,572,911)	(435,909,726)	(50,663,185)	+11.6
Net working capital	173,981,572	160,838,921	13,142,651	+8.2

(in Euros)

Description	31.12.2018	31.12.2017	Change	
			Absolute	%
Property, plant and equipment	26,631,704	24,399,287	2,232,417	+9.1
Intangible assets	518,335,033	469,387,496	48,947,537	+10.4
Goodwill	44,648,340	45,084,971	(436,631)	-1.0
Equity investments	142,496,095	202,090,833	(59,594,738)	-29.5
Fixed assets	732,111,172	740,962,587	(8,851,414)	-1.2
Short-term assets	660,554,483	596,748,647	63,805,836	+10.7
Short-term liabilities	(486,572,911)	(435,909,726)	(50,663,185)	+11.6
Net working capital	173,981,572	160,838,921	13,142,651	+8.2
Other non-current assets	19,243,196	26,731,910	(7,488,714)	-28.0
Post-employment benefits	(52,195,439)	(47,253,132)	(4,942,306)	+10.5
Other non-current liabilities	(170,643,262)	(155,894,204)	(14,749,058)	+9.5
Net capital employed	702,497,240	725,386,081	(22,888,842)	-3.2
Total shareholders' equity	616,484,516	572,401,292	44,083,224	+7.7
(Availab.)/Fin. indebtedness M/LT	174,024,171	229,610,638	(55,586,466)	-24.2
(Availab.)/Fin. indebtedness ST	(88,011,447)	(76,625,849)	(11,385,598)	+14.9
(Availab.)/Fin. indebtedness	86,012,724	152,984,789	(66,972,065)	-43.8
Total sources	702,497,240	725,386,081	(22,888,841)	-3.2

X. Significant events during the year

The significant events are detailed below:

- on January 1, 2018, the company Infinity S.p.A., acquired in 2017, was merged into the Parent Company with retroactive effect as of January 1, 2018;
- on February 14, 2018, the Extraordinary Shareholders' Meetings of Engineering Ingegneria Informatica S.p.A. and Infogroup – Informatica e Servizi Telematici S.p.A., resolved on the merger by incorporation proposal of Infogroup – Informatica e Servizi Telematici S.p.A. into Engineering Ingegneria Informatica S.p.A.;
- the merger by incorporation of Infogroup – Informatica e Servizi Telematici S.p.A. into Engineering Ingegneria Informatica S.p.A. became effective on May 1, 2018;
- on July 2, 2018, the Parent Company acquired a further 2.48% of the subsidiary Engineering USA Inc.; its equity investment is now 68.48%;
- on August 2, 2018, the Parent Company acquired the remaining 9% of the subsidiary WebResults S.r.l.; now the company is entirely owned;
- on August 2, 2018, the Parent Company acquired 8.5% of the interests of the subsidiary Sogeit Solutions S.r.l.; its equity investment is now 68.5%.

XI. Shareholders and treasury shares

The whole share capital of Engineering Ingegneria Informatica S.p.A. is held by Mic Newco S.p.A..

With respect to provisions set out by Article 2497 bis, paragraph 5, of the Italian Civil Code, it is underlined that, during the year, the Company had no relations with Mic Newco S.p.A..

■ TREASURY SHARES

At the date of approval of this financial report, no treasury shares are owned by the Company.

XII. Subsequent events to the year-end

The main events occurred after the reporting date are described hereunder:

- on January 1, 2019 Engineering Ingegneria Informatica S.p.A. changed its registered office in Piazzale dell'Agricoltura 24 – 00144 Rome;
- on January 11, Engineering Ingegneria Informatica S.p.A. subscribed the last survey deed related to the purchase of the Dekra S.r.l. BU, for which the second and the last instalments were paid, amounting to Euro 535,465;
- with deed of January 14, 2019, Engineering Ingegneria Informatica S.p.A. purchased a further 31.5% of the share capital of Sogeit Solutions S.r.l., thus owning the entire share capital of the company and becoming its Sole Shareholder;
- on January 15, 2019, with Consorzio Agrario del Nordest Soc. Coop. and ESRI S.p.A., Engineering Ingegneria Informatica S.p.A. established a new limited liability company, with registered office in Verona, whose denomination is Terram and holding 40% of the share capital. The corporate scope is the development of an IT system aimed at offering a series of services destined to the agricultural sector.

XIII. Other information

■ TRANSACTIONS WITH RELATED PARTIES

Pursuant to IAS 24, enacting provisions concerning transactions with related parties, Engineering Ingegneria Informatica S.p.A. approved through Board of Directors' resolution of November 12, 2010 the procedure for the identification and carrying out of Transactions with Related Parties. No transactions with related parties were reported, except for those described in paragraph 44 of the Explanatory Notes, to which reference is made.

■ MAIN RISKS AND UNCERTAINTIES

As in all companies, risk factors which may affect Company results exist and for this purpose numerous preventative actions have been put in place.

The internal control system and procedures referred to in this document are consistent with applicable guidelines prepared by relevant associations and international best practices.

These were fully and transparently implemented and with a sense of responsibility concerning internal and external relations, offering sufficient guarantees for correct and efficient management.

For full details, refer to paragraph XIV, “Other Information of the Directors’ Report of the Consolidated Financial Statements”.

■ TAX CONSOLIDATION

The Company does not adhere to the “national tax consolidation”.

■ TAX AUTHORITY RELATIONS

With reference to the general tax assessment related to direct taxes, IRAP (regional operating taxes) and VAT charged to Engineering Ingegneria Informatica S.p.A. for 2017 and started in December 2018 by the Lazio Regional Authority – Office of Large-Scale Taxpayers, the assessment is still underway.

With reference to the general audit for the purposes of direct taxes, IRAP (Regional Business Tax) and VAT charged to Engineering Ingegneria Informatica S.p.A. for 2009 by the Lazio Regional Authority – Office of Large-Scale Taxpayers, it is highlighted that the assessment notice regarding the tax period 2013 was served in December 2018 and settled in the first months of 2019. The report on findings notified in December 2012, at the end of the audit, contained some claims that mainly concerned some entries regarding previous years, which did not have an impact worthy of assessment, and a claim for IRAP and VAT purposes relating to the reclassification of a contract that concerned the tax period 2008 and the tax periods after 2009 and until 2013.

In December 2016, the company Engineering.IT (merged into Engineering Ingegneria Informatica S.p.A. in 2013) was served with an assessment notice related to VAT for transactions undergone with Banca Antonveneta first, and then with Consorzio Operativo Gruppo Monte Paschi, in the 2011-2013 period. This audit resulted from the report sent by the Management of the Tuscany Region after the tax audit on Consorzio Operativo Gruppo Monte Paschi, carried out by the Italian Tax Police that objected the VAT exemption. In February 2017, Engineering Ingegneria Informatica S.p.A. filed a voluntary demand of assessment and defence briefs, while asking the cancellation of the aforesaid assessment notice. By reason of the fact that the cross-examination did not have a favourable outcome, the Company filed an appeal at the Tax Commission and in September 2017 the first-instance sentence upheld the objections filed by the Company and acknowledged that the reasons submitted by the Company had reasonable grounds. The sentence was confirmed also by the second instance Judge, with decision issued in September 2018. The Company is currently awaiting to know whether the Inland Revenue Office intends to file an objection to the Cassation Supreme Court.

In July 2018, the subsidiary Infogroup S.p.A. (merged in Engineering Ingegneria Informatica S.p.A. in 2018) underwent a general tax assessment related to direct taxes, IRAP (regional operating taxes) and VAT for 2015 charged by the Province Authority of Florence to the subsidiary. This tax assessment was concluded in December 2018, with the drafting of a report on findings including an objection related to VAT and a report. No tax assessment notice has been received for now by the Company.

XIV. Conclusions and Shareholders' Meeting proposals

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The net profit amounted to Euro 35,465,582.

The Board of Directors proposes to deliberate in favour of all the net profit of the year being carried forward. If this proposal is accepted by the Shareholders' Meeting, the net profit will be fully allocated to the reserve of non-distributed profit.

On behalf of the Board of Directors, Chairman Michele Cinaglia communicates that the accounts are subject to audit by the audit firm Deloitte & Touche S.p.A..

(in Euros)

Statement of financial position - Assets	Note	31.12.2018	31.12.2017
A) Non-current assets			
Property, plant and equipment	4	26,631,704	24,399,287
Intangible assets	5	518,335,033	469,387,496
Goodwill	6	44,648,340	45,084,971
Equity investments	7	142,496,095	202,090,833
Deferred tax assets	8	13,963,067	22,395,886
Other non-current assets	9	5,280,129	4,336,023
Total non-current assets		751,354,368	767,694,496
B) Non-current assets held for sale			
C) Current assets			
Inventories	10	42,035	42,035
Customer contract assets	11	133,077,445	112,077,761
of which from related parties		9,323,347	9,622,302
Deferred contract costs	12	3,076,943	
Trade receivables	13	483,990,269	430,976,988
of which from related parties		137,255,525	135,792,312
Other current assets	14	40,367,791	53,651,863
Cash and cash equivalents	15	152,757,670	181,943,568
Total current assets		813,312,153	778,692,215
Total assets (A + B + C)		1,564,666,521	1,546,386,712

(in Euros)

Statement of financial position - Liabilities	Note	31.12.2018	31.12.2017
D) Shareholders' equity			
Share capital	17	31,875,000	31,875,000
Reserves	18	531,461,244	520,826,160
Retained earnings/(losses carried forward)	19	17,682,690	(14,549,799)
Profit/(loss) for the year		35,465,582	34,249,930
Total shareholders' equity	16	616,484,516	572,401,292
E) Non-current liabilities			
Non-current borrowings	20	174,024,171	229,610,638
Deferred tax liabilities	21	160,906,565	147,745,412
Non-current provisions for risks and charges			
Other non-current liabilities	22	9,736,698	8,148,793
Post-employment benefits	23	52,195,439	47,253,132
Total non-current liabilities		396,862,872	432,757,975
F) Current liabilities			
Current borrowings	24	64,746,223	105,317,719
Current tax payables	25	811,020	116,904
Current provisions for risks and charges	26	9,069,774	6,664,827
Other current liabilities	27	121,123,341	107,863,878
of which from related parties		793,453	1,195,815
Trade payables	28	355,568,776	321,264,117
of which from related parties		124,336,712	121,262,579
Total current liabilities		551,319,134	541,227,445
G) Total liabilities (E + F)		948,182,006	973,985,420
Total liabilities and shareholders' equity (D + G)		1,564,666,521	1,546,386,712

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

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(in Euros)

Income statement	Note	31.12.2018	31.12.2017
A) Total revenues			
Revenues		867,065,147	736,882,058
Other revenues	30	30,244,918	30,482,299
Total revenues	29	897,310,065	767,364,357
of which related parties		28,070,731	24,712,278
B) Operating expenses			
Raw materials and consumables	33	12,005,514	9,528,056
Service costs	34	392,184,617	336,437,630
Personnel costs	35	401,321,532	349,457,747
Amortisation and depreciation	36	29,019,910	14,164,771
Provisions	37	5,928,094	4,913,536
Other costs	38	3,882,910	4,709,701
Total operating expenses	32	844,342,577	719,211,441
of which related parties		98,411,814	88,982,631
C) Operating profit (A - B)		52,967,488	48,152,916
Other financial income		5,679,423	2,608,239
Other expenses		6,527,526	11,283,512
D) Net financial income (expenses)	39	(848,103)	(8,675,273)
of which related parties		912,946	967,483
E) Income (expenses) from investments			
Income/(expenses) from other investments	40	(225,475)	(978,112)
Total income/(charges) from investments		(225,475)	(978,112)
F) Profit before taxes (C + D + E)		51,893,910	38,499,531
G) Income taxes	41	16,428,328	4,249,601
H) Profit/(loss) from continuing operations		35,465,582	34,249,930
I) Profit/(loss) from discontinued operations			
L) Profit/(loss) for the year		35,465,582	34,249,930

(in Euros)

Comprehensive income statement	Note	31.12.2018	31.12.2017
L) Profit/(loss) for the year		35,465,582	34,249,930
M) Other comprehensive income statement items			
Actuarial gains/(losses) of employee defined plans		(1,222,493)	(696,874)
Tax effect related to other profit/(loss) which will not be reclassified in profit/(loss) for the year		293,398	167,250
Changes in other equity reserves			
Tax effect of changes in other equity reserves			
Total other profit/(loss) which will not be reclassified in profit/(loss) for the year, net of tax effect		(929,095)	(529,624)
N) Total other profit/(loss) which will be reclassified in profit/(loss) for the year:			
Profit/(loss) on cash flow hedge instruments			
Tax effect related to other profit/(loss) which will be reclassified in profit/(loss) for the year			
Exchange gains/losses on non Euro accounts			
Gains/losses on foreign currency			
Total other profit/(loss) which will be reclassified in profit/(loss) for the year, net of tax effect		0	0
Total other profit/(loss), net of tax effect		(929,095)	(529,624)
O) Total comprehensive income for the year (L + M + N)		34,536,487	33,720,306

STATEMENT OF CHANGES IN EQUITY

(in Euros)

Description	Share capital	Reserves	Retained earnings/ (losses carried forward)	Profit/(loss) for the year	Shareholders' equity
Balance as of 01.01.2017	30,999,807	211,799,788	155,851,361	43,424,482	442,075,438
Net profit/(loss)				34,249,930	34,249,930
Other comprehensive income net of tax		0	(529,624)		(529,624)
Comprehensive income	0	0	(529,624)	34,249,930	33,720,306
Allocation of profit		43,424,482	0	(43,424,482)	0
Transactions with shareholders	0	43,424,482	0	(43,424,482)	0
Other changes	875,193	265,601,891	(169,871,536)	0	96,605,549
Balance as of 31.12.2017	31,875,000	520,826,160	(14,549,799)	34,249,930	572,401,292
Net profit/(loss)				35,465,582	35,465,582
Other comprehensive income net of tax		0	(929,095)		(929,095)
Comprehensive income	0	0	(929,095)	35,465,582	34,536,487
Allocation of profit		0	34,249,930	(34,249,930)	0
Transactions with shareholders	0	0	34,249,930	(34,249,930)	0
Other changes	0	10,635,083	(1,088,346)	0	9,546,737
Balance as of 31.12.2018	31,875,000	531,461,244	17,682,690	35,465,582	616,484,516

STATEMENT OF CASH FLOWS

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The cash flow statement, prepared according to the direct method, shows the cash flow movements. With regard to financial outlays resulting from the acquisitions occurred during the year, reference is made to information shown in the Group Directors' report.

(in Euros)		
Description	31.12.2018	31.12.2017
Cash flow from operating activities		
Revenues from sales of products /services - third parties	911,969,301	905,663,459
Revenues from sales of products /services - Group	7,924,576	15,318,208
Purchase for goods and services - third parties	(347,686,257)	(343,114,082)
Purchase for goods and services - Group	(87,999,300)	(57,980,105)
Personnel costs	(401,246,701)	(356,930,534)
Interest received from operating activities	374,812	241,659
Interest paid for operating activities	(76,051)	(233,156)
Exchange differences	(12,033)	(68,404)
Income tax payments and reimbursements	(13,001,525)	(63,060,277)
Cash pooling	(1,281,266)	(14,102,520)
A) Total cash flow from operating activities	68,965,556	85,734,249
Cash flow from investing activities		
Sale of tangible fixed assets	57,463	944
Purchase of tangible fixed assets	(3,079,561)	(3,249,400)
Purchase of intangible fixed assets	(962,200)	(1,732,832)
Purchase of investments in subsidiaries	(5,251,458)	(96,721,424)
Monetary contribution from merger	8,418,958	85,659
Sale of investments in subsidiaries	246,843	
Sale of business unit	(616,629)	(456,695)
Purchase of other investments and securities	(837,560)	(423,126)
Sale of other investments and securities		20,431
Dividends received	18,750	49,048
B) Total cash flow from investing activities	(2,005,393)	(102,427,396)
Cash flow from financing activities		
New borrowings	55,100,327	292,341,446
Repayment of borrowings	(147,356,972)	(384,389,861)
Loans disbursed/received to/from Group companies	(1,550,000)	(3,923,000)
Dividends paid	329,312	1,600,000
Interest received for financing activities	122,173	
Cash pooling (obsolete)	(2,790,900)	(4,762,200)
C) Total cash flow from financing activities	(96,146,061)	(99,133,614)
D) = (A + B + C) Change in cash and cash equivalents	(29,185,898)	(115,826,761)
E) Cash and cash equivalents at beginning of year	181,943,568	297,770,328
F) = (D + E) Cash and cash equivalents at end of year	152,757,670	181,943,568

(in Euros)		
Reconciliation of cash and cash equivalents	31.12.2018	31.12.2017
Net cash at beginning of year	181,943,568	297,770,328
Cash and cash equivalents	181,949,682	297,784,780
Bank overdrafts	(6,114)	(14,452)
Net cash on hand at year end	152,757,670	181,943,568
Cash and cash equivalents	152,757,720	181,949,682
Bank overdrafts	(50)	(6,114)

Notes to the Financial Statements

1 General information

Engineering Ingegneria Informatica S.p.A., with registered office in Rome at piazzale dell'Agricoltura, 24, is a primary Italian operator in Information Technology services, over multiple lines of business, including system integration, the provision of organisational consulting and specialist services, proprietary application solutions and application management.

Engineering Ingegneria Informatica S.p.A.'s market consists of medium to large customers in all primary market segments, including both private companies (banks, insurance firms, service industry, telecommunications and utility firms) and public bodies (local and central Public Administration).

At the preparation date of these consolidated financial statements, Mic Newco S.p.A. was the sole shareholder of Engineering Ingegneria Informatica S.p.A.'s equity investments. Neither Mic Newco S.p.A., nor its direct subsidiary Mic Holdco S.r.l., exercise direction and coordination activities with respect of Engineering Ingegneria Informatica S.p.A..

These financial statements as of December 31, 2018, were approved by the Board of Directors on March 15, 2019.

■ 1.2 SIGNIFICANT OPERATIONS

Corporate reorganization

Mergers by absorption of two wholly controlled companies were carried out in the year just ended:

- Infinity Technology Solutions S.p.A. as from January 1, 2018;
- Infogroup – Informatica e Servizi Telematici S.p.A. (Infogroup S.p.A.) since May 1, 2018 with retrospective tax and accounting effectiveness on January 1, 2018.

Completion of accounting activities connected with acquisitions

The identification and measurement of fair values of the assets and liabilities of companies acquired and merged by absorption in Engineering Ingegneria Informatica S.p.A. are now completed.

These activities were carried out within 12 months from acquisition, as provided for by IFRS 3.

The tables with book values of assets and liabilities acquired at the acquisition date and identified final fair value values are shown below.

- **Fair Dynamics Consulting S.r.l.**, acquired in 2017 and absorbed by Engineering Ingegneria Informatica S.p.A. in the same year. Assets and liabilities identified were measured in the amount of Euro 500 thousand, net of deferred taxes (Euro 194 thousand), and refer to intangible assets related to the contract portfolio, accounted for under intangible fixed assets. The residual value, equal to the difference between purchase price and final fair value of assets and liabilities, equal to around Euro 37 thousand, was recognised in the income statement.

(in Euros)			
Net assets acquired	Book value	Fair value adjustments	Final fair value
Property, plant and equipment	817		817
Intangible assets	0	694,262	694,262
Other non-current assets	3,544		3,544
Trade assets	123,573		123,573
Cash and cash equivalents	85,659		85,659
Other current assets	41,302		41,302
Non-current borrowings	0		0
Other non-current liabilities	14,431	193,699	208,130
Current borrowings	58,946		58,946
Other current liabilities	118,712		118,712
Total net assets acquired	62,806	500,563	563,369
Non-controlling interest			0
Total net assets acquired by the Company			563,369
Total amount			600,000
Difference in income statement			36,631
Goodwill			0
Cash and cash equivalents	85,659		(85,659)
Net outflow of cash resulting from the acquisition			514,341

As required by IFRS 3, for a correct disclosure of data, in these Explanatory Notes comparison information was updated, as if accounting were made at acquisition date.

- **Infinity Technology Solutions S.p.A.**, acquired in 2017 and absorbed by Engineering Ingegneria Informatica S.p.A. in January 2018. Identified assets and liabilities were measured in the amount of Euro 1,511 thousand, net of deferred taxes (Euro 585 thousand) and refer to intangible assets related to the contract portfolio. They were accounted for under intangible fixed assets. The residual value, equal to the difference between purchase price and final fair value of assets and liabilities, equal to around Euro 6 thousand, was recognised in the income statement.

(in Euros)			
Net assets acquired	Book value	Fair value adjustments	Final fair value
Property, plant and equipment	32,306		32,306
Intangible assets	38,958	2,095,723	2,134,681
Other non-current assets	56,113		56,113
Trade assets	4,381,545		4,381,545
Cash and cash equivalents	316,904		316,904
Other current assets	467,208		467,208
Non-current borrowings	117,639		117,639
Other non-current liabilities	211,406	584,706	796,112
Current borrowings	708,356		708,356
Other current liabilities	2,284,033		2,284,033
Total net assets acquired	1,971,600	1,511,017	3,482,616
Non-controlling interest			0
Total net assets acquired by the Company			3,482,616
Total amount			3,488,209
Difference in income statement			5,593
Goodwill			0
Cash and cash equivalents			(316,904)
Net outflow of cash resulting from the acquisition			3,171,305

- **Infogroup – Informatica e Servizi Telematici S.p.A.**, acquired in 2017 and absorbed by Engineering Ingegneria Informatica S.p.A. in 2018. Identified assets and liabilities were measured in the amount of Euro 47,400 thousand, net of deferred taxes (Euro 18,351 thousand) and refer to intangible assets related to the contract portfolio. They were accounted for under intangible fixed assets. The residual value, equal to the difference between purchase price and final fair value of assets and liabilities, equal to around Euro 45 thousand, was recognised in the income statement.

(in Euros)

Net assets acquired	Book value	Fair value adjustments	Final fair value
Property, plant and equipment	2,747,292		2,747,292
Intangible assets	595,336	65,776,704	66,372,040
Other non-current assets	2,063,978		2,063,978
Trade assets	29,770,667		29,770,667
Cash and cash equivalents	7,799,729		7,799,729
Other current assets	760,034		760,034
Non-current borrowings			5,314,155
Other non-current liabilities	5,314,155	18,351,701	18,351,701
Current borrowings			0
Other current liabilities	24,492,541		24,492,541
Total net assets acquired	13,930,341	47,425,003	61,355,344
Non-controlling interest			0
Total net assets acquired by the Group			61,355,344
Total amount			61,400,000
Difference in income statement			44,656
Goodwill			0
Cash and cash equivalents			(7,799,729)
Net outflow of cash resulting from the acquisition			53,600,271

Pursuant to IFRS 3, the business unit acquired by **SP Sapiens S.r.l.** in June 2017, was finally measured.

Values of acquired assets and liabilities are shown in the following table. The price difference, recorded as of December 31, 2017 in assets, under goodwill, was entered in the income statement as of December 31, 2018.

(in Euros)

Description	Fair value
Non-current liabilities	179,102
Current liabilities	171,097
Fair value of assets acquired	(350,199)
Shareholding acquired	100%
Purchase consideration	49,801
Goodwill	400,000

2 Basis of preparation criteria and accounting standards

These financial statements as of December 31, 2018 have been prepared under International Financial Reporting Standards (IFRS), as defined hereinafter, issued by the International Accounting Standards Board (hereinafter IASB) and adopted by the European Commission as per the procedure set down by Article 6 of Regulation (EC) 1606/2002 of the European Parliament and the European Council of July 19, 2002. The IFRS Standards also include all International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Standard Interpretations Committee, previously named “Standard Interpretations Committee” (SIC). The IFRS standards have been applied consistently with the periods disclosed herein and, taking account of the best literature on this issue, any future directions and interpretation updates will be reflected in the following financial statements, according to modalities envisaged from time to time by the reference standards.

These financial statements are expressed in Euro and, in compliance with IAS 1 “Presentation of Financial Statements” include the statement of financial position, the income statement and the comprehensive income statement, the statement of changes in shareholders’ equity, the cash flow statement and the related Explanatory Notes.

The standards utilised are the same as those used for the preparation of the last annual financial statements and were applied evenly, except for “IFRS 9 – Financial Instruments” and “IFRS 15 – Revenues from contracts with customers”, as well as other accounting standards, amendments and interpretations applicable for accounting periods beginning on January 1, 2018, as indicated in paragraph 4.29. Pursuant to the “IFRS 9 – Financial Instruments” and “IFRS 15 – Revenues from contracts with customers”, the Company opted to disclose the effect, related to the retroactive remeasurement of amounts, in shareholders’ equity on January 1, 2018, without remeasuring the balance of items of compared previous years. For further details on the impact resulting from the application of these standards, reference is made to the following Note 3.28.

In the statement of financial position, assets and liabilities are classified according to the “current/non-current” criterion with separation of assets and liabilities held-for-sale.

Current assets are those held for sale or used in the normal business operating cycle or in the twelve months following the year-end.

Current liabilities are expected to be settled in the normal operating cycle or within 12 months following the year-end.

The income statement is classified according to the nature of the costs while the cash flow statement uses the direct method.

Transactions with related parties are disclosed in the statement of financial position, the income statement and the cash flow statement.

The transactions with related parties concern subsidiaries, associates and Directors and Executives with strategic responsibilities. Please see paragraph 3.28.

The financial statements are accompanied by the Directors’ report prepared by the Board of Directors in compliance with Article 2428 of the Italian Civil Code, which contains more detailed information on Company operations and significant events after the year-end.

For each item of the statements, the corresponding figure of the previous year is disclosed for comparison purposes. These comparative figures were restated, with respect to those already disclosed in the financial statements ended December 31, 2017, only for items recognised within the completion process of accounting activities connected to the acquisition of control of acquired companies (as provided for by IFRS 3), as more widely shown in paragraph 1.2 of these Explanatory Notes.

The preparation of the financial statements in compliance with IFRS also requires the use of estimates and assumptions in determining the values of the assets and liabilities, costs and revenues and contingent assets and liabilities. The estimates and assumptions are based on the best information available at the reporting date and on prior experience where the book value of assets and liabilities is not easily inferable from other sources.

However, actual results could differ from those estimates. Estimates and assumptions are periodically revised and changes are immediately reflected in the income statement.

The items that are mostly influenced by estimates are the calculation of amortisation/depreciation, impairment tests on assets (including measurement of receivables), provisions for allocations, employee benefits, fair value of borrowings, deferred tax assets and liabilities, as well as customer contract assets. For a better understanding of the financial statements, the main estimates utilised in the drawing up of the financial statements are shown hereunder and involve the use of subjective opinions, assumptions and estimates related to issues that are uncertain by nature. The changes in conditions underlying opinions and assumptions might have a significant impact on the following financial years.

- Goodwill - Euro 44.6 million;
- Trademark - Euro 453.0 million.

These assets are tested for impairment in order to assess whether any impairment loss has occurred that would involve the reduction in value, in the presence of indicators that foresee a possible difficult recovery of their net book value through their use.

To calculate the value in use of Cash Generating Units, the Company considered, in reference of the explicit period, the expected performance, included in the 2019 budget and, for the following years, forecasts included in the 2020-2022 multiannual plan. The budget and multiannual plan were updated by the management on August 3, 2017.

Purchase Price Allocation (IFRS 3)

The detection of business combination transactions involves the allocation of the difference between purchase cost and net book value of the acquired company.

As regards most of assets and liabilities, the allocation of the difference is performed by recognising assets and liabilities at their fair value. The portion that is not allocated, if positive, is recorded under goodwill; if negative, it is charged to income statement. In allocating the amounts, the Company relies on information available and, for the most important business combinations, on external expertises. During the year, the fair value of assets and liabilities of companies acquired and merged by absorption in Engineering were identified and measured:

- Fair Dynamics S.p.A. December 31, 2017;
- Infinity Technology Solutions S.p.A. as from January 1, 2018;
- Infogroup – Informatica e Servizi Telematici S.p.A. (Infogroup S.p.A.) since May 1, 2018 with retrospective tax and accounting effectiveness on January 1, 2018.

Share-based payments (Stock Option Plan – SOP)

The fair value of share-based payments is calculated based on the fair value of the Company's shares, which are not listed on an active market. Therefore, the Company uses measurement techniques together with observable and not observable market parameters, which take also account of the current business plan of the Company. Given the level of subjectivity and the number of assumptions required to perform the measurement, changes in results and parameters used, together with the context in which the Company operates, might have a significant impact on fair value estimates of the Company's shares.

3 Accounting standards

These financial statements have been drawn up on an ongoing concern, due to the fact that Directors assessed the absence of financial, management indicators, or other indicators that might show critical issues related to the Company's ability to face its obligations in the foreseeable future. Risks and uncertainties related to the business are described in the sections dedicated to the Group Directors' report. The description of how the Company manages financial risks, including liquidity and capital, is included in Note 3.27.

The criteria adopted in the preparation of the financial statement are detailed below.

■ 3.1 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include assets with long-term use held for the production or supply of goods and services, to be leased or for administrative purposes. This definition does not include property held principally or exclusively for rental purposes or for capital appreciation or for both of these reasons ("Investment property"). Property, plant and equipment are recognised at acquisition cost. The acquisition cost is the fair value of the price paid and any other cost directly related and necessary for the correct functioning of the asset with regard to the use for which it was acquired.

The capitalisation of costs relative to the expansion, modernisation or improvement of the structural elements whether owned or leased is solely made within the limits established to be separately classified as assets or part of an asset. Financial charges incurred for the acquisition of tangible fixed assets are never capitalised.

Land, both with and without civil and industrial buildings, is recorded separately and is not depreciated as it has an indefinite useful life.

Property, plant and equipment are recorded net of the relative accumulated depreciation and any losses in value. The amount to be depreciated is comprised of the carrying amount gross of depreciation and net of write-downs. Given the uniformity of the assets included in the various fixed asset categories, the useful life by category is as follows (except in specific cases):

Category	Useful life
Land	Indefinite
Buildings	33 years
Plant and machinery	3 – 6 years
EDP	3 – 6 years
Furniture, office machinery and equipment	6 – 8 years
Motor vehicles	4 years

Property, plant and equipment are depreciated on a straight line basis over the useful estimated life of the asset which is reassessed at least at the end of each year to apply any changes.

The carrying value of a tangible fixed asset is recognised within the value limits that this asset may recover through use. Wherever evidence indicates that difficulties may exist in the recovery of the net book value, an impairment test is carried out.

Depreciation starts when the asset is available and ready for use.

At the time of sale, or when there are no expected future economic benefits from the use of an asset, it is derecognised from the financial statements and any loss or gain (calculated as the difference between sale price and the book value) is recorded to the income statement.

■ 3.2 LEASING

In the case that the Company is the lessee

Lease contracts relative to activities in which the Company holds all the risks and benefits deriving from the property are classified as finance leases. Assets acquired under finance leases are recorded at cost under property, plant and equipment, and against the financial payable to the lessor and depreciated according to the nature of the individual asset.

The financial charge is incurred in the income statement for the duration of the contract. Lease contracts in which the lessor retains a significant amount of the risks and benefits deriving from the ownership are instead classified as operating leases; the lease payments are booked in the income statement on a straight-line basis for the whole duration of the contract.

In the case that the Company is the lessor

For assets leased under a finance lease contract, the current rental amount under the lease is recognised as a financial receivable. The difference between the net book value and the current value of the receivable is recognised to the income statement as financial income. Assets leased under operating lease contracts are however included in tangible or intangible fixed assets and depreciated in a similar manner to assets owned, with rental instalments recognised on a straight line basis over the duration of the contract.

■ 3.3 INTANGIBLE ASSETS

Intangible assets, all with a definite useful life, except for the trademark, are recorded when they are identifiable, controlled by the Company and are capable of producing future economic benefits.

Intangible assets are initially recognised at acquisition or production cost. The acquisition cost is the fair value of the price paid to acquire the asset and any other direct costs incurred to prepare the asset for use. For intangible assets generated internally, the generation of the asset is broken down into the periods of research (non-capitalised) and the period of development (capitalised). Where the two periods are indistinguishable, the entire project is considered as research and is recorded directly to the income statement.

Realised assets are amortised from the time of use or when they are sold, despite they have been classified under work in progress.

Financial charges incurred to acquire an intangible fixed asset are never capitalised.

After initial recognition, intangible assets are recognised on a cost basis, net of accumulated amortisation and any impairment. Amortisation is applied on the straight-line basis over the period of expected use. Given the homogeneity of the assets included within financial statement categories, with the exception of specific significant cases, the useful lives per category are as follows:

Category	Useful life
Software	3 – 8 years
Concessions, licenses and trademarks	3 – 8 years
Trademark	Indefinite
Other	2 – 5 years

The amortisation criteria as well as useful lives and residual values are reassessed and re-defined at least at the end of each year in order to take any significant changes into account.

The book value of an intangible asset is maintained in the accounts as long as there is evidence that this value may be recovered through asset usage. Wherever evidence indicates that difficulties may exist in the recovery of the net book value, an impairment test is carried out.

Intangible assets, all with a definite useful life, are recorded when they are identifiable, controlled by the Company and are capable of producing future economic benefits.

Software

Costs directly associated with information technology products, created internally or acquired from third parties are capitalised as intangible assets, subject to evidence of:

- the technical feasibility and intention to complete the product in order that the latter may be available for use or sale;
- the capacity to use or sell the product;
- a definition of the manner by which the product will generate probable and future economic benefits (the existence of a market for the product, or its internal use);
- the availability of adequate technical, financial and other resources for the purposes of completing the development and the use/sale of the product;
- the capacity to reliably estimate the cost attributable to intangible assets during development of the product.

Expenses for substantial updating of products are capitalised as improvements and added to the original cost of the software. Development costs that improve product performance or upgrade the product to regulatory requirements are reflected in projects created for customers and are thus expensed during the financial year in which they are incurred.

Concessions, licenses and trademarks

Costs related to the acquisition of trademarks and licences are capitalised under intangible fixed assets. The cost comprises the fair value of the price paid to acquire the right and any other direct costs incurred for its adaptation or for implementation within the operating or productive context of the entity. The period of amortisation does not exceed the lower between the useful life and the duration of the legal/contractual rights.

■ 3.4 GOODWILL

Goodwill is the excess of an acquisition cost in comparison to the company share of the fair value of the identifiable assets and liabilities at the acquisition date.

Goodwill from the acquisition of companies for payment is not amortised and is subject to an impairment test at least once a year. For this purpose, goodwill is allocated to one or more Cash Generating Units. Potential reductions in value emerging from the impairment test are not reversed in subsequent periods.

In the case of the sale of assets (or part of an asset) of a CGU, any goodwill associated is included in the book value of the asset in order to determine the profit or loss from sale in proportion to the value of the CGU sold. Goodwill relating to associates or other companies is included in the book value of these companies.

At period-end, goodwill is subject to impairment testing and adjusted for any losses. Losses are booked directly to the income statement.

For this purpose and in line with acquisitions of previous years, the different Cash Generating Units have been identified, which respect the independence criteria in the organisational structure and the independent capacity to generate cash flow, and are then measured using impairment testing.

A current value is determined for the relevant asset using a Discounted Cash Flow Model (DCF) based on the end of year account situation for each CGU. The current value is compared with the net book value and goodwill recorded in the financial statements to determine whether it is necessary to write-down the investment and record a loss in the financial statements.

Measurement methods are based on the criteria of maximum caution using capital cost parameters greater than the market average and introducing sensitivity analysis that validates maintaining goodwill value even where future scenarios are problematic.

■ 3.5 LOSS IN VALUE OF AN ASSET (IMPAIRMENT)

A loss in value is established wherever the book value of an asset is greater than the recoverable value. Where indicators of a loss in value exist, an estimate of the recoverable value of the asset is made (impairment test) and any write-down is applied. An impairment test is carried out at least annually, irrespective of the existence of such indicators.

The recoverable value of an asset is recorded at the greater of its fair value, net of sales costs, and its usage value. The recoverable value is calculated for each individual asset, unless it is not capable of generating cash flows from continuous use sufficiently independent of cash flows generated from other assets or groups of assets, in which case the test is carried out at the level of the smallest independent Cash Generating Unit which comprises the relevant assets.

■ 3.6 BUSINESS COMBINATIONS

In IFRS 3, business combinations are defined as “a transaction or other event in which a purchaser obtains control of one or more businesses”.

A business combination can be created through various procedures based on legal, fiscal or other motives. It may also involve the acquisition by an entity of share capital of another entity, acquisition of the net assets of another entity, undertaking of the liabilities of another entity or the acquisition of part of the net assets of another entity which, combined, establish one or more company activities. The combination may be realised through issue of instruments representing share capital, the transfer of cash or other liquid assets or other assets, or by a combination of the above. The operation may take place between shareholders of entities which combine or between an entity and shareholders of another entity. It may entail the incorporation of a new entity that controls the entities taking part in the combination or net assets transferred or the restructuring of one or more of the participating entities.

The business combinations are recorded under the acquisition method. This method considers that the acquisition price must be reflected in the value of the assets of the entity acquired and this allocation must be at fair value (of the assets and of the liabilities) and not at their book value. Any difference (negative) represents the goodwill (badwill).

The changes in the interest of the Parent Company in a subsidiary, which does not lead to loss of control, are recognised as capital operations. In this event, the book values of the holdings must be adjusted to reflect the changes in their relative holdings in the subsidiaries. Any difference between the adjusted value of the minority holdings and the fair value of the amount paid or received is directly recorded to shareholders' equity and allocated to shareholders of the Parent Company.

■ 3.7 EQUITY INVESTMENTS

Acquisitions are recorded at the fair value of the investment plus any directly attributable costs. A significant and prolonged decrease in equity investment fair value below the initial booked cost is considered an objective indication of value loss.

Subsidiaries

Subsidiaries are considered to be companies for which Engineering Ingegneria Informatica S.p.A. has the ability to directly or indirectly determine financial and operational policies and to retain rights over its benefits. Control is presumed where more than half of the effective or potentially exercisable voting rights are held at the reporting date.

Associates

Associates are defined as those in which significant influence is exercised. Such influence is presumed where more than 20% of the effective or potentially exercisable voting rights are held at the reporting date.

■ 3.8 OTHER NON-CURRENT ASSETS

Financial receivables with a due date beyond 12 months and investments in other companies are recorded under other non-current assets.

Investments in other companies refer to equity investments other than subsidiaries, associates and joint ventures and are entered at cost adjusted for any impairment whose effect is recognized in the income statement.

■ 3.9 INVENTORIES

Inventories are assets held for sale within the normal course of business or employed or to be employed in the productive processes for sale or services.

Inventories are measured at the lower between purchase cost and the fair value. The fair value is the sales price estimated for normal activity, net of completion costs and sales expenses. Any potential write-down is derecognised in subsequent years if the reason for the write-down no longer exists.

■ 3.10 CUSTOMER CONTRACT ASSETS

Customer contract assets concern specific projects in the course of completion based on long-term contracts.

If the result of a project in course can be reliably estimated, the contractual revenues and costs are recorded based on the percentage of completion method (so-called cost to cost), so as to attribute the revenues and profits over the entire duration of the contract.

If the result of a project in course of completion cannot be reliably estimated, the contractual revenues are recorded for the amount of costs incurred if it is probable that such costs are recoverable.

The sum of costs incurred and the result on each project is compared with the invoices issued on account at the date of the preparation of the accounts. If the costs incurred in addition to the profits recorded (deducting losses) are greater than the invoices issued on account, the difference is recorded under current assets in the account "Customer contract assets". If the invoices on account are greater than the costs incurred plus the profits (deducting the losses), the difference is classified under current liabilities in the account "Trade payables".

■ 3.11 DEFERRED CONTRACT COSTS

3.11a Incremental costs of obtaining a contract

IFRS 15 permits cost capitalisation to obtain a contract, provided that costs be considered as "incremental" and recoverable through future economic benefits of the contract. All costs borne in relation to the acquisition of the contract are considered as incremental costs. Conversely, costs that were borne regardless of the acquisition of the contract, and therefore could not be qualified as incremental, are expensed in the income statement as they are not related to the stage of completion (not a cost-to-cost component).

Incremental costs are suspended and accounted for under a special item in the current assets (Deferred contract costs) and systemically released together with the transfer of control of goods/services to the customer.

3.11b Costs to obtain a contract

IFRS 15 envisages cost capitalisation for the execution of contracts, i.e. capitalisation of costs that comply with all the following criteria:

- refer directly to the contract;
- generate and improve resources that will be used to meet the contract obligation performance;
- are recoverable through future economic benefits of the contract.

This type of costs is usually represented by pre-operating costs, which are not explicitly recognised within contracts with customers and are remunerated through the contract overall margin. In this case, always fulfilling the aforesaid three conditions, pre-operating costs are suspended and systemically expensed in order to reflect the amount of goods/services transferred to customers.

In addition to the above, new provisions set out in IFRS 15 define all the costs that, for their type and nature, cannot be used for the course of the contract as, despite the fact that they are specifically referable to the contract and considered as recoverable, they do not generate or improve the resources that will be used to fulfil the contract performance obligation, or contribute to transfer the control of goods and/or services to customers.

■ 3.12 TRADE RECEIVABLES

Trade receivable are owned within the business model, whose target is collecting contract cash flows made up solely of payments of principal and interest on the principal amount to be refunded. They are therefore initially recorded at fair value, adjusted with directly attributable transaction costs, and subsequently measured at amortised cost based on the effective interest rate method (i.e. the rate that equalizes, upon initial recognition, the current value of expected cash flows and the book value) and adequately adjusted to take account of any possible write-downs, through the creation of a bad debt provision. Trade receivables are included in current assets, except for amounts that are overdue after one year with respect to the reporting date. These receivables are disclosed under non-current assets.

At each reporting date, financial assets, except for those measured at fair value with a contra-entry recognised in the income statement, are analysed to assess the existence of any possible impairment indicators. IFRS 9 requires the application of a model based on expected losses on receivables. The Company applies the simplified approach to estimate the expected losses along the receivable useful life and takes account of its historical experience of losses on receivables, adjusted to reflect the current conditions and estimates on future economic conditions. The model of expected losses on receivables requires the immediate recognition of expected losses during the useful life of the receivable, as the occurrence of a trigger event is not required to recognise losses.

For trade receivables accounted with the criterion of amortised cost, after identifying an impairment, its value is measured as the difference between the book value of the asset and the current value of the expected future cash flows, discounted on the basis of the original effective interest rate. This value is recognised in the income statement.

Receivables factored through non-recourse factoring transactions, according to which the final transfer to the transferee was carried out in relation to risks and benefits of factored receivables, were written off from the financial statements upon their transfer. Receivables that were instead factored through with recourse factoring transactions were not written off from the financial statements.

■ 3.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank deposits on demand, other short-term financial assets with original expiry not greater than 3 months and current account overdrafts. The latter, in the preparation of the statement of financial position, are included under “borrowings”. Cash and cash equivalents are recognised at fair value.

■ 3.14 DISCONTINUED OPERATIONS

A discontinued operation is a company component that has been sold or is reclassified as held for sale and represents an important independent operation or geographical area of operation or a subsidiary acquired solely for the purpose of resale. An operating activity is classified as discontinued at the moment of the sale or when the conditions have been satisfied for classification in the category “held for sale”, if prior. When an operation is classified as sold, the separate income statement and the comparative comprehensive income statement are re-determined as if the operation was discontinued at the beginning of the comparative period.

■ 3.15 SHARE CAPITAL

Share capital consists of fully paid-up and subscribed capital. Treasury shares are recorded as a reduction of the share capital for the nominal value of the shares while the excess of the book value compared to the nominal value is recorded as a reduction of the other reserves. No profit (loss) is recorded to the income statement for the purchase, sale or cancellation of equity instruments held.

■ 3.16 RESERVES

Reserves consist of capital and profit reserves with a specific use.

■ 3.17 RETAINED EARNINGS/(LOSSES CARRIED FORWARD)

The “Retained earnings/(losses carried forward)” item includes the net profit of the current and previous periods which was neither distributed nor allocated to reserves (in the case of profits) or recapitalised (in the case of losses). This item also includes the transfers from other equity reserves when those reserves are no longer required as well as the effects of the recording of changes to accounting policies and material errors.

■ 3.18 BORROWINGS

Unlike derivative instruments, borrowings are initially booked at the fair value of collected sums, rectified by any directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest criteria. For short-term liabilities as for trade payables, the amortised cost is equal to the nominal value.

Derivative financial instruments

Derivatives recognised at fair value are designated as hedge instruments when the relationship between the derivative and the subject being hedged is formally documented and the effectiveness of the hedge, which is periodically verified, is within the limits provided for under IFRS 9. For these instruments the fair value is determined on the basis of evaluation techniques taking as reference the indicators that can be observed on the market (so-called level 2, as per IFRS 7). The report must contain the evaluation method of the efficacy of the hedging instrument to offset the exposure to changes in the fair value of the item hedged or the cash flows relating to the hedged risk, and must be highly effective for all of the years for which the hedge was designated.

The type established by the Company is a cash flow hedge in order to offset the risk of changes in interest expense for the loan covered by the hedge, converting the loan to a fixed interest rate.

The hedge was created through agreeing an interest rate swap contract, against which the Company receives an indexed variable interest rate and expiry and time periods in line with the hedged loan and paying a fixed interest rate.

The efficacy, measured periodically, is verified with the perfect hedge derivative method. Changes in the fair value of the derivative are calculated based on the methods utilised for prospective or retrospective assessment of efficacy in the hedging report and are compared with the changes in the fair value of a similar derivative instrument.

The hedging is deemed as effective in relation to the application of a quality measurement of the economic relation between the hedged element and the hedging element.

The effective hedging component is recorded under other comprehensive income statement items and shareholders' equity reserve and is calculated as the lower value between the accumulated changes in hedge derivative fair value and the changes in fair value of the hypothetical derivative. The ineffective hedging component is recorded to the income statement.

■ 3.19 EMPLOYEE BENEFITS

Short-term employee benefits

Short-term employee benefits are recorded in the income statement for the period in which the work is carried out. The Company records a liability for the amount that it expects will have to be paid in the form of profit-sharing and incentive plans when it has a current, legal or implicit obligation to make such payments as a consequence of past events and for which the obligation can be reliably estimated.

Post-employment benefits

Post-employment benefits are recorded as costs when the Company has committed, in a demonstrable way and without a realistic possibility of withdrawal, to a formal detailed plan that provides for the termination of employment before the normal retirement date or following an offer prepared to encourage voluntary redundancy. In the case of an offer prepared by the Company to encourage voluntary redundancy, the benefits owed to employees for termination of employment are recorded in the accounts as a cost if the offer is likely to be accepted, and if the number of employees, expected to accept the offer, can be reliably estimated. Benefits owed after twelve months following the closing date of the financial year are discounted.

Defined benefit plans

Post-employment benefits represent a plan of defined benefits which are certain in terms of their existence and sum but uncertain in terms of the vesting of the post-employment benefits accrued as of December 31, 2006. The liability is determined as the current value of the benefit obligation defined at the date of reporting, in compliance with Italian regulations in force, and adjusted in order to take actuarial profits/losses into account. The amount of the defined obligation is calculated and certified annually by an independent actuary based on the "Projected unit credit" method.

Actuarial gains and losses are recognised in the comprehensive income statement and recorded under shareholders' equity on an accrual basis.

Defined contribution plans

As from January 1, 2007, the Company has participated in defined contribution pension plans by means of the payment of contributions to publicly or privately managed programs; the latter may be mandatory, contractual or voluntary. Payment of the contributions fulfils the Company's obligation to its employees. Contributions thus constitute costs for the period in which they are due.

Share-based payments

Pursuant to provisions set out by IFRS 2 (Share-based payments) with reference to equity-settled share-based payments, the cost of the incentive plan is apportioned along the vesting period and it is determined with reference to the fair value of the right assigned, at the date in which the commitment is undertaken, so that existing market conditions are reflected at the reference date. At each reporting date, all hypotheses are reviewed in relation to the number of options that are expected will reach maturity. The charge pertaining to the year is recorded in the income statement, under item "Personnel costs", and its contra-entry is recognised as equity reserve.

■ 3.20 PROVISIONS FOR RISKS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

According to IAS 37 provisions for risks concern the probable liabilities of uncertain amount and/or maturity relating to past events whose fulfilment will necessitate the use of resources.

Allocations are recognised when: a) there is a current legal or implicit obligation, which originates from a past event; b) it is probable that fulfilment of the obligation will be onerous; c) the amount of the obligation can be reliably estimated.

The amount represents the best estimates in relation to resources required for fulfilling the obligation, including legal defence charges. Where the effect of the current value of the payment is significant, the amount of the provision is represented by the value of resources considered necessary to satisfy the obligation on maturity discounted at a nominal rate without risks. The contingent assets and liabilities (possible assets and liabilities or not recorded as the amount may not be reliably estimated) are not recorded in the financial statements. Information in this regard is provided however.

■ 3.21 REVENUES AND COSTS

IFRS 15 superseded the previous IAS 18 and IAS 11 standards, as well as the related interpretations IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31.

The new standard sets out the criteria to recognise revenues resulting from contracts stipulated with customers, with the exception of those falling within the scope of application of standards on lease, insurance contracts and financial instruments. The standard defines an overall reference framework to identify the timing and amount of revenues to be entered in the financial statements.

Pursuant to IFRS 15, the Company shall recognise revenues from contracts with customers and related impact on accounts through the following steps:

- a) identification of the contract;
- b) identification of the performance obligations of the contract;
- c) determination of the transaction price;
- d) allocation of the transaction price for each identified performance obligation;
- e) recognition of the revenue when the performance obligation is fulfilled.

Therefore, the amount that the Company records as revenue should reflect the amount that it is entitled to receive against the transfer of goods and/or services to customers. These amounts shall be recognised when the underlying performance obligations are fulfilled, i.e. when the Company has transferred the control of goods or services to customers in the following ways:

- f) over time;
- g) at point in time.

The following table shows the main types of products and services that the Company supplies to its customers and the related recognition modalities:

Products and services	Type and timing to fulfil performance obligations
Development of annual and multiannual projects	The Company fulfils the related obligations and recognises over time revenues based on the percentage of costs accrued or the periodical progress of services rendered. The unconditional right to receive a payment from the customers arises based on the progress of costs accrued or the periodic underlying progress of each order.
Other services and events	The Company fulfils the related performance obligations and recognises revenues at a point in time, based on events underlying the supply of goods and services. The unconditional right to receive a payment by the customer arises following the occurrence of these events.

Moreover, as regards the recognition of revenues, the necessity of evaluating the possible obtainment/collection of economic benefits linked to the revenue is highlighted. As regards to activities deriving from contracts with clients (i.e. contract assets), the requirement to record revenues is introduced, taking also account of the possible discount effect resulting from collections over time, as described in the dedicated paragraph. Interest is recorded at the effective rate based on the accruals principle.

Costs

Costs relating to the acquisition of new knowledge or discoveries, to the study of alternative products or processes, of new techniques or models, to the design and construction of prototypes or incurred for other scientific research activities or technological development are generally considered current costs and recorded to the income statement in the year in which they are incurred.

Costs for research undertaken in order to gain new technical expertise are recorded in the income statement in the year in which they are incurred. These costs are almost entirely attributable to personnel costs.

■ **3.22 DIVIDENDS**

Dividends are recognised at the date of endorsement of the resolution by the Shareholders' Meeting, unless the sale of shares is reasonably certain before the coupon detachment date.

■ **3.23 GRANTS**

Grants are recognised when there is reasonable certainty that they will be received and that the conditions required for obtaining them are met.

When grants relate to cost components, they are recorded as revenues, and systematically allocated to different periods to offset the costs to which they relate.

When the grants relate to an asset, for example plant, they are recorded to the income statement under revenues rather than as an adjusted item of the book value of the asset for which it was obtained. Subsequently the useful life of the asset for which it was granted is taken into account using the deferral technique.

Public grants drawn down as compensation of expenses and costs already incurred or with the intention to provide immediate financial aid to the entity without which there would be future costs are recorded as income in the year in which they become payable.

■ **3.24 DEFERRED AND CURRENT TAXES**

Current income taxes for the financial year are calculated based on an estimate of taxable income in compliance with tax law provisions.

Deferred taxes are recognised with reference to the time differences between the book value of the assets and liabilities recorded in the financial statements and the corresponding values recognised for tax purposes. Deferred tax assets are recognised for tax losses and tax credits not used and carried over, as well as the assumed time differences, insofar as there is a probable future taxable income for which the assets can be used. The value of deferred tax assets is revised at the closing date of each financial year, and reduced in the measure that it is no longer probable that the related tax benefit will be realised.

■ **3.25 TRANSLATION OF ACCOUNTS IN FOREIGN CURRENCIES****Functional and presentation currency**

The financial statement items are valued utilising the currency of the main economic environment in which the entity operates ("functional currency").

The functional currency of the Company is the Euro.

Operations and balances

Currency operations are translated into the presentation currency by using the exchange rate effective on the transaction date. Exchange gains and losses from the settlement of these transactions and the conversion of monetary assets and liabilities in foreign currencies at the date of preparation of the accounts are recorded to the income statement.

Changes in accounting standards

Accounting standards are changed from one year to the next only when the change is required by a standard or if it contributes to providing more reliable and significant information about the effects of transactions on financial standing, as well as on the economic results, or cash flows, of the entity. The changes to accounting standards are recognised retrospectively with the recording of the effect to shareholders' equity of the first of the period disclosed. The comparative information is restated accordingly. The prospective approach is made only when it is impractical to reconstruct the comparative information. The application of a new or amended accounting standard is accounted for in accordance with the requirements of the standard itself. If the standard does not provide for transition procedures, the change is booked in accordance with the method described in the previous paragraphs.

Correction of errors from previous periods

In the case of significant errors, the same method that is used for changes in accounting standards illustrated in the previous paragraph is applied. In the case of non-significant errors, these are accounted for in the income statement in the period in which they are noted.

Changes in accounting estimates

Changes in accounting estimates are recognised and are booked to the income statement in the period in which the change occurs, so long as the change only affects this period; where the change also affects future periods, the changes are booked in both the period in which the change occurs and in the future period.

■ 3.27 FINANCIAL RISK AND CAPITAL MANAGEMENT

As in all businesses, risk factors which may affect results exist and therefore preventive actions have been taken. These procedures concern the commitment and responsibilities undertaken and are subject to maximum transparency and correctness. The Company's risk management policies aim at identifying and analysing risks to which the Company is exposed, establishing appropriate limits and controls and monitoring risks with respect to those limits. These policies and the related systems are regularly revised to reflect any variations in market conditions and Company's business. For information on risk management, see related section in the Group Directors' report.

The Company's business is exposed to the following risks: market risk (exchange rate risk and interest rate risk), credit risk and liquidity risk.

The Board of Directors provides for a high level of capital management policies in order to maintain trust among investors, creditors and the market, allowing for future development. The Board also monitors capital returns, understood as the result from operations compared with total shareholders' equity. Furthermore, the Board of Directors monitors the level of dividends to be distributed to holders of ordinary shares. For details on the Company's debt/equity ratio, see related section in the Directors' report.

3.27.1 Credit risk

The credit risk is the Company's exposure to the risk of potential losses resulting from the non-performance of obligations undertaken by the counterparties.

Allocations to bad debt provisions reflect the effective credit risks through the targeted quantification of the allocation itself.

The Company manages the credit risk by having relations mainly with counterparties with high creditworthiness and does not have any relevant concentrations of credit risk. The maintenance of an effective credit risk management represents a strategic target for the Company and, for this purpose, the type of business and the payment instruments adopted generally guarantee a limited credit risk.

Credit positions are individually impaired, if they are singularly significant, for which a partial or total non-payment is an objective condition. The amount of impairment takes account of an estimate of recoverable cash flows and the related collection date, as well as future recovery charges and expenses and the value of guarantees and security deposits received from customers. With respect of receivables that are not subjected to analytical impairment, provisions are collectively allocated, taking account of the historical experience, provisions related to the future macroeconomic conditions affecting the customers' ability to repay receivables, as well as available statistics.

The recoverability of trade receivables is constantly monitored by the Company through the activity of a specific corporate department.

Maximum credit risk exposure is examined in more detail in paragraph 13 of this document.

3.27.2 Liquidity risk

Liquidity risk is the difficulty in fulfilling obligations connected with borrowings paid cash or through another financial asset.

The difficult economic context of commercial and financial markets requires special attention for the management of liquidity risk. To this purpose, special attention was given to actions aimed at both generating financial resources with operating management and maintaining an adequate level of available liquidity. The Company therefore intends to meet requirements resulting from financial payables to be overdue and planned investments through cash flows from operations, cash on hand and the centralised management of the Group's treasury.

The Company deems that it has access to sufficient funds to fulfil its scheduled obligations, taking account of cash and cash equivalents, its ability of generating cash flows, the sourcing of funds from the bond market and the availability of credit lines by banks.

A detailed analysis of the due dates for borrowings is contained in paragraph 20 of these notes.

3.27.3 Market risk

The strategy followed for this type of risk aims at mitigating interest rate and exchange rate risks, while optimizing debt cost.

These risks are prudently managed, in compliance with the best market practices.

The main objectives indicated in the policy are as follows:

- to pursue the defence of the long-term plan scenario against the effects caused by the exposure to interest rate and exchange rate risks, by defining the optimal combination between fixed and variable interest rates;
- to pursue the potential reduction of the Company's debt cost;
- to manage operations of derivative financial instruments, taking account of the economic and equity impacts that these actions would have, also due to their classification and accounting.

Exposure to the interest rate risk arises from the need to finance the operations and M&A investments, as well as to invest any available liquidity. Fluctuations in market interest rates may negatively, or positively, affect the economic result of the Company, thus indirectly affecting costs and returns of financing and investment transactions. The interest rate risk, to which the Company is exposed, derives from bank borrowings. To mitigate these risks, when it is deemed suited, the Company uses derivatives designated as cash flow hedges. The use of these instruments is governed by written procedures that are consistent with the management strategies of the Group's risks and that do not envisage any derivatives with trading purposes.

■ 3.28 RELATED PARTIES

Engineering Ingegneria Informatica S.p.A. approved the procedure for the identification and carrying out of transactions with related parties through Board of Directors' resolution of November 12, 2010, effective on January 1, 2011. During the financial year the Company carried out transactions with a number of related parties. All balances with related parties were determined under normal market conditions. The general conditions governing transactions with senior executives and their related parties do not appear to be any more favourable than those applied, or which may have been reasonably applied, in the event of similar transactions under normal market conditions with executives without strategic responsibility of the same entities.

■ 3.29 NEW IFRS STANDARDS AND IFRIC INTERPRETATIONS

The International Accounting Standards (IFRS) endorsed by the European Commission and effective on December 31, 2018 were applied in preparing these financial statements. With reference to the new IFRS

Standards in force, reference is made to the first application of IFRS 9 – “Financial Instruments” and IFRS 15 – “Revenues from contracts with customers”, as from January 1, 2018. Their impact is described hereunder.

Accounting standards, amendments and IFRS interpretations applied as of January 1, 2018

The following accounting standards, amendments and IFRS interpretations were applied for the first time by the Company as of January 1, 2018.

- On May 28, 2014, the IASB published the standard **IFRS 15 – Revenue from Contracts with Customers**, which aims to replace the standards IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services, together with further clarification published on April 12, 2016. The standard establishes a new model for revenue recognition which will be applied to all contracts stipulated with customers, with the exception of those falling within the scope of other IAS/IFRS standards such as leasing, insurance contracts and financial instruments. The fundamental steps for booking revenues according to the new model are as follows:

- identification of the contract with the customer;
- identification of the performance obligations of the contract;
- price determination;
- allocation of the price to the performance obligations in the contract;
- criteria for registration of the revenue when the entity satisfies each performance obligation.

Therefore, the amount that the entity recognises as revenue should reflect the amount that it is entitled to receive against the transfer of goods and/or services to customers. These amounts shall be recognised when its performance obligations are fulfilled. Moreover, as regards the recognition of revenues, the necessity of evaluating the possible obtainment/collection of economic benefits linked to the revenue is highlighted. As regards customer contract assets, the requirement to record revenues is introduced, taking also account of the possible discount effect resulting from collections over time.

Impact on the financial statements resulting from the adoption of IFRS 15

The standard was applied as from January 1, 2018. The Company opted to recognise the effect related to the retroactive remeasurement of amounts, in shareholders' equity on January 1, 2018, without remeasuring the balance of items of compared previous years.

At completion of surveys carried out, no significant impact was identified from the adoption of IFRS 15 for the Company, except for the following:

- (i) the suspension of deferred contract cost (i.e. Transaction Costs);
- (ii) the rename of items “Construction contracts” with “Customer contract assets”.

In particular, the following was carried out:

- recognition of an asset (“Deferred contract costs”), against contract costs (cost borne to obtain and execute the contract), to the extent they are deemed to be recoverable (i.e. within the limits of the amount of overall estimated future performances);
- expense to income statement of the cost pertaining to each financial year in the amount corresponding to the transfer of asset-related services to customers and the related recognition in the income statement.

It should be highlighted that, in addition to the above-mentioned effects, analyses were carried out on other aspects of the contracts with customers that were relevant for the Company's assets and business. No significant impact was recognised in the application of the new standard. For example, reference is made to contractual issues (costs to obtain a contract, guarantees) that were measured and recorded pursuant to the new standard, whose analysis is in any case taken into consideration also for new contracts.

The application of the new standard generated no impact on the shareholders' equity as of January 1, 2018.

For a more thorough description of evaluation criteria related to IFRS 15 applied, see Note 3.21.

- On July 24, 2014, the IASB published the final version of **IFRS 9 – Financial Instruments: Recognition and Measurement**. The document includes the results of the IASB project, aimed at superseding the IAS 39 standard. The new standard should be applied by the financial statements as of January 1, 2018 or subsequent years.

The standard introduces new criteria for the classification and measurement of financial assets and liabilities. In particular, and in the case of financial assets, the new standard utilises a unique approach based on the modalities for management of financial instruments and on the characteristics of contractual cash flows of the financial assets themselves in order to determine the valuation criterion, thereby replacing the various rules provided for by IAS 39. In the case of borrowings, on the other hand, the primary modification concerned the booking of changes in the fair value of a financial liability classified as a financial liability and measured at fair value in the income statement in the case that these changes were due to a change in the credit rating of the issuer of the liability itself. According to the new standard, these changes must be booked in “Other comprehensive income” and no longer in the income statement. Moreover, as regards non-substantial modifications of borrowings, it is no longer allowed to spread the economic effects of renegotiation over the residual duration of the payable by modifying the effective interest rate at that date. The related effect will have to be recognised in the income statement.

With reference to impairment, the new standard requires that the estimate of losses on receivables must be implemented on the basis of the model of expected losses (and not the model of incurred losses utilised by IAS 39) by using supportable information that is available without unreasonable charges or efforts and which include historical, current or forecasted data. The standard requires that this impairment model be applicable to all financial instruments, i.e. to financial assets measured at their amortised cost as well as those measured at fair value through other comprehensive income, receivables deriving from rental contracts and trade receivables.

Finally, the standard introduces a new model of hedge accounting in order to adjust the requirements needed by the current IAS 39, which are occasionally considered too strict and unsuitable to reflect the risk management policies of companies. The primary novelties within the document include the following:

- an increase in the type of transactions eligible for hedge accounting, even including the risks of non-financial assets/liabilities which are eligible to be managed in hedge accounting;
- a change in the modalities for booking forward contracts and options when these are included in a hedge accounting relationship and in order to reduce the volatility of the income statement;
- changes to the efficacy test through the replacement of the current modalities based on the 80-125% parameter with the principle of the “economic relationship” between the hedged item and hedging instrument; in addition, an evaluation of the retrospective efficacy of the hedging relationship will no longer be requested.

The increased flexibility of the new accounting rules is counterbalanced by additional requests for reporting on the risk management activities of the Company.

Impacts on the financial statements of Engineering Ingegneria Informatica S.p.A. resulting from the adoption of IFRS 9

It should be noted that the only effect resulting from the adoption of IFRS 9 concerned the impairment based on the expected credit loss envisaged by IFRS 9. To this purpose, the Company developed a new credit risk modelling, which allowed for analytically determining the different credit risk related to customers' creditworthiness since the occurrence of receivables and progressively according to their ageing. This information was used by the Company in determining the bad debt provision according to the impairment modelling based on expected credit loss, which involved an effect on the initial shareholders' equity related to the implementation of IFRS 9, equal to a reduction of the same by Euro 0.5 million as a consequence of a credit reduction of equal amount (i.e. Euro 0.5 million), without significant amendments to economic data of the first half 2018.

The decrease in retained earnings refers to the recording of further and possible losses due to the reduction of financial assets resulting from the application of the provisional model for the expected credit loss, introduced by IFRS 9 in replacement of the incurred credit loss model envisaged by IAS 39. Based on this new modelling, also financial assets that are not overdue were analysed. No impairment was reported for these assets.

It is also specified that impairment recorded on January 1, 2018 referred primarily to trade receivables. The analyses made on financial assets and liabilities reported no relevant impairment.

As regards IFRS 9 “Financial instruments”, the Company opted to disclose the effect, related to the retroactive remeasurement of amounts, in shareholders’ equity on January 1, 2018, taking account of the types existing on that date, without any restatement of financial years under comparison. The summary of the effects of the adoption of new standards on the opening balances as of January 1, 2018 is shown hereunder.

Summary table of the equity-financial position, restated as of January 1, 2018.

(in millions of Euros)			
Net assets acquired	Approved December 31, 2017	Adoption effects IFRS 9	Restated January 1, 2018
Current assets	778,692,215	(487,442)	778,204,773
of which: trade receivables	430,976,988	(487,442)	430,489,546
Other current assets	53,651,863		53,651,863
Non-current assets	767,616,508		767,616,508
of which: intangible assets	468,808,944		468,808,944
Equity investments	202,090,833		202,090,833
Prepaid tax assets	22,395,886		22,395,886
Assets held for sale	0		0
Total assets	1,546,308,723	(487,442)	1,545,821,281
Current liabilities	541,227,445		541,227,445
of which: trade and other payables	321,264,117		321,264,117
Other current liabilities	107,863,878		107,863,878
Non-current liabilities	432,596,559		432,596,559
Directly associated liabilities to assets held for sale	0		0
Total liabilities	973,824,004		973,824,004
Shareholders’ equity	572,484,719	(487,442)	571,997,277
Total liabilities and shareholders’ equity	1,546,308,723	(487,442)	1,545,821,281

- On June 20, 2016, the IASB published the amendment to IFRS 2 – “Classification and measurement of share-based payment transactions” (published on June 20, 2016). Amendments supply some clarification in relation to accounting of the effects of vesting conditions, in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and the accounting of amendments to terms and conditions of a share-based payment, which modify the classification from cash-settled to equity-settled. The amendments were applied as from January 1, 2018. The adoption of this amendment had no impact on the Company financial statements.
- On December 8, 2016 the IASB published the document “Annual Improvements to IFRS’s document: 2014-2016 Cycle”, which partially supplements the already existing standards within the annual improvement process. The main amendments involve:
 - IFRS 1 – First-Time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters. The amendment was applied as from January 1, 2018 and concerns the cancellation of some short-term exemptions envisaged in paragraphs E3-E7 in the Appendix E of IFRS 1 as it is deemed that the benefit of these exemptions no longer exists.
 - IAS 28 – Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice. The amendment clarifies that the option for a venture capital organisation or other qualifying entity (such as a mutual fund or similar entity) to measure investments in associates and joint ventures, measured at fair value through profit or loss (rather than by using the equity method), should be performed for each single investment upon initial recognition. The amendment was applied as from January 1, 2018.
 - IFRS 12 – Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the application scope of IFRS 12, and specifies that disclosures required by the standard, except for the ones envisaged in paragraphs B10-B16, also apply to interests held for sale, held for distribution to shareholders and discontinued operations in accordance with IFRS 5. The amendment was applied as from January 1, 2018.

The adoption of these amendments had no impact on the Company financial statements.

- On December 8, 2016, the IASB issued the amendment to the IAS 40 – “Transfers of Investment Property”. These amendments clarify the pre-requisites to transfer investment property to, or from investment property. More specifically, an entity must reclassify a property to, or from investment property only when there is a change in use. A change in use must be related to a specific event already occurred and shall not be limited to a change in the management’s intentions of an entity for the use of a property. These amendments were applied as from January 1, 2018. The adoption of these amendments had no impact on the Group consolidated financial statements.
- On December 8, 2016, IASB published the interpretation “Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)”. This interpretation aims at supplying guidelines from transactions carried out in a foreign currency, where non-monetary advances and payments on account (as a counter-entry of received/paid cash) are recognised in the financial statements before the recognition of the related assets, costs or revenue. This document gives indication on how the entity should determine the date of a transaction and therefore the spot exchange rate to be used when transactions in foreign currency are carried out, in which the payment is made or received in advance.

The interpretation clarifies that the transaction date is the earlier between:

- a) the date in which the advanced payment or the payment on account received are recorded in the entity’s financial statements; and
- b) the date in which the assets, the cost or the revenue (or part of the same) is recorded in the financial statements (with consequent reverse of the advanced payment or the payment on account received).

In the event of a number of advances or payments on account received, a specific transaction date must be identified for each of these transactions. IFRIC 22 was applied as from January 1, 2018. The adoption of this amendment had no impact on the financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations approved by the European Union, but not yet mandatorily applicable and not the object of an early application as of December 31, 2018

- On January 13, 2016, the IASB published the standard IFRS 16 – Leases which will replace IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard provides a new definition of lease and introduces a criterion based on control (right of use) of a good in order to distinguish lease contracts from service contracts, while identifying the following as discriminating factors: identification of the good, the right of replacement of the latter, the right to substantially obtain all the economic benefits deriving from the use of the good and, lastly, the right to manage the use of the good underlying the contract.

The standard provides for a single model for the recognition and measurement of lease contracts for the lessee and which includes the booking of the assets also subject to an operating lease under assets and with a counter-entry as financial payable. On the contrary, the standard does not include significant changes for lessors.

The standard is applicable as of January 1, 2019 but early application is allowed.

The Company has completed the preliminary assessment project of possible impacts resulting from the application of the new standard at the transition date (January 1, 2019). This process envisages multiple steps, including the complete mapping of contracts that are potentially suited to include a lease, and the analysis of the same in order to understand the main clauses that are relevant for the purposes of IFRS 16.

Directors initiated a project aimed at implementing the new standard which envisages, as first step, a detailed analysis of contracts and accounting impacts and, as a second step, the implementation and/or adjustment of administrative processes and the accounting system. Directors have not yet defined the approach that they intend to adopt amongst those permitted by the IFRS 16 standard.

The Company elected to apply this standard by using the modified retrospective transition method and recording the cumulated effect resulting from the application of the standard to shareholders’ equity as of January 1, 2019, pursuant to provisions set forth in paragraphs IFRS 16: C7-C13. In particular, in relation to

lease contracts previously classified as operating leases, the Company will account for the following:

- a) a financial liability, equal to the present value of residual future payments at the transition date, discounted by using, for each single contract, the incremental borrowing rate applicable at the transition date;
- b) a right of use, equal to the value of the financial liability at the transition date, net of any accruals and deferrals related to the lease and recognised in the statement of financial position at the reporting date of these financial statements.

The following table shows the estimated impact of the IFRS 16 adoption at transition date.

(in millions of Euros)	
Description	Impacts at transition date (01.01.2019)
Non-current assets - Right of use	138.1
Non-current liabilities	
Borrowings for non-current leases	121.2
Current liabilities	
Borrowings for current leases	16.9
Total	138.1

In adopting IFRS 16, the Company intends to take advantage of the exemption envisaged:

- in paragraph IFRS 16:5(a) with regard to short-term leases;
- in paragraph IFRS 16:5(b) as regards lease contracts for which the underlying asset is defined as low value asset (i.e. the assets underlying a lease contract do not exceed Euro 5,000 when new).

The Company is willing to adopt the following implementation measures, as provided for in IFRS 16:

- Portfolio approach: the Company identified contracts with similar characteristics and that can be treated as a portfolio;

Moreover, with reference to transition rules, the Company intends to adopt the following implementation measures in the event the modified retrospective transition model is adopted:

- classification of contracts regarding short-term leases (expiring within 12 months from the transition date). For these lease contracts, the rates will be recognised in the income statement on a straight-line basis;
- exclusion of initial direct costs from the measurement of the right of use as of January 1, 2019;
- use of information at the transition date, to determine the lease term, with special reference to the exercise of extension options and advanced termination.

The transition to IFRS 16 introduces some elements of professional advice, which involve the definition of some accounting policies and the use of assumptions and estimates in relation of the lease term, upon definition of the incremental borrowing rate.

- On October 12, 2017, the IASB published an amendment to IFRS 9 – “Prepayment Features with Negative Compensation”. This document specifies that the instruments that envisage a prepayment might comply with the Solely Payments of Principal and Interest (“SPPI”) test also in the event the reasonable additional compensation, to be paid in case of prepayments, is a negative compensation for the lender. The amendment is applicable as from January 1, 2019 but earlier application is permitted. The Directors are currently evaluating the possible impact of the introduction of these amendments.
- On June 7, 2017, the IASB published the interpretation “Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)” (published on June 7, 2017). The interpretation deals with uncertainty over tax treatments to be adopted on income taxes. In particular, the interpretation requires that an entity analyses the uncertain tax treatments (independently or together, according to their characteristics), always assuming that Tax Authorities will examine those amounts and will have full knowledge of all relevant information when doing so. If the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to reflect the uncertainty when determining current and deferred income taxes. Moreover, no other disclosure obligation is envisaged in the document but it is highlighted that the entity shall determine whether it will be necessary to supply information on remarks made by the management on the uncertainty related to tax accounting, in compliance with IAS 1.

The new interpretation is applicable as from January 1, 2019 but earlier application is permitted. The Directors are currently evaluating the possible impact of the introduction of this interpretation.

Accounting standards, amendments and IFRS interpretations not yet approved by the European Union

At the reporting date, the competent bodies of the European Union had not yet completed the approval process required for the adoption of the amendments and the standards below.

- On May 18, 2017, the IASB published the standard IFRS 17 – Insurance Contracts, intended to supersede the standard IFRS 4 – Insurance Contracts.

The target of the new standard is to guarantee that an entity supplies information representing both rights and obligations related to insurance contracts. The IASB has developed this standard to cancel all inconsistencies and weaknesses of the existing accounting policies, by supplying a consolidated principle-based framework to take account of all types of insurance contracts, including reinsurance contracts held by an insurer.

The new standard also envisages presentation and information requirements to improve comparability between entities belonging to the same sector.

According to the new standard, an insurance contract is measured based on a General Model or a simplified version named Premium Allocation Approach (“PAA”).

The main characteristics of the General Model are:

- estimates and assumptions of future cash flows are always the current ones;
- measurement reflects the time value of the money;
- estimates envisage an extensive use of observable market information;
- there is a current and explicit measurement of risk;
- the expected revenue is deferred and aggregated in clusters of insurance contracts upon initial recognition;
- the expected revenue is recognised over the coverage period for the contracts, taking account of adjustments resulting from changes in assumptions related to cash flows of each single cluster of contracts.

The PAA approach measures the liability for the remaining coverage of a cluster of insurance contracts provided that, upon initial recognition, the entity provides that this liability reasonably represents a reasonable approximation to the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. Simplifications resulting from the application of the PAA method are not applicable to the measurement of liabilities for claims in place, that are measured based on the General Model. However, discounting of cash flows is not required if the balance is likely to be paid or received within one year from the claim date.

The entity shall apply the new standard to insurance contracts issued, including reinsurance contracts issued, reinsurance contracts held and investment contracts with Discretionary Participation Features (DPF). The standard is applicable as from January 1, 2021 but early application is allowed solely for entities which apply IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. The Directors do not foresee a significant impact with the adoption of this new standard.

- On June 7, 2017 the IASB issued the interpretation document IFRIC 23 – Uncertainty over Income Tax Treatments. The document deals with uncertainty over tax treatments to be adopted on income taxes. The document sets out that uncertainty when determining tax credits or tax loss be reported in the financial statements only when it is probable that the entity will pay or recover the amount. Moreover, no other disclosure obligation is envisaged in the document but it is highlighted that the entity shall determine whether it will be necessary to supply information on remarks made by the management on the uncertainty related to tax accounting, in compliance with IAS 1.

The new interpretation is applicable as from January 1, 2019 but earlier application is permitted. The Directors are currently evaluating the possible impact of the introduction of this interpretation.

- On October 12, 2017, the IASB published the document “Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)”. This document clarifies that an entity shall apply IFRS 9, including requirements related to impairment, to other long-term interests in associates or joint ventures to which the equity method is not applied. The amendment is applicable as from January 1, 2019 but earlier application is permitted.

The Directors are currently evaluating the possible impact of the introduction of these amendments on the financial statements.

- On December 12, 2017, the IASB published the document “Annual Improvements to IFRSs: 2015-2017 Cycle”, which includes the amendments to the standards within the annual improvement process. The main amendments involve:
 - IFRS 3 – Business Combinations and IFRS 11 – Joint Arrangements: the amendment clarifies that when an entity gains control of a business that is a joint operation, it shall remeasure the interests previously held in this business. Conversely, this process is not envisaged in the event of a joint control.
 - IAS 12 – Income Taxes: this amendment clarifies that all tax effects related to dividends (including payments on financial instruments classified as equity) should be accounted for consistently with the transaction that generated the profit (income statement, OCI or equity).
 - IAS 23 – Borrowing costs: the amendment clarifies that in the event of loans that are still in place after the reference qualifying asset is ready for use or sale, these amounts become part of the amounts used to calculate the borrowing costs.

The amendments are applicable as from January 1, 2019 but earlier application is permitted. The Directors are currently evaluating the possible impact of the introduction of these amendments on the financial statements.

- On February 7, 2018 the IASB published the document “Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)”. The document clarifies how an entity should recognise a modification (i.e. a curtailment or a settlement) of a defined benefit plan. Modifications require that the entity updates its assumptions and remeasures net liabilities or assets related to the plan. These amendments clarify that, upon occurrence of this event, an entity uses updated assumptions to measure the current service cost and the interests for the rest of the reference period following the event.

The Directors are currently evaluating the possible impact of the introduction of these amendments.

- On October 22, 2018 the IASB published the document “Definition of a Business (Amendments to IFRS 3)”. The document supplies some clarifications on the definition of the business for the purposes of a correct application of the IFRS 3 standard. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to determine a business in the presence of an integrated set of activities/processes and assets. However, in order to be considered a business, a set of activities/processes and assets must include, at a minimum, an input and a substantive process that significantly contribute to the ability to create outputs. To this purpose, the IASB replaced the wording “ability to create output” with “ability to contribute to create outputs” to clarify that a business can exist also without the presence of all inputs and processes necessary to create an output.

The amendment has also introduced a concentration test, optional for the entity, that permits an assessment of whether an acquired set of activities and assets is not a business. If the test outcome is positive, the acquired set of activities/processes and assets is not a business and the standard does not require further assessments. If the test outcome is negative, the entity shall carry out further analyses to determine whether the acquired activities/processes and assets is a business. To this purpose, the amendment added a number of illustrative examples to the IFRS 3 standard in order to help entities understand the practical application of the new definition of business in specific cases. Amendments are applicable to all business combinations and subsequent acquisitions of assets, as from January 1, 2020 but early application is allowed.

While considering that this amendment will be applied on the new acquisition transactions that will be concluded as from January 1, 2020, any effect will be recognised in the financial statements ended after this date.

- On October 31, 2018, the IASB published the document “Definition of Material (Amendments to IAS 1 and IAS 8)”. This document introduced an amendment in the definition of “material” included in the IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. This amendment aims at specifying the definition of “material” and introduces the concept of “obscured information” together with the concepts of omitted or misstated information, already included in the two amended standards. The amendment clarifies that an information is “obscured” when it is described in a manner that the effect for the readers of a financial statement would be similar to the effect created by an omitted or misstated information.

Directors deem that the adoption of this amendment will have no material impact on the financial statements.

- On September 11, 2014, the IASB published an amendment to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. The document was published for the purposes of resolving the current conflict between IAS 28 and IFRS 10.

In accordance with provisions of IAS 28, the profit or loss resulting from the transfer or conferment of a non-monetary asset to a joint venture or associate in exchange for a share capital quota of the latter is limited to the quota retained in the joint venture or associate by other investors which are external to the transaction. Conversely, the standard IFRS 10 provides for the booking of the entire profit or loss in the case of loss of control of a subsidiary, even if the entity continues to retain a non-controlling quota and including in this case even the transfer or conferment of a subsidiary to a joint venture or associate. The amendments introduced envisage that in the sale or transfer of an asset or a subsidiary company to a joint venture or associate, the measurement of a profit or loss to be recognised in the financial statements of the transferring /receiving company will depend on whether the assets or the subsidiary sold or transferred represent a business, as envisaged by IFRS 3. If the assets or subsidiary company sold or transferred represent a business, the entity shall recognise the profit or loss on the entire portion previously held. Conversely, the portion of profit or loss, related to the interests which is still held by the entity, should be derecognised. At the moment, the IASB has suspended the application of this amendment.

The Directors are currently evaluating the possible impact of the introduction of these amendments.

■ 3.30 SEASONALITY OF COMPANY OPERATIONS

The activities of the Company are not subject to seasonality.

Statement of financial position

A) Non-current assets

4 Property, plant and equipment

(in Euros)

Description	31.12.2018	31.12.2017	Change
Property, plant and equipment	26,631,704	24,399,287	2,232,417

(in Euros)

Description	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets in progress	Leasehold improv.	Total
Historical cost as of 31.12.2018	22,306,113	13,493,930	43,376,770	14,256,528	0	10,733,521	104,166,862
Accumulated depreciations as of 31.12.2018	(5,255,864)	(10,788,351)	(38,782,082)	(12,162,987)	0	(10,545,874)	(77,535,158)
Balance as of 31.12.2018	17,050,249	2,705,579	4,594,688	2,093,542	0	187,646	26,631,704

The changes in property, plant and equipment were as follows:

(in Euros)

Description	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets in progress	Leasehold improv.	Total
Balance as of 01.01.2017	7,918,336	3,341,016	1,993,037	1,711,965	0	407,335	15,371,689
Additions	9,770,379	456,499	1,246,836	347,266	0	0	11,820,982
Disposal	0	0	(560,180)	(15,386)	0	0	(575,565)
Decrease of acc. depreciation	0	0	541,643	15,386	0	0	557,029
Depreciation	(594,661)	(765,988)	(905,029)	(396,348)	0	(112,821)	(2,774,847)
Balance as of 31.12.2017	17,094,055	3,031,527	2,316,307	1,662,884	0	294,514	24,399,287
Opening change from merger	0	1,304	2,666,094	103,642	0	0	2,771,040
Additions	552,151	448,981	1,568,993	880,076	0	0	3,450,201
Disposal	0	(26,692)	(414,824)	(290,465)	0	0	(731,981)
Increase of acc. depreciation	0	0	(410)	0	0	0	(410)
Decrease of acc. depreciation	0	10,424	369,503	286,781	0	0	666,708
Depreciation	(595,957)	(759,966)	(1,910,974)	(549,376)	0	(106,868)	(3,923,141)
Balance as of 31.12.2018	17,050,249	2,705,579	4,594,688	2,093,542	0	187,646	26,631,704

All property, plant and equipment are operational and effectively utilised in company operations and no obsolete assets of significant value or requiring replacement in the short-term, which were not depreciated exist.

The increases were substantially due to asset purchases carried out over the half-year and decreases from the sale of obsolete assets.

Tangible assets comprise assets owned by two company merged in 2018. Assets acquired before the merger by merged companies are recognised under item "Opening change from merger", net of their accumulated depreciation.

Purchases made over the first 4 months by the company Infogroup S.p.A. (effective date of the merger, May 1, 2018, with retrospective accounting and tax effects on January 1, 2018) are included in increases, while dismissals are included in decreases.

The "Land and buildings" item increased by Euro 552 thousand, due to the requalification of areas related to the building located in Ferentino.

The “Land and buildings” item results, in the amount of Euro 9,155 thousand, from the entry, in the previous year, of two real estate agreements with Mediocredito Italiano S.p.A..

The following table shows the breakdown of leased assets included in item “Land and buildings” as of December 31, 2018:

(in Euros)	
Description	31.12.2018
Historical cost of leased assets	9,746,571
Accumulated depreciation of leased assets	(590,701)
Total	9,155,870

This transaction referred to the financial of a real estate property in Turin, in the area of former Officine Savigliano, of which reference is made to the following paragraph 20. The transfer of the two contracts was formalised with Notary Deed of February 23, 2017, in particular:

- the contract no. 890731 envisages instalments to be paid for the principal of Euro 3.4 million, in addition to interest and the redemption price of Euro 0.1 million. The balance of the last instalment is expected on December 23, 2023;
- the contract no. 890732 envisages instalments to be paid for the principal of Euro 3.4 million, in addition to interest of Euro 0.5 million and the redemption price of Euro 0.1 million. The balance of the last instalment is expected on December 23, 2023.

Pursuant to IAS 17, the two properties under finance leases are recorded at cost under tangible fixed assets, with a counter-entry in the financial payable to the lessor, and are depreciated according to the useful life of the asset and consistently with the nature of the individual asset. The financial charge is incurred in the income statement for the duration of the contract.

The “Plant and machinery” item increases by Euro 449 thousand, thanks to the installation of new air conditioning, telecommunications and safety facilities in some company offices.

The increase in “Industrial and commercial equipment”, equal to Euro 1,569 thousand, relates to the purchase of computers for internal use while the decreases, equal to Euro 415 thousand, are due to the disposal and/or donation of obsolete computers.

The increase in “Other assets”, amounting to Euro 880 thousand, refers to the purchase of furniture and fittings.

5 Intangible assets

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Intangible assets	518,335,033	469,387,496	48,947,537

(in Euros)						
Description	Deve- lopment costs	Industrial patents and intellectual property	Conc., licences and trademarks	Assets in progress	Other assets	Total
Historical cost as of 31.12.2018	25,628,016	108,302,602	453,059,490	2,647,836	96,922,842	686,560,786
Accumulated amortisation as of 31.12.2018	(20,309,408)	(102,780,314)	(30,128)	0	(45,105,903)	(168,225,753)
Balance as of 31.12.2018	5,318,608	5,522,289	453,029,362	2,647,836	51,816,939	518,335,033

The changes in intangible assets are detailed as follows:

(in Euros)						
Description	Deve- lopment costs	Industrial patents and intellectual property	Conc., licences and trademarks	Assets in progress	Other assets	Total
Balance as of 01.01.2017	1,948,133	4,678,728	0	909,307	619,272	8,155,440
Opening change from merger	0	817	453,029,362	0	11,289,342	464,319,521
Additions	0	4,732,291	0	4,234,766	2,760,257	11,727,313
Disposal	0	(9,535,081)	0	0	0	(9,535,081)
Decrease of acc. amortisation	0	6,110,228	0	0	0	6,110,228
Amortisation	(617,700)	(2,003,482)	0	0	(8,768,742)	(11,389,924)
Balance as of 31.12.2017	1,330,433	3,983,500	453,029,362	5,144,073	5,900,129	469,387,496
Opening change from merger	0	628,258	0	0	0	628,258
Additions	5,373,358	4,259,742	0	2,877,121	66,539,544	79,049,765
Disposal	0	0	0	(5,373,358)	0	(5,373,358)
Increase of acc. amortisation	0	(250)	0	0	(260,109)	(260,359)
Amortisation	(1,385,183)	(3,348,961)	0	0	(20,362,625)	(25,096,769)
Balance as of 31.12.2018	5,318,608	5,522,289	453,029,362	2,647,836	51,816,939	518,335,033

Following the recognition and measurement of fair value of assets acquired and liabilities undertaken of Fair Dynamics Consulting S.r.l., comparison information were updated, as if accounting was made at acquisition date.

Identified final fair value values amounted to Euro 694 thousand, including taxes, and relate to the contract portfolio, recorded under item "Other assets".

The residual amount, identified as goodwill, equal to Euro 37 thousand, was accounted for in the income statement. For further details, reference is made to paragraph 1.2 "Significant operations".

Intangible assets comprise assets owned by the company merged on January 1, 2018. Assets acquired before the merger by merged companies are recognised under item "Opening change from merger", net of their accumulated depreciation.

Intangible assets increased by Euro 79,049 thousand, due primarily to the definition and measurement of fair value, according to IFRS 3, of assets and liabilities at the acquisition date of control of the companies Infinity Technology Solutions S.p.A. (Infinity S.p.A.) and Infogroup – Informatica e Servizi Telematici S.p.A. (Infogroup S.p.A.), acquired the previous year and merged by incorporation in Engineering Ingegneria Informatica S.p.A. in 2018.

The identified assets refer to the Contract Portfolio and the Customer Relation Value for the amount of Euro 66,539 thousand, and are recorded under item "Other assets", as well as to Products, in the amount of Euro 1,334 thousand, recorded under "Industrial patents and intellectual property". The book values recorded under fixed assets was determined through an estimate of the fair value of the assets, in accordance with IFRS 3, made with the support of an independent expert and based on assumptions considered reasonable and realistic on the basis of information available at the date of acquisition of control.

Some details are shown hereunder.

As regards Infinity S.p.A., identified assets refer to:

- the "Contract Portfolio" and the "Customer Relation Value", as per income assessment discounted (WACC 10.72%) by the prospective residual margins resulting from such orders. The amount, determined at the acquisition date, is equal to Euro 1,182 thousand (in addition to Euro 458 thousand of deferred tax liabilities) and Euro 328 thousand (in addition to Euro 127 thousand of deferred tax liabilities). The residual period of amortisation is 2 years and 1 year, respectively.

As regards Infogroup S.p.A., identified assets refer to:

- the “Contract Portfolio” and the “Customer Relation Value”, as per income assessment discounted (WACC 10.72%) by the prospective residual margins resulting from such orders. The amount, determined at the acquisition date, is equal to Euro 35,350 thousand (in addition to Euro 13,679 thousand of deferred tax liabilities) and Euro 11,113 thousand (in addition to Euro 4,300 thousand of deferred tax liabilities). The residual period of amortisation is 4 years and 2 years, respectively;
- the products with an amount determined at the acquisition date is equal to Euro 962 thousand (in addition to Euro 372 thousand of deferred taxes). The residual period of amortisation is 4 years.

As regards other categories:

- the item “Development costs”, equal to Euro 5,373 thousand, is related to:
 - the product denominated “Net@SUITE Cloud Edition” of the Energy and Utilities area, related to the realization of the internally developed Cloud platform, in use as from January 1, 2018 and with a 5-year amortisation, that amounts to Euro 2,128 thousand;
 - the product “CPM Corporate Performance Management” of the Finance area, in use as from October 1, 2018 and with a 3-year amortisation, that amounts to Euro 1,452 thousand;
 - a system to support processes in intensive care units, named “ICU Intensive Care Unit”, in the Health area, in use as from August 1, 2018, with a 5-year amortisation, that amounts to Euro 1,242 thousand;
 - the product “eXHC eXtended Home Care”, a support system of integration processes between hospital and local structures, in use as of July 1, 2018 with a 5-year amortisation, that amounts to Euro 292 thousand;
 - the project SEA, Euro 258 thousand, with a 3-year amortisation;
 - the item “Industrial patents and intellectual property” increased by Euro 4,260 thousand, including Euro 2,968 thousand related to the purchase of software programmes and Euro 1,334 thousand related to the products identified within the above-mentioned Purchase Price Allocation of the purchase price of Infogroup S.p.A.;
- the item “Assets in progress” reported an increase of Euro 2,877 thousand for in-house investments for the realization of new solutions:
 - in the Energy Utilities area, the product “Net@2A” was completed. This is a new product for the management of the Integrated Water Service and the environmental hygiene service in view of a Cloud Service. The investment, started in 2017, amounted to Euro 2,037 thousand. Amortisation will begin on January 1, 2019, over 5 years;
 - in the Health area, the development of the product named “Electronic medical record” and of the product “Diagnostic Therapeutic Assistance” continued. Their inclusion is expected in the first half of 2019 and the amortisation will be over 5 years;
 - in the Research and Development area, a new Site of Engineering Ingegneria Informatica S.p.A. is being implemented.

Lastly, we recall that the item “Concessions, licences and trademarks” includes the trademark, amounting to Euro 453 million, including deferred tax assets (equal to around Euro 126 million) referring to the fair value of the Engineering brand. This value emerged, in the previous year, upon completion of the accounting activities connected with the acquisition of control of Engineering Ingegneria Informatica S.p.A. and its subsidiaries by Mic Bidco S.p.A. and following reverse merger of Mic Bidco S.p.A. in Engineering Ingegneria Informatica S.p.A..

(in Euros)			
Description	31.12.2017	Write-downs	31.12.2018
Gross value - trademarks	453,039,362	0	453,039,362
Accumulated impairment losses	-	-	-
Net value - trademark	453,039,362	0	453,039,362

The brand value recorded under intangible fixed assets was determined through an estimate of the fair value of the assets, made with the support of an independent expert and based on assumptions considered reasonable and realistic on the basis of information available at the date of acquisition of control. The method used to estimate the value of the trademark was chosen by taking account of the purposes of the transaction and the features of the intangible asset itself. In particular, in line with the literature and the best professional practice, the value of the trademark owned by Engineering was determined by using the income-based method, based on the discounting of future benefits attributable to the intangible asset subject to value appraisal.

The trademark is a right which is legally protected through the registration at the competent authorities. By reason of the fact that this right has no legal, contract, competitive or economic term, which limits its useful life, the same is classified as indefinite life intangible asset and therefore it is not amortised but it is subject to impairment loss when tested for impairment, as provided for by IAS 36.

The average residual amortisation period is as follows:

(in Euros)		
Description	Amortisation, remaining years	Remaining amount
Development costs	5	5,318,608
Industrial patents and intellectual property	5	5,522,289
Concessions, licences and trademarks	indefinite	453,029,362
Other assets	1	51,816,939
Total intangible assets		515,687,197

6 Goodwill

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Goodwill	44,648,340	45,084,971	(436,631)

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Goodwill Finance	16,344,694	16,344,694	(0)
Goodwill Public Administration	11,498,215	11,498,215	0
Goodwill Industry & Services	345,174	781,805	(436,631)
Goodwill Telco & Utilities	6,798,110	6,798,110	0
Goodwill Energy & Utilities	9,662,147	9,662,147	0
Total	44,648,340	45,084,971	(436,631)

During the first half of 2018, as provided for by IFRS 3, final recognition was completed on assets and liabilities of the company Fair Dynamics Consulting S.r.l.. This involved the updating of comparative disclosures for which reference is made at paragraph 5 "Intangible assets" and paragraph 1.2 "Significant operations".

Goodwill as of December 31, 2018 is equal to Euro 44,648 thousand.

As regards the prior year, the value decreased due to the impairment of Euro 400 thousand of goodwill, related to the business unit acquired by the company SP Sapiens S.r.l. and goodwill impairment of Euro 36 thousand related to the company Fair Dynamics Consulting S.r.l..

The analysis was performed to determine the goodwill recoverable value, which was allocated to Cash Generating Units (CGU) to which it is related.

The impairment test, made on December 31, 2018 on the goodwill allocated to the Cash Generating Units (CGU), to which goodwill is related, confirmed that there is no need for write-downs of the value disclosed in the financial statements. In 2019, the performance, in terms of operating results, remained substantially unchanged with respect to forecasts included in the 2019 budget and assumptions for the following years developed by the corporate Management. Therefore, there are no indicators that goodwill was impaired in 2018.

CGU is defined as an asset or small group of assets that generate incoming cash flows that are widely independent from the incoming cash flows resulting from other assets or group of assets. The CGUs were determined based on the market segments and the single operating investees, consistently with the corporate management view in terms of monitoring of results and economic planning.

An analysis of the total value of goodwill was made as per the IAS 36 and IFRS 3 international accounting standards. The value of the goodwill as of December 31, 2018, tested for impairment, was Euro 44,648,340, as described above.

Based on the tests carried out according to the methods described above and according to special modalities described hereunder, the aggregate value of the goodwill tested for impairment was deemed as adequately supported in terms of expected economic results and related cash flows.

There is no evidence at the present date for the Company to proceed with any write-down.

It should be noted, if still necessary, that the recoverable value of the CGUs was prudently estimated and in compliance with the relevant accounting standard and in line with IFRS measurement practices.

For the identification of the recoverable value – the “value in use” of the CGUs – obtained through discounting, of the cash flows (DCF Model) extrapolated from the four-year business plans drawn up by the management of the divisions, the following elements were considered:

- a) estimates of future cash flows generated by the entity;
- b) expected possible changes in these cash flows in terms of the amount and time periods;
- c) cost of money, comprising the current market risk-free rate of interest;
- d) cost to assume the risk related to implicit uncertainty in the management of the CGU;
- e) other risk factors concerning the operations of a specific market and changes over time.

The parameters utilised for discounting the cash flows and the Terminal Value under the DCF model illustrated above were as follows:

- Risk free rate, equal to the average rate of 2018, supplied by Barclays and extrapolated by Bloomberg (> 2%);
 - Equity Risk Premium, equal to the higher yield estimated from the (share) investment market, compared to an investment in risk-free debt securities. The rate taken as a benchmark for assessments relates to 2018, supplied by Barclays and extrapolated by Damodaran (> 5%);
 - Debt cost, equal to the average indebtedness cost (long and short term) of the Group > 1%;
 - Beta unlevered equal to 1;
 - LTG (Long Term Growth) equal to 0.5%;
- for WAAC equal to 7.76%.

As recommended by the best practice, the component of the Terminal Value was limited to a maximum of 70% of the total sum of the discounted “free cash flow” and the Terminal Value itself.

To this purpose, it is worth noting that, to determine the WACC, the following was used:

- Risk free rate, equal to 2.59% when the gross yield of 5-year BTPs is equal to 2.35%;
- Equity Risk Premium extracted by Damodaran equal to 5.96%.

As a consequence, the approach used included parameters of absolute prudence by using a high WACC compared to Group characteristics.

Sensitivity analysis

Moreover, for all CGUs a sensitivity analysis was performed on the increase in the 1% discount rate. This analysis highlighted no impairment losses. The recoverability of goodwill is also confirmed, with respect to other hypotheses, also taking account of a “g rate” growth rate equal to 0%.

7 Equity investments

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(in Euros)

Description	31.12.2018	31.12.2017	Change
Equity investments	142,496,095	202,090,833	(59,594,738)

■ CHANGES IN INVESTMENTS

(in Euros)

Investments in	Value as of 31.12.2017	Op. change from merger	Increase	Decrease	Write-downs	Value as of 31.12.2018
In subsidiaries	202,077,108	9,215	25,692,398	(85,191,594)	(229,756)	142,357,370
In associates	13,725	125,000			0	138,725
Total	202,090,833	134,215	25,692,398	(85,191,594)	(229,756)	142,496,095

a) Subsidiaries

(in Euros)

	Value as of 31.12.2017	Op. change from merger	Increase	Decrease	Write-downs	Value as of 31.12.2018
Municipia S.p.A.	18,667,692					18,667,692
OverIT S.p.A.	11,389,673					11,389,673
Nexen S.p.A.	5,669,820					5,669,820
Engineering International Inc.	476,599			(246,843)	(229,756)	
Engineering do Brasil S.A.	19,615,006					19,615,006
Engineering D.HUB S.p.A.	29,753,852		384,922			30,138,774
Engineering 365 S.r.l.	7,501,466					7,501,466
WebResults S.r.l.	3,424,317		770,000			4,194,317
Engineering ITS AG	9,533,666					9,533,666
Engineering Ingegneria Informatica S.L.	103,589					103,589
Sofiter Tech S.r.l.	1,297,959					1,297,959
Sogeit Solutions S.r.l.	6,077,502					6,077,502
Infinity Technology Solutions S.p.A.	3,488,209			(3,488,209)		
SedApta US Inc.	20,056,542			(20,056,542)		
Engineering USA Inc.			24,537,476			24,537,476
Infogroup S.p.A.	61,400,000			(61,400,000)		
ITS Panama Corporation		9,215				9,215
Engineering International Belgium S.A.	270,202					270,202
Engiweb Security S.r.l.	2,141,089					2,141,089
Engineering Sardegna S.r.l.	58,707					58,707
Engineering da Argentina S.A.	1,151,216					1,151,216
Total	202,077,108	9,215	25,692,398	(85,191,594)	(229,756)	142,357,370

Investments in subsidiaries recorded the following changes:

- the equity investment in the subsidiary Engineering D.HUB S.p.A. increased by Euro 384,922 due to the Stock Options assigned by Engineering Ingegneria Informatica S.p.A.;
- the equity investment in the company WebResults S.r.l. increased by Euro 770,000, following a further 9% acquisition. The company is now wholly controlled;
- the increase of Euro 24,537,476 of the subsidiary Engineering USA Inc. is related, in the amount of Euro 20,056,542, to the reverse merger transaction of the subsidiary SedApta US Inc., and in the amount of Euro 4,480,934 to the purchase of further interests that increased ownership to 80%;

- the company Engineering International Inc. was liquidated, recognising a decrease of Euro 246,843 for the portion collected, while, for the residual portion of Euro 229,756, the amount was written-down;
- decreases recorded in subsidiaries Infogroup S.p.A. and Infinity Technology Solutions S.p.A. are due to mergers by incorporation into Engineering Ingegneria Informatica S.p.A.. The decrease is due to the cancellation;
- the equity investment in ITS Panama Corporation was acquired following the merger of Infinity Technology Solutions S.p.A..

As provided by IAS 36, the recoverability was assessed of the value of equity investments that feature impairment indicators. The recoverable value is determined as the fair value of an asset or of a Cash Generating Unit, net of disposal costs, and its value in use, whichever is higher.

Specifically, impairment test was performed on the carrying value of equity investments in Engineering 365 S.r.l., Engi da Argentina S.A. and Engineering do Brasil S.A., while considering the carrying amount as the carrying value of equity investments as of December 31, 2018.

The value in use of the equity investments was obtained through discounting of both cash flows of investees, over a four-year period, and a Terminal Value estimated by using the perpetual annuity, according to cash flows generated by the business on an ongoing concern basis after the specified period related to the plan.

The discounting of cash flows was carried out based on the WACC discount rate, which is the minimum yield required by the Company's lenders and shareholders for the use of capital in the company. The discount was determined as follows:

- **interest rate for risk-free assets:** the Company used an interest rate equal to the average rate of 2018 supplied by Barclays and extrapolated by Bloomberg (> 2%);
- **risk premium:** Equity Risk Premium, equal to the higher yield estimated from the (share) investment market, compared to an investment in risk-free debt securities. The rate taken as a benchmark for assessments relates to 2018, supplied by Barclays and extrapolated by Damodaran (> 5%);
- **relevered beta:** the Company calculated the relevered beta by assuming an unlevered beta, equal to 1, remeasured based on the Company's economic structure and the tax rate of the reference country;
- **D/E:** financial structure of the related company as of December 31, 2018;
- **tax rate:** tax rate of the reference country (Italy, Brazil, Argentina);
- **debt cost:** the Company used the average debt cost of each single company as of December 31, 2018.

The impairment tests made reported no impairment losses.

In addition to the above, and with reference to equity investments in subsidiaries, it is highlighted that interests in Municipia S.p.A., Sogeit Solution S.r.l., Engineering USA Inc. and WebResults S.r.l. feature a carrying value higher than the corresponding amount of shareholders' equity. This excess is not an indicator of a possible impairment and the exceeding amount is entirely recoverable, taking account that:

- a) for Municipia S.p.A. the related shareholders' equity was negatively affected by the first-time application of IFRS 15, as from January 1, 2018;
- b) for Sogeit Solution S.r.l. and Engineering USA Inc., during the year the measurement at fair value of assets acquired and liabilities undertaken, pursuant to IFRS 3, confirmed the higher value recognised. The residual amount of goodwill that had not been allocated, was tested for impairment and no impairment was reported;
- c) for WebResults S.r.l., as contractually envisaged, the Company acquired the residual minority shareholding. Inasmuch the investee continues to generate net cash flows of increasing amount, and taking account of the growth trend of WebResults S.r.l., the Company deemed unnecessary to perform any impairment testing.

Equity investments in subsidiaries are detailed as follows:

(in Euros)									
	City	Assets	Liabilities	Share capital	Shareholders' equity	Revenues	Net profit/ (loss)	Value as of 31.12.2018	%
Engineering Sardegna S.r.l.	Cagliari	6,985,295	6,179,859	1,000,000	805,435	11,566,119	746,728	58,707	100
Municipia S.p.A.	Trento	77,264,874	61,851,834	13,000,000	15,413,041	56,363,962	1,490,714	18,667,692	100
Engiweb Security S.r.l.	Trento	13,777,589	9,959,357	50,000	3,818,232	20,445,190	241,906	2,141,089	100
Nexen S.p.A.	Padua	11,850,219	4,868,132	1,500,000	6,982,088	4,862,636	878,761	5,669,820	100
OverIT S.p.A.	Fiume V. (PN)	31,376,458	12,526,732	300,000	18,849,726	35,591,070	2,912,457	11,389,673	95
Sicilia e-Servizi Venture S.c.r.l.	Palermo	98,474,720	108,768,081	300,000	(10,293,360)	3,260	(612,820)		65
Engineering do Brasil S.A.	Sao Paulo (Brazil)	43,472,525	33,145,042	11,617,916	10,327,483	47,052,945	808,201	19,615,006	100
Engineering International Belgium S.A.	Brussels	4,012,909	3,412,662	61,500	600,246	6,313,560	(9,915)	270,202	100
Engineering International Inc.	Delaware (USA)		(246,951)	9	246,951	13,563	7,276		100
Engineering D. HUB S.p.A.	Pont-Saint-Martin	139,925,669	70,414,795	2,000,000	69,510,874	129,575,045	16,768,469	30,138,774	100
Engi da Argentina S.A.	Buenos Aires	3,316,864	3,356,021	164,656	(39,157)	1,846,966	(804,914)	1,151,216	91
Engineering 365 S.r.l.	Lancenigo (TV)	19,032,638	17,196,446	52,000	1,836,192	18,818,871	(3,485,485)	7,501,466	100
WebResults S.r.l.	Treviolo (BG)	7,295,300	4,695,128	10,000	2,600,172	12,304,027	913,136	4,194,317	100
Engineering ITS AG	Berlin	31,383,107	10,977,575	50,000	20,405,532	2,704,232	926,886	9,533,666	51
Engineering Ingeniería Informatica Spain S.L.	Madrid	1,113,520	728,798	100,000	384,723	1,207,519	238,240	103,589	100
Sofiter Tech S.r.l.	Rome	5,633,616	3,226,383	204,082	2,407,233	8,445,685	976,131	1,297,959	51
Sogeit Solutions S.r.l.	Rome	8,200,280	3,509,718	100,000	4,690,562	9,596,941	1,799,714	6,077,502	68.5
Engineering USA Inc.	Chicago (USA)	8,755,770	2,917,838	227,773	5,837,932	12,892,692	1,058,341	24,537,476	80.5
ITS Panama Corporation	Panama							9,215	100

(in Euros)									
	City	Assets	Liabilities	Share capital	Shareholders' equity	Revenues	Net profit/ (loss)	Value as of 31.12.2017	%
Engineering Sardegna S.r.l.	Cagliari	5,938,746	5,880,039	1,000,000	58,707	11,419,280	(713,511)	58,707	100
Municipia S.p.A.	Trento	69,474,980	51,280,157	13,000,000	18,194,822	44,994,134	30,679	18,667,692	100
Engiweb Security S.r.l.	Trento	29,610,956	25,936,915	50,000	3,674,041	22,521,875	916,189	2,141,089	100
Nexen S.p.A.	Padua	7,663,810	1,555,031	1,500,000	6,108,779	3,540,962	124,691	5,669,820	100
OverIT S.p.A.	Fiume V. (PN)	28,969,875	13,021,334	300,000	15,948,541	33,948,012	2,974,567	11,389,673	95
Sicilia e-Servizi Venture S.c.r.l.	Palermo	98,613,665	108,294,204	300,000	(9,680,540)	600,551	(778,220)		65
Engineering do Brasil S.A.	Sao Paulo (Brazil)	41,003,028	30,327,401	12,995,550	10,675,627	46,787,609	(3,866,488)	19,615,006	100
Engineering International Belgium S.A.	Brussels	3,877,039	3,266,878	61,500	610,161	6,531,269	87,673	270,202	100
Engineering International Inc.	Delaware (USA)	641,384	412,780	8	228,604	668,312	(155,615)	476,599	100
Engineering D. HUB S.p.A.	Pont-Saint-Martin	118,766,275	66,242,519	2,000,000	52,523,756	130,540,149	21,914,807	29,753,852	100
Engi da Argentina S.A.	Buenos Aires	3,637,563	3,466,471	309,905	171,092	3,505,041	(169,849)	1,151,216	91
Engineering 365 S.r.l.	Lancenigo (TV)	14,448,408	8,848,011	52,000	5,600,397	16,822,432	357,664	7,501,466	100
WebResults S.r.l.	Treviolo (BG)	6,559,660	4,826,860	10,000	1,732,800	9,587,622	616,641	3,424,317	71
Engineering ITS AG	Berlin	24,718,689	5,233,094	50,000	19,485,595	3,118,596	338,407	9,533,666	51
Engineering Ingeniería Informatica Spain S.L.	Madrid	635,440	488,957	100,000	146,483	639,237	46,483	103,589	100
Sofiter Tech S.r.l.	Rome	6,464,789	4,194,614	204,082	2,270,175	8,953,660	723,402	1,297,959	51
Sogeit Solutions S.r.l.	Rome	7,066,574	4,134,154	100,000	2,932,420	9,597,781	2,383,418	6,077,502	60
Infinity Technology Solutions S.p.A.	Genoa	5,231,381	2,941,494	2,363,820	2,289,887	7,489,982	273,804	3,488,209	100
SedApta US Corp	Delaware (USA)	416,910		416,910	416,910		347,739	20,056,542	100
Infogroup S.p.A	Florence (Italy)	43,737,037	29,806,696	4,352,000	13,930,341	69,967,894	(911,778)	61,400,000	100

b) Associates

(in Euros)

	Value as of 31.12.2017	Op. change from merger	Increase	Decrease	Value as of 31.12.2018
Si Lab – Calabria S.c.a.r.l.	7,200				7,200
Si Lab – Sicilia S.c.a.r.l.	3,525				3,525
Consorzio Sanimed Group	3,000				3,000
Unimatica S.p.A.		125,000			125,000
Total	13,725	125,000			138,725

Equity investments in associates is as follows:

(in Euros)

	City	Assets	Liabilities	Share capital	Sharehol- ders' equity	Revenues	Net profit/ (loss)	Value as of 31.12.2018	%
Si Lab – Calabria S.c.a.r.l.	Rende	38,379	25,557	30,000	12,822	13,652	(7,135)	7,200	24
Si Lab – Sicilia S.c.a.r.l.	Palermo	35,845	2,410	30,000	33,435	15,944	1,150	3,525	24
Consorzio Sanimed Group								3,000	25
Unimatica S.p.A.		4,282,043	3,280,773	500,000	1,001,270	5,158,769	74,166	125,000	25

Note: the figures refer to the latest approved financial statements.

c) Companies under indirect control

(in Euros)

	City	Assets	Liabilities	Share capital	Sharehol- ders' equity	Revenues	Net profit/ (loss)	%
Engineering Software Lab d.o.o.	Belgrade (SRB)	2,175,671	1,831,060	3,820	344,611	3,057,934	135,568	100
Engineering Luxembourg S.r.l.	Luxembourg	173,738	394,885	12,500	(221,147)	380,878	(50,763)	100
DST Consulting GmbH	Dusseldorf	6,782,198	3,967,124	25,000	2,815,075	19,635,515	(3,789)	51
Emds GmbH	Stuttgart	1,425,196	814,244	300,000	610,952	4,469,565		51
Engineering Software Labs GmbH	Stuttgart	728,771	704,509	25,000	24,263	1,471,481		51
ICRAFT GmbH	Stuttgart	779,531	323,628	25,000	455,904	1,972,236	211,503	51
ICODE GmbH	Stuttgart	1,198,920	399,689	50,000	799,230	2,188,515	715,836	51
Overit International Inc.	Miami (USA)	27,329	157,549	43,668	(130,220)		(89,103)	80
Bekast IT Consulting GmbH	Wolfsburg (Germany)	1,737,544	870,471	115,000	867,073	5,957,167	560,492	51
KeyVolution GmbH	Wolfsburg (Germany)	18,118		25,000	18,118	101	(441)	51
EuroAMS SRB d.o.o.	Belgrade (SRB)	765	18	1	747	153,561	747	100
Engineering Software Labs s.r.o.	Prague (Czech Republic)	4,836	972	3,887	3,864		(23)	51
LG-NET S.r.l.	Rome	157,938	150,593	26,500	7,345	184,001	(23,946)	89.47
Overit GmbH	Munich (Germany)			25,000				80
Engi da Argentina S.A.	Buenos Aires	3,316,864	3,356,021	164,656	(39,157)	1,846,966	(804,914)	8.63

8 Deferred tax assets

(in Euros)

Description	31.12.2018	31.12.2017	Change
Deferred tax assets	13,963,067	22,395,886	(8,432,820)

The calculation of deferred tax assets was carried out through critically evaluating the existence of future recoverability requisites of these assets. They are calculated at the current rates (24% for IRES and based on regional rates for IRAP) and recorded in the entries shown in the table hereunder:

(in Euros)

Description	31.12.2018		31.12.2017	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Provisions to other prov. and charges	8,790,676	2,109,762	7,495,776	1,798,986
IAS amortisation/depreciation	2,229,509	535,082	1,678,566	402,856
Directors' fees	817,900	196,296	1,098,000	263,520
Bad debt provision	23,302,042	5,592,490	32,360,581	8,131,588
Provisions for risks	4,427,171	1,235,181	8,821,434	2,461,180
Leaving incentives	5,150,566	1,236,136	1,204,005	288,961
Adjustments for IFRS IAS 19	12,527,709	3,006,650	10,765,344	2,583,682
Tax credit - Mic Bidco S.p.A. merger			26,157,965	6,277,912
Other	214,457	51,470	780,007	187,201
Total	57,460,029	13,963,067	90,361,678	22,395,886

Changes in deferred tax assets are detailed below:

(in Euros)

Description	
Balance as of 01.01.2017	15,113,732
Increase	12,788,973
Decrease	(5,510,363)
Balance as of 31.12.2017	22,395,886
Opening change from merger	1,959,351
Increase	2,638,349
Decrease	(13,030,520)
Balance as of 31.12.2018	13,963,067

The following table reports the detail of assets for deferred tax assets:

(in Euros)

Description	Bad debt provision	Tax credit - Mic Bidco S.p.A. merger	Adjustments to IFRS IAS 19	Other temporary differences	Total
Balance as of December 31, 2017	8,131,588	6,277,912	2,583,682	5,402,703	22,395,886
Change from merger	72,402	0	129,569	1,779,414	1,981,385
Impact on income statement	(2,611,500)	(6,277,912)	0	(1,818,190)	(10,707,602)
Impact on comprehensive income statement			293,398	0	293,398
Balance as of December 31, 2018	5,592,490	-	3,006,650	5,363,927	13,963,067

The decrease in deferred tax assets depends primarily on the item "Tax credit - Mic Bidco S.p.A. merger" and on the use of bad debt provision and the leaving incentives fund.

In particular, the item “Tax credit - Mic Bidco S.p.A. merger” refers to tax positions, recognised in the previous year, of the company Mic Bidco S.p.A., merged into Engineering Ingegneria Informatica S.p.A. due to the reverse merger. These positions are subject to anti evasion provisions as per Article 172, paragraph 7, of the T.U.I.R. (Consolidated Act on Income Taxes), for which an appeal for cancellation was filed, and refer to:

- tax losses of the merged company as of December 31, 2016 and further tax losses accrued as from January 1 to May 23, 2017, effective date of the merger;
- temporarily non-deductible interest expense as of December 31, 2016 and further temporarily non-deductible interest expense accrued over the period from January 1 to May 23, 2017;
- “ACE surplus” as of December 31, 2016 and further “ACE surplus” generated in Mic Bidco S.p.A. over a period from January 1 to May 23.

Following the positive reply to the claim by the Inland Revenue Office, which accepted the possibility to fully carry forward the above-mentioned tax surpluses, the Company released the deferred tax assets recorded as of December 31, 2017, for a total amount of Euro 6.2 million, and redetermined the tax burden for the 2017 taxable period.

The increase in the year is primarily related to adjustments resulting from the application of the IFRS 15 standard, as from January 1, 2018, as well as to adjustments for the measurement of post-employment benefits according to requirements of IAS 19.

9 Other non-current assets

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Other non-current assets	5,280,129	4,336,023	944,106

The balances are comprised of:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Investments in other companies	2,551,207	1,974,617	576,590
Non-current financial assets	2,728,921	2,361,406	367,516
Total	5,280,129	4,336,023	944,106

a) Investments in other companies

The investments in other companies are shown in the following table:

(in Euros)						
Investments in other companies	Value as of 31.12.2017	Op. change from merger	Increase	Decrease	Write-downs	Value as of 31.12.2018
Banca Popolare di Credito e Servizi	7,747					7,747
Banca Credito Cooperativo Roma	1,033					1,033
Global Riviera	1,314					1,314
Tecnoalimenti S.c.p.a.	65,832					65,832
Dhitech Distretto Tecnologico High-Tech S.c.a.r.l.	36,314		201,090			237,404
Distretto Tecnol. Micro e Nanosistemi S.c.r.l.	34,683					34,683
Wimatica S.c.a.r.l. (da Esel)	6,000					6,000
Consorzio Cefriel	191,595					191,595
Consorzio Abi Lab	1,000					1,000
Partecipazione Ce.R.T.A.	360					360
Consorzio Arechi Ricerca	5,000					5,000
Ehealthnet S.c.a.r.l.	10,800					10,800
Distretto Tecnologico Campania Bioscience S.c.a.r.l.	20,000					20,000
CAF ITALIA 2000 S.r.l.	260					260
M2Q S.c.a.r.l.	3,000					3,000
SedApta S.r.l.	750,000					750,000
Consel S.r.l.	382,486					382,486
Istella S.r.l.	375,000		375,000			750,000
Palantir Digital Media S.r.l.		500				500
Seta S.r.l.	82,192					82,192
Total	1,974,617	500	576,090			2,551,207

b) Non-current financial assets

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Tax receivables and taxes paid abroad	1,452,327	1,554,998	(102,671)
Security deposits	325,166	319,304	5,862
Other	951,429	487,104	464,325
Total	2,728,921	2,361,406	367,516

The fair value of assets related to the exercise of the Call option for the purchase of non-controlling interests was recorded under item "Other".

B) Current assets

10 Inventories

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Inventories	42,035	42,035	-

11 Customer contract assets

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Customer contract assets	133,077,445	112,077,761	20,999,685

Customer contract assets are broken down hereunder, together with related changes:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Opening customer contract assets	112,077,761	118,215,205	(6,137,444)
Change in opening balance for merger	5,595,532	0	5,595,532
Adjustments and changes in customer contract assets	2,562,649	(489,300)	3,051,949
Costs incurred plus profits booked according to percentage completion net of losses	405,053,849	343,765,505	61,288,344
Invoicing of work in progress	(392,212,346)	(349,413,649)	(42,798,697)
Total	133,077,445	112,077,761	20,999,684

Customer contract assets concern specific projects in the course of completion based on long-term contracts.

The amount of Euro 5,595,532 refers to opening balances of customer contract assets with clients of merged companies:

- in the amount of Euro 4,937,890 for the company Infogroup S.p.A.;
- in the amount of Euro 657,642 for the company Infinity Technology Solutions S.p.A..

12 Deferred contract costs

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Deferred contract costs	3,076,943		3,076,943

The Company recognised deferred contract costs, related to the obtaining of the contract, that are directly attributable to the performance of the service offered and, in particular, they are referred to as transition costs.

The cost pertaining to the year 2018, determined based on the relation between revenues accrued for activities performed at the reporting date and the total revenues estimated until end of concession, amounted to Euro 310 thousand.

13 Trade receivables

207

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Trade receivables	483,990,269	430,976,988	53,013,281

Trade receivables as of December 31, 2018 are as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Customers	343,301,367	290,334,789	52,966,577
Subsidiaries	136,805,525	135,792,312	1,013,213
Associates	56,473		56,473
Others	3,826,905	4,849,887	(1,022,982)
Total	483,990,269	430,976,988	53,013,281

a) Customers

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Receivables on invoices issued	311,122,786	269,085,086	42,037,700
<i>of which overdue</i>	<i>105,202,913</i>	<i>101,131,522</i>	<i>4,071,391</i>
Invoices to be issued	56,895,512	52,242,452	4,653,060
Credit notes to be issued	(198,472)	(129,555)	(68,917)
Bad debt provision	(23,648,177)	(29,992,911)	6,344,734
Provision for interest in arrears	(870,283)	(870,283)	-
Total	343,301,367	290,334,789	52,966,577

Receivables from customers, net of the bad debt provision, amounted to Euro 343,301 thousand.

It is noted that, as of December 31, 2018, the Company factored trade receivables for a total amount of Euro 141.7 million (Euro 179.5 million as of December 31, 2017). Risks and benefits related to receivables were transferred to the transferee. Receivables were therefore written off from the assets in the consolidated statement of financial position, according to the consideration received by factoring companies.

Bad debt provision, as of January 1, 2018, increased with the provisions of the two merged companies: Euro 1,065 thousand of Infogroup S.p.A. and Euro 120 thousand of Infinity Technology Solutions S.p.A..

Provision for risks, for the year 2018, amounted to Euro 1,550 thousand. Its use was Euro 9,341 thousand, following the settlement of legal disputes whose risks had been allocated in previous years, while Euro 225 thousand were recognised in the income statement for allocations made in previous years with unrealised risks. The provision also increased due to the impact resulting from the application of the new IFRS 9 standard on the financial statement values as of January 1, 2018 (Euro 487 thousand).

The Company applies the simplified approach of IFRS 9 to measure the expected credit loss on all trade receivables and customer contract assets.

In order to determine the expected credit loss, trade receivables were initially grouped by counterparty (third parties and Public Administration) and then, for receivables from third parties only, by overdue days. Customer contract assets refer to invoices to be issued for work in progress, and feature substantially the same risks as trade receivables for the same type of contracts.

The Company therefore concluded that the expected credit loss for trade receivables represents a reasonable approximation of losses on customer contract assets.

Rates on expected credit loss are based on collection terms over a period of 545 days prior to January 1, 2018, and the corresponding losses on historical receivables during this period. Historical loss rates are adjusted to reflect the current and future macroeconomic condition affecting the customers' ability to repay receivables.

The Company has defined the default average rate of Italian companies for the 2018-2019 two-year period, as relevant factor in relation to receivables to third parties, while it recognised the specific risk of the country as primary factor for receivables from the Public Administration. These factors were used to adjust the recognised historical loss rates.

On this base, the bad debt provision, to be jointly written-down as of January 1, 2018, was determined as follows. Based on the above-mentioned model, no significant impact is reported that require the adjustment of the bad debt provision as of December 31, 2018, with reference to the expected credit loss.

Expected Credit Loss – Receivables to third parties

(in Euros)								
31.12.2017	0-30 days	31-90 days	91-120 days	121-180 days	181-365 days	366-545 days	Over 545 days	Total
Rate of Expected Credit Loss	0.02%	0.08%	0.18%	0.24%	0.40%	0.95%	2.18%	1.98%
Trade receivables from third parties and jointly impaired	188,529,862	12,356,541	2,184,491	3,211,492	13,165,358	1,461,612	14,660,317	235,569,673
Bad debt provision	33,421	9,524	3,901	7,557	52,788	13,851	319,917	440,959

Expected Credit Loss – Public Administration

(in Euros)	
31.12.2017	
Rate of Expected Credit Loss	0.08%
Trade receivables from Public Administration and jointly impaired	56,087,316
Bad debt provision	46,482

The closing balance of the bad debt allowance for trade receivables was reconciled to the related opening balance as follows:

(in Euros)	
Bad debt provision - Trade receivables	
Bad debt provision as of December 31, 2017 - IAS 39	30,863,194
Restated amounts - Retained earnings - IFRS 9	487,441
Bad debt provision as of January 1, 2018 - IFRS 9	31,350,635
Provisions for the period	1,550,048
Acquired provisions from mergers	1,184,264
Cancellation of receivables that are considered non-recoverable	(9,566,487)
Bad debt provision as of December 31, 2018	24,518,460

Overdue receivables by sector are shown in the following table:

(in Euros)						
Description	Days falling due					Total as of 31.12.2017
	30	60	90	120	Over 120	
Public Administration	2,889,259	1,903,992	2,101,686	1,219,330	23,747,838	31,862,105
Finance	9,228,000	2,108,270	1,178,963	359,115	2,803,273	15,677,620
Industry & Services	9,146,160	3,456,071	887,873	1,027,148	21,574,465	36,091,716
Telco & Utilities	5,381,008	4,012,979	770,681	512,739	6,822,673	17,500,080
Total	26,644,427	11,481,313	4,939,203	3,118,331	54,948,248	101,131,522

(in Euros)

Description	Days falling due					Total as of 31.12.2018
	30	60	90	120	Over 120	
Public Administration	5,224,539	2,177,886	3,418,934	445,225	21,495,945	32,762,528
Finance	4,369,281	4,281,523	448,167	889,080	8,069,631	18,057,681
Industry & Services	10,387,870	6,309,598	796,639	619,481	13,253,011	31,366,599
Telco & Utilities	10,869,436	4,219,743	534,911	651,083	6,740,931	23,016,105
Total	30,851,126	16,988,750	5,198,651	2,604,868	49,559,517	105,202,913

b) From parent companies

These receivables refer to the following:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Receivables on invoices issued	69,157,014	61,536,142	7,620,871
Invoices to be issued	26,722,007	26,513,442	208,565
Cash pooling	28,217,979	35,633,922	(7,415,943)
Bad debt provision	(6,690,684)	(6,292,351)	(398,333)
Credit notes to be issued	(117,180)	(26,666)	(90,514)
Loans receivable	19,063,100	17,842,411	1,220,688
Other	453,290	585,412	(132,122)
Total	136,805,525	135,792,312	1,013,213

For further details on receivables from subsidiaries reference should be made to paragraph 44 of the present notes “Transactions with related parties”, where a list of subsidiaries and related receivables by type and amount is included.

Receivables from subsidiaries include the exposure as of December 31, 2018, with respect to Sicilia e-Servizi Venture S.c.a.r.l. in liquidation (“SISEV”), equal to Euro 68,994,546 (gross of the related bad debt provision amounting to Euro 6,690,684), of which Euro 8,996,914 of customer contract assets, and were related to the IT activities connected with the building of an integrated IT platform for the Sicilian Region within specifications and provisions set out in the convention signed between the Sicilian Region, Sicilia Digitale S.p.A. (former Sicilia e-Servizi S.p.A.) and Sicilia e-Servizi Venture S.c.a.r.l. in liquidation on May 21, 2007 and expired on December 22, 2013.

In the mutual interest, on October 9, 2012 SISEV, the Sicilian Region and Sicilia Digitale S.p.A. signed an “Agreement” which regulated the repayment of SISEV receivables, indicating the final repayment date on December 31, 2013. Moreover, this agreement outlined that the Sicilian Region was undertaking to carry out controls and provide Sicilia Digitale S.p.A. with all the technical and economic means, so as the latter would have been able to correctly fulfil its obligations, and envisaged that, while executing the agreement, such obligations would have been undertaken by SISEV. Sicilia Digitale S.p.A. and the Sicilian Region fulfilled their obligations only partially as to the receivable refunding plan, as envisaged by the agreement, although no objections were arisen with respect to the correct performance of services rendered.

Given the non-payments of Sicilia Digitale S.p.A., on June 26, 2013, SISEV filed a petition for an order of payment with the Court of Palermo against Sicilia Digitale S.p.A., and obtained the payment order for Euro 30,052 thousand (in addition to interests, expenses and remunerations, VAT and CPA), for which, however, no execution order was given. Moreover, to safeguard its rights, on July 18, 2014 SISEV applied for a distraint order over all receivables from the Sicilian Region to Sicilia Digitale S.p.A., up to the entire amounts receivable accrued by the company. On November 10, 2014, the Court of Palermo rejected SISEV’s request while underlying that “given that, besides Sicilia e-Servizi S.p.A., also the Sicilian Region (via its accountant general), an undoubtedly solvent entity, is directly committed with respect to Sicilia e-Servizi Venture S.c.a.r.l. -... Omitted ... there is no urgency (periculum in mora) ...”. In other words, the Judge reported no credit risk, while highlighting the “guarantor” role played by the Sicilian Region in favour of SISEV.

As regards Sicilia Digitale S.p.A.'s judgement of opposition to the first order decree, deposited on September 3, 2013, obtained in the amount of around Euro 30,052 thousand, the Judge ordered an Office Technical Expertise aimed at evaluating, inter alia, the actual services rendered by SISEV, which are related to the invoicing subject to the order of payment. On December 17, 2016, the Office Technical Experts, designated for the assessment of the actual performance by Venture of services that are related to the invoicing object of the payment order, transmitted to the parties a first draft of the expertise where a total amount receivable of Euro 28,068 thousand was assessed in favour of Venture. Therefore, almost the entire amount claimed in Court was assessed by experts (taking account that in the arrears some payments were received by Venture and today the receivables in question were equal to Euro 28,346 thousand). Following a request of integration by the Judge, the experts therefore issued and lodged the supplementary expertise (in which the assets object of the payment claim were divided according to the existence or non-existence of approvals by the management of Sicilia Digitale S.p.A. and/or the Region). After filing the supplementary expertise, as a result of the specification of the conclusion to the involved parties, with sentence of August 30, 2018, the Judge also ordered Sicilia Digitale S.p.A. to pay Euro 19,508 thousand in favour of SISEV, in addition to interests, starting from, and at the rate shown in the order decree. The Judge therefore relied on the opinions of the experts, included in the supplementary expertise, and assigned to SISEV only the services certified by SISE's managers. SISEV proposed a timely objection to be filed against the above-mentioned sentence.

In addition to the above, on February 18, 2016, SISEV sent a writ of summons to obtain the payment of the entire amount of receivables (around Euro 79,675 thousand, including the works recognised in the financial statements to complete the amount already requested with an appeal for an order of payment) as the company deems, as already stated, that these amounts were correctly originated and are correctly owned, also pursuant to provisions contained in the trilateral agreement signed on October 9, 2012 by the Sicilian Region, Sicilia Digitale S.p.A. and SISEV. Both parties, i.e. the Sicilian Region and Sicilia Digitale S.p.A., appeared and filed objections including, but not limited to, the fact that the measure dated October 9, 2012 was invalid, the service contracts and related orders were null and void, Venture unfulfilled its know-how transfer obligations. The parties also filed a claim for damages for a total amount of Euro 95,643 thousand. These plaintiff's claims were objected at the first hearing of June 8, 2016. After filing the pre-trial briefs, the Judge reserved on the ruling of all claims submitted, including but not limited to, evidence by SISEV based on documents and expertises.

On May 30, 2018, the Office Technical Experts, designated by the Court of Palermo, transmitted to the parties and related experts the draft of the expertise. Given the extent of this document, the Company firstly asked the Judge to postpone the terms to file objections to the expertise. The Judge upheld the request and granted the extension by assigning to the parties the final term of September 30, 2018 to file the respective remarks on the expertise. The experts were assigned a further term of October 30, 2018 to file the conclusive report, together with remarks of the parties. The Court fixed the hearing on November 8, 2018. The above-mentioned final report highlights (i) an assessed receivable of SISEV for the amount of only Euro 4,198 thousand, against the request of Euro 79,675 thousand and (ii) supplies the Judge, as possible alternative evaluation criterion, a second calculation stating an overall amount receivable of Venture for Euro 26,157 thousand. The case was adjourned to December 12, 2019 for the evaluation of the experts. The Directors stated that, deeming the expertise materially omitting and misstating, a new request to renew the experts is being filed.

It should be noted that, in addition to the aforesaid, no specific critical issues or formal claims related to the correct execution of services and good quality of products delivered by SISEV were highlighted by Sicilia Digitale S.p.A. and/or the Sicilian Region. Moreover, the above-mentioned claims do not seem *prima facie* suited to stop the aggregate claims of SISEV. To date, it is therefore deemed that the defence of the summoned parties are not such to affect the evaluation on the collectability of receivables in favour of SISEV.

Given the correctness of credit lines and the correct execution of services, after assessing that the expertise drawn up by the experts and concerning the writ of summons to obtain the payment of receivables amounting to around Euro 79,675 thousand, is materially omitting and misstating, the Directors, supported by the opinion of the legal advisers, and after performing the adequate checks, deem that SISEV's amount receivables from Sicilia Digitale S.p.A. are payable. In any case, after acknowledging, among other, the continuous change in institutional interlocutors and the difficulty in achieving an amicable agreement, in view of a legal dispute and of the objections filed in by Sicilia Digitale S.p.A. and the Sicilian Region, in its financial statements the subsidiary SISEV recognised the interest set out by law pertaining to the year under evaluation (around Euro 7.8 million) in the income statement and under item financial income, in addition to the amount already recognised until December 31, 2017 (for a total amount of around Euro 41.7 million) and allocated an amount of around Euro 7.8 million to the bad debt provision, in addition to the total amount of around Euro 53.2 million already allocated

to the bad debt provision in the previous year. The latter included the total impairment of the aforesaid interest set out by law and recognised in the financial statements and, for the remaining portion, the impairment of the nominal value of the receivable. The Directors stated that this decision results from an estimate made after a careful evaluation of all information currently available.

c) From associates

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Receivables on invoices issued	34,366		34,366
Invoices to be issued	22,107		22,107
Total	56,473	-	56,473

d) From others

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Prepayments	1,235,739	940,111	295,628
Other	2,591,166	3,909,776	(1,318,610)
Total	3,826,905	4,849,887	(1,022,982)

14 Other current assets

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Other current assets	40,367,791	53,651,863	(13,284,073)

The other current assets are broken down as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Current financial assets	6,086,578	13,271,292	(7,184,713)
Other	34,281,212	40,380,572	(6,099,359)
Total	40,367,791	53,651,863	(13,284,073)

a) Current financial assets

Current financial assets are broken down as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Tax receivables	5,985,657	13,189,286	(7,203,629)
Social security institutions	100,922	82,006	18,916
Total	6,086,578	13,271,292	(7,184,713)

Tax receivables refer primarily to IRES tax receivables for pre-paid taxes (Euro 4,184 thousand), after offsetting of the provision for taxes as of December 31, 2018, while the remaining portion is due mainly:

- for Euro 430 thousand, to tax receivables paid abroad;
- for Euro 271 thousand, to receivables from the Inland Revenue Office for recoverable VAT;
- for Euro 1,014 thousand, to tax receivables from the merged company Infogroup S.p.A..

The “Other” item includes:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Applied research grants	32,667,613	38,910,945	(6,243,332)
Prepaid expenses	888,476	600,044	288,432
Other	725,123	869,582	(144,459)
Total	34,281,212	40,380,572	(6,099,359)

Receivables from others refer primarily to receivables accrued or applied research grants and relate to projects financed by national public authorities and by the European Union.

15 Cash and cash equivalents

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Cash and cash equivalents	152,757,670	181,943,568	(29,185,898)

The balance includes cash and cash equivalents and postal and bank current accounts. Bank and postal deposits are remunerated at interest rates in line with the market.

Cash and cash equivalents consist of the following:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Bank and postal deposits	152,742,898	181,931,807	(29,188,909)
Cash and cash equivalents	14,772	11,761	3,011
Total	152,757,670	181,943,568	(29,185,898)

For further information reference should be made to the cash flow statement of the present document.

C) Shareholders' equity

16 Information on shareholders' equity

(in Euros)

Description	31.12.2018	31.12.2017	Change
Shareholders' equity	616,484,516	572,401,292	44,083,224

All changes are highlighted in the following table:

(in Euros)

Shareholders' equity	Value as of 31.12.2017	Increase	Decrease	Value as of 31.12.2018
Share capital	31,875,000	0	0	31,875,000
Treasury shares in portfolio		0	0	
Share capital unpaid		0	0	
Total share capital	31,875,000	0	0	31,875,000
Legal reserve	6,375,000	0	0	6,375,000
Reserve acquisition treasury shares		0	0	
Share premium reserve		0	0	
Merger reserve	503,705,347	732,540	0	504,437,886
Difference of exchange conversion IAS 21		0	0	
Other reserves	10,745,814	9,902,544	0	20,648,358
Total reserves	520,826,160	10,635,083	0	531,461,244
Prior years undistributed profits	(7,947,441)	34,249,930	(674,094)	25,628,395
First-time application of IAS/IFRS	1,754,162	0	(54,104)	1,700,058
IAS 19 actuarial gains/(losses)	(8,356,519)	0	(1,289,244)	(9,645,763)
Fair value cash flow hedge reserve		0	0	
Retained earnings /(losses carried forward)	(14,549,799)	34,249,930	(2,017,441)	17,682,690
Profit/(loss) for the year	34,249,930	35,465,582	(34,249,930)	35,465,582
Total Shareholders' equity	572,401,292	80,350,595	(36,267,371)	616,484,516

Comparison information were updated for what already described in paragraph 1.2 "Significant operations".

17 Share capital

The subscribed and fully paid-in share capital is Euro 31,875,000, divided into 12,156,787 shares each without par value.

18 Reserves

In relation to the possible utilisation and distribution of reserves, the following should be noted:

- Legal reserve:
Euro 6,375,000 is available for the covering of losses but is not distributable.

- Merger reserve:
the merger reserve amounted to Euro 504,437,886 and increased in 2018 by Euro 732,540 following the mergers. It is made up of:
 - Euro 116,044,240 relate to mergers of subsidiaries, occurred from 2003 to 2013; the reserve refers to profits gained by the incorporated companies over the years before the merger;
 - Euro 387,661,107 refer to the reverse merger of Mic Bidco S.p.A., occurred in 2017;
 - Euro 334,422 relate to the merger of the subsidiary Infinity Technology Solutions S.p.A. on January 1, 2018;
 - Euro 398,117 related to the merger of the subsidiary Infogroup S.p.A. on May 1, 2018.
 The reserve is available and distributable.
- Other reserves of Euro 20,648,358 relate to:
 - Stock Option Reserve:
this reserve, amounting to Euro 19,328,358, is for the assignment of Stock Options, as per the share incentive plan and the extraordinary plan addressed to employees and approved by the Board of Directors on June 28, 2017. The increase equalled Euro 9,902,544. For further details, reference is made to paragraph 35 "Personnel costs".
The reserve is available to cover losses, after use of profits available and legal reserve. In that case, losses must be covered by allocating profits from subsequent years.
 - Special Egov research reserve:
Euro 72,000 neither available nor distributable.
 - Special Erp Light research reserve:
Euro 168,000 neither available nor distributable.
 - Special research reserve applied to the PIA Project:
Euro 1,080,000 neither available nor distributable.

19 Retained earnings

Retained earnings of Euro 17,682,690 include:

- Prior years' undistributed profits of Euro 25,628,395.
This item increased by Euro 34,249,930 due to the allocation of profits obtained in 2017, while decreased by Euro 487,442 due to the application of IFRS 9, which involved the recording of a further portion for credit risk related to the year 2017 and the amount, net of taxes (Euro 186,652), recognised in the Purchase Price Allocation process of the company Infinity Technology Solutions S.p.A. (further details are available in paragraph 1.2).
The reserve is available and distributable, after coverage of reserves with negative amounts.
- First-time IAS/IFRS application of Euro 1,700,058.
The reserve is neither available nor distributable and relates to the first time application of International Accounting Standards. It decreased due to mergers of subsidiaries Infinity Technology Solutions S.p.A. (Euro 12,301) and Infogroup S.p.A. (Euro 41,803).
- IAS 19 actuarial gains/(losses) of Euro (9,645,763).
The reserve decreased by the overall amount of Euro 1,289,244 due to the actuarial gain, net of deferred taxes, of Euro 929,095, and the recovery of opening balances of merged companies, Infinity Technology Solutions S.p.A. (Euro 3,835) and Infogroup S.p.A. (Euro 356,314).

D) Non-current liabilities

20 Non-current borrowings

(in Euros)

Description	31.12.2018	31.12.2017	Change
Non-current borrowings	174,024,171	229,610,638	(55,586,466)

Non-current borrowings refer to “Payables to lenders” and “Other non-current borrowings”:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Non-current borrowings	169,467,551	222,342,353	(52,874,803)
Measurement of financial payables at amortised cost	(3,423,590)	(2,070,855)	(1,352,735)
Other non-current borrowings	7,980,210	9,339,139	(1,358,929)
Total	174,024,171	229,610,638	(55,586,467)

Non-current borrowings as of December 31, 2018 are as follows:

Lender	Year of maturity	Interest rate	Within 1 year	Over 1 year	Over 5 years
Miur Prog. 28953 Foodsys	2019	0.25-2.75	186,672	0	0
Intesa Sanpaolo Fin.83817	2020	Euribeur363m+0.85000	16,625,000	8,312,500	0
BEI/SERAPIS N. 84744	2022	Euribeur363m+1.06000	9,090,909	22,727,273	0
Banca IMI - Pool of Banks	2021	0.9	20,150,000	83,850,000	0
Banca Popolare Milano	2023	1.25	6,822,222	54,577,778	0
Total			52,874,803	169,467,551	

Payables totalled Euro 222,342,353, including amortised cost, of which Euro 169,467,551, have a maturity term over 12 months, Euro 52,874,803 with maturity term within 12 months and they are classified under current borrowings. Some information and characteristics of the main loans are shown hereunder.

- To support research and development activities the European Investment Bank (EIB) granted two direct credit lines of Euro 15 and 50 million, disbursed on January 30, 2013 and January 8, 2016, respectively. The first loan was redeemed on January 30, 2018.
- The loan granted by Banca Intesa Sanpaolo S.p.A. was supplied in two instalments, of which the first of Euro 31.5 million on December 30, 2015 and the second of 38.5 million on June 30, 2016. The first instalment, amounting to Euro 31.5 million, was used for the redemption of the previous loan of original Euro 35 million, granted by the European Investment Bank (EIB) through Unicredit S.p.A..
- Following the reverse merger of Mic Bidco S.p.A. into Engineering Ingegneria Informatica S.p.A., occurred on May 26, 2017, a loan of Euro 130 million was supplied in favour of Engineering Ingegneria Informatica S.p.A. by a pool of banks through Banca IMI. This loan was used to redeem another loan of Euro 290 million, granted by the same pool of banks, always through Banca IMI S.p.A., to Mic Bidco S.p.A.. This loan was used to acquire the entire share capital of Engineering Ingegneria Informatica S.p.A. with respect to the OPA (Public Purchase Offer) launched in May 2016. It should be noted that, during the year, this loan was renegotiated and involved a change in the rate applied to the loan itself. In particular, the above-mentioned renegotiation determined an unsubstantial change of the related borrowing. For further details on the effects resulting from the above-mentioned change, reference is made to Note 39.
- On December 27, 2017, a 6-year loan was also granted by Banco BPM, for the amount of Euro 61.4 million, in relation to the acquisition of Infogroup S.p.A..
- During 2018, no new medium/long-term loans were asked or granted.

The covenants of previous loans, all at variable rate, envisage the fulfilment of the following financial parameters:

- as regards the loans granted by the European Investment Bank (EIB):
 - net financial debt/reported EBITDA not exceeding 2.3 (two point three);
- as regards the loan granted by Banca Intesa Sanpaolo S.p.A.:
 - net financial position/reported EBITDA lower than 2.2 (two point two);
(The Bank undertook to reevaluate and allow for the amendment of the parameter until a maximum of 3.5x should conditions change);
 - standardised EBITDA/net financial charges higher than 5.0 (five);
- as regards the loan granted by Banca IMI S.p.A./pool of banks:
 - net debt/reported EBITDA not exceeding 3.0 (three);
- as regards the loan granted by Banco BPM:
 - the same parameters of the loan granted by Banca IMI S.p.A./pool of banks.

The financial parameters are revised twice a year with reference to the consolidated financial statements and the consolidated half-year report.

Failure to observe the financial parameters, unless restored within the 30 (thirty) following business days for the EIB loans, within 20 (twenty) business days for the IMI/pool of banks loan, in the event the value be higher than 3.5, while no action shall be taken if it remains within 3.0 and 3.5 and in the following half year it is once again fulfilled, and 60 (sixty) following business days for the loan of Banca Intesa Sanpaolo and both values are not fulfilled, may give the banks the right to withdrawal as per article 1845 of the Civil Code and to exercise the right to recover all amounts covered by the agreement.

All parameters envisaged in the agreement have been fulfilled.

As regards the instalment of Euro 31.5 million supplied by Banca Intesa Sanpaolo S.p.A., the rate swap contract was confirmed to hedge against rate fluctuations, which was entered on July 1, 2014, with Unicredit S.p.A. to hedge the loan supplied by the same bank on behalf of European Investment Bank (EIB) and redeemed on December 30, 2015. This changes the variable portion of the rate, 3-month Euribor, 360 days, into a fixed rate equal to 0.56% for the entire duration of the loan instalment redemption.

As regards the loan granted by Banca IMI S.p.A./pool of banks on July 23, 2017, a contract was signed to hedge interest rate oscillation, as provided by the Contract and by the Hedging Strategy Letter. The hedging, a Cap Rate at 0.15%, with maturity term on October 21, 2019, will not be activated as long as the 6-month Euribor, 360 day basis remains negative.

The last loan highlighted in the statement, supplied by Miur through Mediocredito Centrale, is at a subsidised fixed rate and is always linked to the development of research projects.

The other non-current borrowings are as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Derivative (cash flow hedge)	67,643	175,695	(108,052)
Security deposits	107,590	107,590	-
Finance lease liabilities	5,670,119	6,920,996	(1,250,877)
Non-current equity investments to be paid	2,134,858	2,134,858	-
Total	7,980,210	9,339,139	(1,358,929)

The tables of “Other non-current borrowings” include mainly:

- the fair value of the derivative signed on July 1, 2014 with Unicredit S.p.A. (Interest Rate Swap), recognised under item financial charges after the redemption of the Unicredit S.p.A.’s loan related to the hedging;
- the finance lease liabilities, for the portion of finance leases related to real estates in Turin (Euro 5,670 thousand).

(in Euros)		
Amounts due for finance leases	instalments	principal
Within one year	1,493,309	1,250,877
Beyond one year	6,144,945	5,670,119
Over 5 years	0	0
Total lease instalments	7,638,254	0
Interest	(717,258)	0
Total current lease instalment value	6,920,996	6,920,996

We report below the breakdown of the Company net financial position:

(in Euros)		
Description	31.12.2018	31.12.2017
Cash	14,772	11,761
Other liquid assets	152,742,898	181,931,807
Cash and cash equivalents	152,757,670	181,943,568
Current financial receivables	0	0
Current bank payables	(50)	(6,114)
Current borrowings	(52,874,803)	(92,196,979)
Other current financial payables	(11,871,370)	(13,114,626)
Current borrowings	(64,746,223)	(105,317,719)
Net current financial position	88,011,447	76,625,849
Non-current borrowings	(166,043,961)	(220,271,499)
Other non-current payables	(7,980,210)	(9,339,139)
Non-current borrowings	(174,024,171)	(229,610,638)
Net financial position	(86,012,724)	(152,984,789)

21 Deferred tax liabilities

Deferred tax liabilities, calculated at the current rates (24% for IRES and base on regional rates for IRAP), have been calculated on the following items:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Deferred tax liabilities	160,906,565	147,745,412	13,161,153

(in Euros)

Description	31.12.2018		31.12.2017	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Goodwill	11,770,916	3,284,086	10,823,776	3,019,833
Trademark	453,029,362	126,395,192	453,029,362	126,395,192
Research grants	157,574	43,963	308,546	86,084
Research grants taxed in 5 years	66,123,982	15,869,756	66,832,326	16,039,757
IFRS adjustments	2,110,729	588,893	2,219,905	619,354
Allocation of goodwill	52,738,289	14,713,983	5,681,690	1,585,192
Other	44,555	10,693	0	0
Total	585,975,406	160,906,565	538,895,605	147,745,412

Movements in deferred tax liabilities are illustrated below:

(in Euros)

Description	
01.01.2017	18,582,729
Increase	137,046,785
Decrease	(7,884,101)
31.12.2017	147,745,412
Opening change from merger	32,974
Increase	25,472,638
Decrease	(12,344,459)
31.12.2018	160,906,565

The following tables report the details of deferred tax liabilities recognised in the income statement.

(in Euros)

Description	Bad debt provision	Trademark	Customer relationship	R&D grants	Other temporary differences	Total
Balance as of December 31, 2017	-	126,395,192	1,585,192	16,125,841	3,639,187	147,745,412
Changes from merger				22,280	10,693	32,973
Impact on income statement			13,128,792	(234,404)	233,792	13,128,180
Impact on comprehensive income statement						-
Balance as of December 31, 2018	-	126,395,192	14,713,984	15,913,717	3,883,672	160,906,565

Changes in deferred tax liabilities relate primarily to the allocation of goodwill resulting from the merger of the companies Infogroup S.p.A., Infinity Technology Solutions S.p.A. and Fair Dynamics Consulting S.r.l..

22 Other non-current liabilities

(in Euros)

Description	31.12.2018	31.12.2017	Change
Other non-current liabilities	9,736,698	8,148,793	1,587,905

The change in item “Other non-current liabilities” is related mainly to payables for a non-competition agreement signed with the top management and advisers, amounting to around Euro 8,800 thousand and to the derivative, amounting to Euro 946 thousand, related to the fair value of liabilities resulting from the exercise of the Put Option for the purchase of non-controlling interests.

23 Post-employment benefits

(in Euros)

Description	31.12.2018	31.12.2017	Change
Post-employment benefits	52,195,439	47,253,132	4,942,306

Due to the introduction of Law no. 296 of December 27, 2006 and subsequent decrees and regulations issued at the beginning of 2007 post-employment benefits from January 1, 2007 changed from a “defined benefit plan” to a “defined contribution plan” as a consequence of the application of differing accounting treatment of post-employment benefits accrued before or after December 31, 2006.

Post-employment benefits, accrued after January 1, 2007, represent a “defined contribution plan”. Periodically the Company pays post-employment benefits accrued to a separate entity (e.g. INPS and/or a Fund) with the payment fulfilling obligations toward employees. For accounting purposes, it is included under other contributions, as post-employment benefit matured is recorded as a cost in the period with the payable recognised under short-term payables.

Post-employment benefits accrued up to December 31, 2006 continue to represent a “defined benefit plan” which is more certain in terms of their existence and sum, but uncertain in terms of manifestation. The total amount of the benefit obligation is calculated and certified on an annual basis by an independent actuary by using the “Projected Unit Credit” method.

A summary of the actuarial assumptions adopted in measuring post-employment benefits is provided below.

Financial Assumptions:

- future annual rates of inflation were set according to the average rates of inflation in Italy in recent years, based on Istat data;
- future annual revaluation rates of existing provisions and subsequent payments fixed, as established by regulations at 75% of the inflation rate plus 1.50% net of taxes;
- the annual discount rate was established as variable from 0.1484% to 1.2861% and was deducted adopting a rate curve combining the effective yield rates movements of the Euro bonds of primary companies with AA rating or higher.

Demographic assumptions:

- to evaluate length of employment with the Company, the “Tavola di permanenza nella posizione di attivo” RG48 (a table for company service length prepared by the Italian Treasury Department based on data for those born in 1948) was used, selected, projected and separated by gender, supplemented with the probability of additional reasons for departure (resignations, advances which are a financial-based cause for leaving, measurable in terms of cancellation probability, and other).

The following table show the absolute and relative changes in liabilities measured according to IAS 19 (DBO), while assuming a 10% negative or positive change in the revaluation and/or discounting rates.

(in Euros)

Description	Discounting					
		-10%		100%		10%
Infla	-10%	52,231,086	325,507	51,905,579	(321,189)	51,584,390
		(292,857)	35,647	(289,860)	(611,049)	(286,910)
	100%	52,523,943	328,504	52,195,439	(324,139)	51,871,300
		295,030	623,533	292,003	(35,115)	289,024
	+10%	52,818,971	331,530	52,487,441	(327,118)	52,160,323

Description	Discounting					
		-10%		100%		10%
Infla	-10%	+100.07%	+0.62%	+99.44%	-0.62%	+98.83%
		-0.56%	+0.07%	-0.56%	-1.17%	-0.55%
	100%	+100.63%	+0.63%	+100.00%	-0.62%	+99.38%
		+0.57%	+1.19%	+0.56%	-0.07%	+0.55%
	+10%	+101.19%	+0.64%	+100.56%	-0.63%	+99.93%

Actuarial gains and losses are recognised under shareholders' equity on an accrual basis, while interest cost was recognised in the income statement under financial charges.

Changes are detailed below:

(in Euros)

Description	
Balance as of 01.01.2017	50,171,307
Change in opening balance for merger	14,431
Provisions	16,918,371
Amounts paid to social security institutions + INPS	(16,603,513)
Actuarial gains/(losses)	696,874
Benefits paid	(4,257,586)
Post-employment benefits on acquisition of Group business units/subsidiaries	1,255,819
Transfer payables of Group business units/subsidiaries	(942,571)
Balance as of 31.12.2017	47,253,132
Change in opening balance for merger	5,484,305
Provisions	19,275,084
Amounts paid to social security institutions + INPS	(19,002,655)
Actuarial gains/(losses)	1,222,493
Benefits paid	(2,030,840)
Post-employment benefits, consolidated companies	125,639
Post-employment benefits, companies not in consolidation scope	(131,719)
Balance as of 31.12.2018	52,195,439

Note: the "Provisions" item comprises the interest cost for an amount equal to Euro 147,507.

E) Current liabilities

24 Current borrowings

(in Euros)

Description	31.12.2018	31.12.2017	Change
Current borrowings	64,746,223	105,317,719	(40,571,496)

(in Euros)

Description	31.12.2018	31.12.2017	Change
Payables to lenders	52,874,803	92,196,979	(39,322,176)
Bank payables	50	6,114	(6,064)
Other current borrowings	11,871,370	13,114,626	(1,243,256)
Total	64,746,223	105,317,719	(40,571,496)

Payables to lenders amounted to Euro 52,875 thousand and relate to the short-term portion of payables to lenders for which reference is made to paragraph 20 “Non-current borrowings” of this document.

The amounts due to banks relate to:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Bank overdrafts	50	6,114	(6,064)
Total	50	6,114	(6,064)

“Other current borrowings” relate to:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Other grants	9,421,405	10,247,995	(826,589)
Payables for leasing	1,250,877	1,204,984	45,893
Equity investments to be paid	1,199,088	1,661,648	(462,560)
Total	11,871,370	13,114,626	(1,243,256)

“Other grants” refer to amounts received for research projects to be reversed to other partner subjects.

“Payables for leasing” relate to the short-term portion of finance leases described in paragraph 20 “Non-current borrowings”.

“Equity investments to be paid” relate primarily, in the amount of Euro 1,193 thousand, to the earn out of Sogeit Solutions S.r.l..

25 Current tax payables

(in Euros)

Description	31.12.2018	31.12.2017	Change
Current tax payables	811,020	116,904	694,116

The breakdown is as follows:

(in Euros)

Description	31.12.2018	31.12.2017	Change
IRES	247,445	116,904	130,541
IRAP	563,575	-	563,575
Total	811,020	116,904	694,116

Tax liabilities are recorded net of the related receivables.

26 Current provisions for risks and charges

(in Euros)

Description	31.12.2018	31.12.2017	Change
Current provisions for risks and charges	9,069,774	6,664,827	2,404,947

(in Euros)

Description	31.12.2018	31.12.2017	Change
Provision for risks and charges	6,925,837	1,501,099	5,424,737
Provision for losses on projects	2,143,937	5,163,727	(3,019,790)
Total	9,069,774	6,664,827	2,404,947

Current provisions for risks and charges mainly include the following:

- Euro 5,151 thousand related to a restructuring plan, resolved and communicated to the counterparties;
- Euro 1,775 thousand, related to legal disputes and to the risk of penalties with contracts with customers;
- Euro 2,124 thousand for provisions for losses on projects and relate to likely future losses on some projects being implemented. The provision for losses on projects was adjusted to account for probable future charges which will be incurred on projects in which difficulties have arisen. The allocated amount is the best estimate made based on the current information available to us.

The changes in the current provisions for risks and charges during the periods in question are as follows:

(in Euros)

Description	
01.01.2017	20,373,981
Increase	3,605,668
Decrease	(17,314,822)
31.12.2017	6,664,827
Opening change from merger	5,011,479
Increase	7,081,855
Decrease	(9,688,386)
31.12.2018	9,069,774

27 Other current liabilities

(in Euros)

Description	31.12.2018	31.12.2017	Change
Other current liabilities	121,123,341	107,863,878	13,259,463

This item is broken down as follows:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Directors and statutory auditors	858,453	1,195,815	(337,362)
Consultants	76,675	72,883	3,792
Acquisition of business unit	548,080	748,512	(200,432)
Withholding taxes	90,503	87,416	3,087
Tax payables	21,476,077	16,973,415	4,502,662
Due to RTI partners	2,568,263	2,196,083	372,180
Social security institutions	15,520,980	13,866,417	1,654,563
Others	5,244,163	4,544,393	699,769
Employees	66,567,108	58,641,915	7,925,193
Partners for research projects	7,828,320	8,870,566	(1,042,246)
Accrued m/l loan interest	242,988	566,998	(324,010)
Other accruals	-	4,199	(4,199)
Deferred income	101,731	95,268	6,463
Total	121,123,341	107,863,878	13,259,463

The main changes are related to tax payables described in detail in the following table.

Below, we provide details regarding taxes payable:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
VAT	10,298,775	6,558,999	3,739,776
Suspended VAT	1,134,668	1,239,162	(104,494)
IRPEF	10,042,634	9,175,253	867,381
Total	21,476,077	16,973,415	4,502,662

28 Trade payables

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Trade payables	355,568,776	321,264,117	34,304,660

The balance as of December 31, 2018 is broken down as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Suppliers	195,833,974	163,737,482	32,096,491
Subsidiaries	123,886,712	121,262,579	2,624,133
Associates	256		256
Others	35,847,834	36,264,055	(416,221)
Total	355,568,776	321,264,117	34,304,660

a) Suppliers

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Due to suppliers	108,887,007	106,382,335	2,504,671
Due to foreign suppliers	17,873,644	15,056,440	2,817,204
Invoices to be received	69,439,749	42,791,560	26,648,188
Credit notes to be received	(366,426)	(492,854)	126,428
Total	195,833,974	163,737,482	32,096,491

b) Subsidiaries

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Invoices to be received	25,936,722	24,426,744	1,509,977
Invoices received	73,641,331	63,728,530	9,912,801
Deferred income	8,384	109,820	(101,437)
Cash pooling	24,300,276	32,997,485	(8,697,209)
Total	123,886,712	121,262,579	2,624,133

c) Associates

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Invoices received	256		256
Total	256	-	256

d) Others

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Advances for future work	35,847,834	36,264,055	(416,221)
Total	35,847,834	36,264,055	(416,221)

Income statement

A) Total revenues

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Total revenues	897,310,065	767,364,357	129,945,708

29 Total revenues

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Revenues from sales and service	854,513,375	742,457,080	112,056,294
Change in customer contract assets	12,551,772	(5,575,023)	18,126,795
Other revenues	30,244,918	30,482,299	(237,380)
Total	897,310,065	767,364,357	129,945,708

The Company recognises over time and at point in time revenues, as summarised in the following table, by product types:

(in Euros)			
2018	Development of annual and multiannual projects	Other services and events	Total
Fulfilment of obligations			
At a point in time		115,078,113	115,078,113
Over time	751,987,034		751,987,034
Total	751,987,034	115,078,113	867,065,147

As regards figures that would have been disclosed in the financial statements as of December 31, 2018, in the event of application of the previous IAS 11 and IAS 18 international accounting standards, the adoption of the new IFRS 15 standard involved:

- a decrease in operating expenses, equal to Euro 3 million, as a consequence of the different accounting treatment of costs for the execution of the contract (deferred contract costs).

For a more thorough description of evaluation criteria related to IFRS 15 applied, see Note 3.11.

The portion of revenues recognised over the previous year and related to liabilities resulting from contracts with customers and emerged in previous years, amounted to Euro 33 million.

30 Other revenues

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Other revenues	30,244,918	30,482,299	(237,380)

The breakdown of "Other revenues" is as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Grants	15,531,587	17,816,937	(2,285,350)
Other income	7,050,429	5,504,365	1,546,065
Other revenues from subsidiaries	7,662,902	7,160,996	501,905
Total	30,244,918	30,482,299	(237,380)

31 Disclosures pursuant to article 1, paragraphs 125-129, Law 124/2017

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As required by Law 124 of 2017, with reference to transparency obligations envisaged by article 1, paragraphs 125-129, disclosures are hereby supplied on grants, contributions and economic advantages of any kind whatsoever, received from public administrations and/or companies directly or indirectly controlled by the same. In order to avoid the accumulation of irrelevant information, the Company availed itself of the possibility of not providing guidance on the benefits received and amounting to less than Euro 10,000 in the period under evaluation.

(in Euros)				
Project Title	Project Description	Funding body	Date of collection	Total
Agrevolution: evolutionary technological platform for the organization of the agro-food chain	Analysis, design and development of aggregation, management and evolution services for Interfirm Networking in the agro-food sector.	MISE (Ministry of Economic Development)	24.12.2018	27,372
			Total	27,372
Software ecosystem for electronic health care - EHEALTHNET	Research, modeling and development of innovative computer applications in the field of eHealth.	MIUR (Ministry of University, Education and Research)	16.01.2018 12.11.2018 03.12.2018	179,585 120,822 348,326
			Total	648,733
IRM&M "Integrated Risk Measurement & Management"	Methodologies and software service platform for financial risk assessment in accordance with Basel II.	MISE (Ministry of Economic Development)	11.05.2018	176,540
			Total	176,540
Public R&D laboratory in the agro-industrial field	Research, modeling and development of innovative applications to support energy consumption awareness in home, building and campus contexts.	MIUR (Ministry of University, Education and Research)	19.01.2018 13.06.2018	93,976 69,229
			Total	163,206
Engineering of internet-based services for the structural development of an "intelligent" territory _ puglia@service (*)	Research, analysis and prototype definition of advanced models of service creation and provision in application contexts typical of Public Administrations and cultural tourism.	MIUR (Ministry of University, Education and Research)	09.03.2018	3,442,881
			Total	3,442,881
Operational Knowledge from Insights and Analytics on Industrial Data	OK-INSIDA aims to develop an integrated platform for the collection and analysis of big data generated in production lines, in order to provide services to support the improvement of products, processes and maintenance policies.	MIUR (Ministry of University, Education and Research)	15.11.2018 16.11.2018	104,440 417,760
			Total	522,200
POLIS2020	Activities in support of the design and development of innovative applications in order to create a socio-technical platform able to provide tools and methodologies capable of placing the public and private players of the territory at the center of the processes of change. Tools and methodologies will be defined in order to promote and optimize the interrelation between technology and social aspects.	Apulia Region	07.02.2018	3,154,625
			Total	3,154,625
Regeneration of nerve and osteochondral tissues through innovative approaches of Tissue Engineering - Rinovatis (*)	Analysis, design and development of embedded software for the simulation and operation of a hardware device aimed at detecting micro-vesicles in the blood.	MIUR (Ministry of University, Education and Research)	09.03.2018	265,912
			Total	265,912
Risk Evaluation Dashboard	Through the use of big data and special algorithms, RED aims to provide the information required by land management bodies to carry out timely and considered assessments concerning the type of mitigation action to be taken during emergency and non-emergency situations.	Valley d'Aosta Region	21.12.2018 24.12.2018	36,405 49,895
			Total	86,300
Sigma (integrated sensor system in cloud environment for advanced multi-risk management)	Industrial research and experimental development activities, aimed at acquiring new knowledge in the field of business intelligence techniques and services within the framework of risk management applications in the cloud environment.	MIUR (Ministry of University, Education and Research)	13.02.2018 18.12.2018	137,040 187,424
			Total	324,464
SiMonA - Advanced monitoring systems for production lines	SiMonA aims to create a framework that provides tools to facilitate the control and monitoring of Wireless Sensor Networks within the factory, providing location and energy-saving services and real-time communication modules between human operators and machine tools.	Piedmont Region	26.10.2018	22,278
			Total	22,278
SINTESYS - Security and INTElligence System	Research activities aimed at acquiring new knowledge in the field of data mining techniques and services on OpenSource Intelligence multimodal sources to be applied to the design and development of an integrated information services system for homeland security.	MIUR (Ministry of University, Education and Research)	01.06.2018	364,892
			Total	364,892
ICT solutions for the use and "augmented" exploration of Cultural Heritage (NEPTIS)	Research, modeling and development of applications to support the cultural and tourist enhancement of territories with particular reference to integrated cultural and tourist routes and to the flexibility of the development of social and mobile applications (Apps).	MIUR (Ministry of University, Education and Research)	23.01.2018	689,751
			Total	689,751
A virtual environment of "collective intelligence" enabling the development of ecosystems for a successful sustainable technological entrepreneurship (*)	Analysis, design and development of software components and services within the framework of an enterprise social software platform for the development and management of intelligence and collective knowledge in the context of processes for creating a new sustainable technological entrepreneurship.	MIUR (Ministry of University, Education and Research)	09.03.2018	2,139,183
			Total	2,139,183
Total				12,028,337

(*) The collection was not direct but through Ditech Distretto tecnologico High-tech S.C.

B) Operating expenses

32 Operating expenses

(in Euros)

Description	31.12.2018	31.12.2017	Change
Operating expenses	844,342,577	719,095,731	125,246,846

The breakdown of "Operating expenses" is as follows:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Raw materials and consumables	12,005,514	9,528,056	2,477,458
Service costs	392,184,617	336,437,630	55,746,987
Personnel costs	401,321,532	349,457,747	51,863,785
Amortisation and depreciation	29,019,910	14,049,061	14,970,849
Provisions	5,928,094	4,913,536	1,014,557
Other costs	3,882,910	4,709,701	(826,790)
Total	844,342,577	719,095,731	125,246,846

33 Raw materials and consumables

(in Euros)

Description	31.12.2018	31.12.2017	Change
Raw materials and consumables	12,005,514	9,528,056	2,477,458

Below is a breakdown of costs for "Raw materials and consumables":

(in Euros)

Description	31.12.2018	31.12.2017	Change
Hardware	2,837,002	3,320,845	(483,843)
Software	8,970,455	5,985,383	2,985,072
Consumables	198,057	221,828	(23,771)
Total	12,005,514	9,528,056	2,477,458

34 Service costs

(in Euros)

Description	31.12.2018	31.12.2017	Change
Service costs	392,184,617	336,437,630	55,746,987

Service costs include the following:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
EDP purchases, services and data lines	1,347,732	157,285	1,190,447
Insurance	2,947,959	2,697,450	250,509
Bank charges and commissions	2,132,048	1,211,608	920,440
Technical support and consultancy	215,488,742	180,068,685	35,420,057
Consultancy from subsidiaries	88,204,860	79,263,628	8,941,233
Legal and administrative consultancy	1,784,298	2,033,632	(249,333)
Training and refresher courses	2,955,074	2,839,219	115,855
Consultants	357,214	108,170	249,044
Cost of corporate boards	1,791,465	2,224,119	(432,654)
Building rental	11,845,566	10,457,067	1,388,499
Maintenance of tangible and intangible assets	11,064,552	9,231,175	1,833,377
Canteen and other personnel costs	6,153,388	5,181,166	972,222
Automotive expenses	9,368,732	8,583,727	785,006
Hardware and software rental	873,498	400,855	472,643
Services from subsidiaries	8,593,552	8,416,003	177,549
Maintenance and security services	3,668,985	3,379,184	289,801
Advertising and sales rep. expenses	1,120,020	1,226,585	(106,565)
Travel costs	12,382,457	11,633,448	749,009
Postage and shipping expenses	1,277,422	619,919	657,503
Utilities	5,783,969	5,524,535	259,434
Other	3,043,082	1,180,170	1,862,912
Total	392,184,617	336,437,630	55,746,987

The main changes are attributable to item “Technical support and consultancy”, whose increase is due to the increase in production activities, which required the use of external resources, as well as item “Consultancy from subsidiaries”, increased due to new hiring by Group companies that allowed for the use of a higher number of resources for the implementation of the projects of the Parent Company.

The following table shows the remuneration paid to the Independent Auditors of these financial statements, in accordance with article 149-*duodecies* of the consolidated law on finance.

(in Euros)			
Service	Provider	Beneficiary	Remuneration
Audit	Deloitte & Touche S.p.A.	Engineering Ingegneria Informatica S.p.A.	318,000
Other certification services (*)	Deloitte & Touche S.p.A.	Engineering Ingegneria Informatica S.p.A.	15,500

(*) The other services include the fill-in of the Single Form and 770 form, as agreed upon procedures on accounts.

Fee is net of expenses.

(in Euros)

Description	31.12.2018	31.12.2017	Change
Personnel costs	401,321,532	349,457,747	51,863,785

“Personnel costs” consist of:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Salaries and wages	297,218,065	256,420,057	40,798,008
Social security expenses	73,726,154	64,184,173	9,541,982
Post-employment benefits	19,127,577	16,782,582	2,344,994
Restructuring and reorganising personnel	295,000		295,000
Other personnel costs	10,954,736	12,070,935	(1,116,200)
Total	401,321,532	349,457,747	51,863,785

The “Salaries and wages” item increased due to the increase in personnel partly due to the merger in the first half year (108 resources from Infinity Technology Solutions S.p.A. and 477 resources from Infogroup S.p.A.) and partly to new hirings (around 600 resources).

Other personnel costs include the cost related to the Stock Option Plan, which increased by Euro 9,517 thousand.

As the assigned Stock Option Plan is classified as Equity Settled, the counter-entry of costs is recorded in a shareholders' equity reserve, which, in addition to this amount, also includes the increase for the portion of Stock Option assigned to the subsidiary Engineering D.HUB S.p.A. and amounting to Euro 385 thousand. The subsidiary recognised, instead, a cost of equal amount.

It is specified that, over the year, 18,235 options were assigned to the beneficiaries of the Stock Option Plan. The fair value of rights assigned during 2018 was calculated, upon assignment, by using the binomial model to evaluate US options (so-called Cox, Ross and Rubinstein model). It totalled Euro 0.2 million (the fair value of options granted in the first pool amounted to Euro 15.92 per option).

The fair value of rights assigned during 2018 was calculated upon assignment.

In particular, the main input data used to measure the fair value as of June 30, 2018, of the Stock Option plan are summarised as follows:

- multiple of EV/EBITDA, determined as mean of a panel of listed comparable values;
- interest rate curve [IRS 3 years] as of June 30, 2018;
- historical volatility [at 260 days], observed as of June 30, 2018;
- dividend yield equal to zero for the Stock Option measurement;
- historical series of logarithmic yields for the securities involved;
- liquidity discount equal to 20%;
- strike price equal to Euro 42.15, contractually determined.

The fair value of options granted in the first pool amounted to Euro 15.92 per option. The fair value at the assignment date was determined independently and based on the following parameters for the options granted:

- options are granted free;
- options accrued are exercisable;
- the exercise price is Euro 0;
- the concession time is 3.5 years;
- the exercise price for each share at the assignment date is Euro 42.15.

A summary of options granted within the Stock Option Plan is shown hereunder:

(in Euro, unless stated otherwise)

	As of December 31, 2018		As of December 31, 2017	
	Average price for the exercise of the option	Number of options	Average price for the exercise of the option	Number of options
As of January 1, 2018	-	870,729	-	-
Granted during the year	42.15	18,235	42.15	870,729
Exercised during the year	-	-	-	-
As of December 31, 2018	-	888,964	-	870,729

No option is reported as overdue in the period shown in the table.

As of December 31, 2018, the reserve for share-based payments amounted to Euro 19,328 thousand. The increase for the year in the income statement amounted to Euro 9,517 thousand.

The average workforce is as follows:

	(units)		
Average number of employees	31.12.2018	31.12.2017	Change
Executives	299	288	11
Managers	1,555	1,423	132
Other employees	4,797	4,183	614
Total	6,651	5,894	757

36 Amortisation and depreciation

(in Euros)

Description	31.12.2018	31.12.2017	Change
Amortisation and depreciation	29,019,910	14,049,061	14,970,849

The breakdown is as follows:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Depreciation of property, plant and equipment	3,923,141	2,774,847	1,148,294
Amortisation of intangible assets	25,096,769	11,274,214	13,822,555
Total	29,019,910	14,049,061	14,970,849

37 Provisions and write-downs

(in Euros)

Description	31.12.2018	31.12.2017	Change
Provisions	5,928,094	4,913,536	1,014,557

The breakdown is as follows:

(in Euros)

Description	31.12.2018	31.12.2017	Change
Bad debt provision	(495,516)	1,297,104	(1,792,620)
Provision for risks	5,936,729	3,605,668	2,331,062
Write-down of fixed assets	486,880	10,764	476,116
Total	5,928,094	4,913,536	1,014,557

Amounts recognised in the financial statements are the best estimates and assumptions based on the best information available at the reporting date.

The bad debt provision for risks, amounting to Euro 5,937 thousand, refers primarily to allocations made in view of future reorganizations and restructuring of personnel.

The item "Write-down of fixed assets" refers, in the amount of Euro 400 thousand, to the impairment in goodwill of the business unit SP Sapiens S.r.l. and, for the remaining portion, to the residual value of goodwill, following the purchase price provision of the companies Infogroup S.p.A., Fair Dynamics Consulting S.r.l. and Infinity Technology Solutions S.p.A., which arose following the latest forecasts of Directors on the related cash flows that do not allow for the recoverability of this amount of goodwill.

For further details, reference is made to paragraph 1 "General Information".

38 Other costs

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Other costs	3,882,910	4,709,701	(826,790)

Other costs are broken down as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Dues and subscriptions	688,044	1,522,092	(834,048)
Taxes	1,480,525	1,627,172	(146,647)
Gifts and donations	93,976	224,138	(130,161)
Charges for social causes	1,020,962	524,614	496,348
Other	599,402	811,685	(212,282)
Total	3,882,910	4,709,701	(826,790)

39 Financial income/(expenses)

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Financial income/(expenses)	(848,103)	(8,675,273)	7,827,170

Financial income is broken down as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Interest income	1,822,525	1,838,624	(16,099)
Fair value gain (differential from derivative)	703,299	607,915	95,384
Other income	3,153,598	161,699	2,991,899
Total	5,679,423	2,608,239	3,071,184

The "Other income" item comprises primarily financial income (Euro 3.1 million), resulting from the change in contract terms occurred over the year of the loan of Euro 130 million, signed with a pool of banks. In particular, the above-mentioned effect is attributable to the application of IFRS 9, in relation to the non-substantial change of the aforesaid financial liability (as described in Note 20 herein), which involved the recognition in the income statement, based on the new standard, of the difference between current value of cash flows, as amended (determined by using the effective interest rate of the instrument in place at the modification date) and the book value of the instrument in place at the modification date.

Financial expense consist of:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Interest expense	6,286,105	10,575,729	(4,289,624)
Other	241,421	707,783	(466,361)
Total	6,527,526	11,283,512	(4,755,985)

Interest expense refer primarily to loans detailed in Note 21 hereof.

40 Income/(expenses) from investments

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Income/(expenses) from investments	(225,475)	(978,112)	752,637

The breakdown is as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Write-downs of equity investments	(401,006)	(1,027,160)	626,154
Other income		49,048	(49,048)
Non-recurring income (expenses)	175,531		175,531
Total	(225,475)	(978,112)	752,637

“Write-downs of equity investments” related, in the amount of Euro 230 thousand, to the company Engineering International Inc. and, for the remaining portion, to charges related to shareholder agreements of the company Engineering ITS AG and its subsidiaries.

“Non-recurring income (expenses)” relates to the earn out following the non-achievement of performance targets.

41 Taxes

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Taxes	16,428,328	4,281,884	12,146,444

The breakdown of taxes is as follows:

(in Euros)			
Description	31.12.2018	31.12.2017	Change
Current	11,478,760	8,866,537	2,612,223
Deferred	4,949,568	(4,584,653)	9,534,221
Total	16,428,328	4,281,884	12,146,444

Reconciliation between the theoretical and effective IRES tax rate is shown below:

(in Euros)

	31.12.2018		31.12.2017	
Profit/(loss) before taxes	51,893,910		38,615,242	
Ordinary rate applied	12,454,538	+24.0%	9,267,658	+24.0%
Income taxable in prior years	4,233,198	+8.2%	3,669,108	+9.50%
Income not taxable	(4,659,776)	-9.0%	(4,784,256)	-12.39%
Expenses not deductible	8,875,254	+17.1%	6,298,632	+16.31%
Deductible expenses not charged to income statement	(6,884,871)	-13.3%	(7,705,147)	-19.95%
Utilisation of previous years tax losses	0	0.00%	0	0.00%
Total assessable IRES	58,409,763		28,108,314	
Tax/Tax rate	14,018,343	+24.0%	6,745,995	+24.0%

Deferred taxes were calculated taking into consideration the accumulated sum of all temporary differences based on the average expected rate for successive tax periods when these differences will reverse.

For details of the temporary differences determining the deferred taxes, please see paragraphs 8 “Deferred tax assets” and 21 “Deferred tax liabilities” herein.

42 Other information

■ COMMITMENTS UNDERTAKEN

The table below contains information regarding the commitments undertaken by the Company:

(in Euros)

Description	31.12.2018
Third party sureties	273,160,546
Bank sureties in favour of other companies	10,845,713
Bid Bonds and Performance Bonds	8,594,334
Total commitments undertaken	292,600,593

■ OPERATING LEASES

The operating leases relating to rental contracts for cars, photocopiers, HW and ordinary office machines are shown below.

(in Euros)

Description	31.12.2018	31.12.2017
Liability remaining as of January 1	10,791,652	11,258,933
Amount of contracts agreed in year	6,610,259	5,663,781
Amount of fees paid in year	(6,630,898)	(6,131,062)
Amount of fees paid in advance		
Amount of fees still due	10,771,013	10,791,652

(in Euros)

Description	31.12.2018	31.12.2017
Within 1 year	5,442,209	5,310,220
Over 1 year	5,328,804	5,481,432
Over 5 years		
Total	10,771,013	10,791,652

In addition to the above, the main commitments are related to rents of headquarters and branches, for a total amount of Euro 111 million as of December 31, 2018.

43 Financial instruments by category

As regards all transactions, the Company applies the following criteria to (financial or non-financial) balances, for which an accounting standards requires, or permits, the measurement at fair value and which are included within the scope of IFRS 13:

- a) identification of the “unit of account”, i.e. the level for which an asset or a liability is aggregated or disaggregated in order to be recognised for the purposes of IFRS standards;
- b) identification of the principal market (or, in its absence, of the most advantageous market), in which transactions for the assets and liabilities under evaluation might occur. In the absence of any evidence to the contrary, it is assumed that the market, which is correctly used, coincides with the principal market or, in its absence, with the most advantageous market;
- c) as regards non-financial assets, definition of the highest and best use. In the absence of any evidence to the contrary, the highest and best use coincides with the current use of the asset;
- d) definition of the most appropriate valuation techniques for measurement at fair value. These techniques maximise the use of observable inputs that market participants would use when pricing the asset or the liability;
- e) determination of asset fair value, i.e. estimation of the price at which an asset would be sold; determination of the fair value of liabilities and equity instruments, i.e. estimation of the price for the related transfer in an orderly transaction between market participants at the measurement date;
- f) inclusion of the “non-performance risk” while measuring assets and liabilities and, especially for financial instruments, determination of an adjustment factor in measurement at fair value in order to include not only the counterparty risk (CVA - credit valuation adjustment), but also its own debt risk (DVA - debit valuation adjustment).

According to the inputs used for measurements at fair value, a fair value hierarchy was defined, according to which assets and liabilities, measured at fair value, are to be classified, or for which the fair value is disclosed in the financial statements:

- a) level 1: listed prices in active markets for identical assets or liabilities to those under evaluation;
- b) level 2: observable inputs, different from those included in level 1, such as: (i) listed prices in active markets for similar assets or liabilities; (ii) listed prices in non-active markets for similar or identical assets or liabilities; (iii) other observable inputs (interest rate curves, implicit volatility, credit spreads);
- c) level 3: unobservable inputs, to be used to the extent that relevant observable inputs are not available. Unobservable inputs used to measure fair value reflect the assumptions that the market participants would make in pricing assets and liabilities to be measured.

Reference is made to the table hereunder for the definition of the level of fair value hierarchy according to which the single instruments measured at fair value were classified.

No transfers from the various levels of fair value hierarchy occurred during the year.

The fair value of derivatives is determined by discounting expected cash flows, by using the curve of market interest rates at the reference date, and the curve of listed credit default swaps of the counterparty and of Group companies to include the non-performance risk, as explicitly envisaged by IFRS 13.

As regards medium/long-term financial instruments, other than derivatives, wherever market prices are not available, the fair value is determined by discounting expected cash flows, by using the curve of market interest rates at the reference date and considering the counterparty risk in the event of financial assets and its own credit risk in the event of borrowings.

As of January 1, 2019 (first-time application of IFRS 9), the Company management evaluated which business model would have been applicable to financial assets held and classified its financial instruments within appropriate categories, as envisaged by IFRS 9. Moreover, the Company reclassified the borrowings based on new provisions set out by IFRS 9.

The following table shows an overview of financial assets and borrowings in place as of December 31, 2017, while highlighting the related measurement criterion applied pursuant to the previous IAS 39 and the new IFRS 9.

(in Euros)

Description	IAS 39			IFRS 9		
	Portfolio	Accounting principle	Balance as of 01.01.2017	Portfolio	Accounting principle	Balance as of 01.01.2018
Other non-current assets	L&R	Amortised cost	3,848,919	HTC	Amortised cost	3,848,919
Derivative financial instruments	FVPL	FVPL	487,104	FVPL	FVPL	487,104
Trade receivables	L&R	Amortised cost	430,976,988	HTC	Amortised cost	430,976,988
Other current assets	L&R	Amortised cost	53,651,863	HTC	Amortised cost	53,651,863
Cash and cash equivalents	L&R	Amortised cost	181,943,568	HTC	Amortised cost	181,943,568
Total assets			670,908,443			670,908,443

(in Euros)

Description	IFRS 39		IFRS 9	
	Accounting principle	Balance as of 01.01.2017	Accounting principle	Balance as of 01.01.2018
Non-current derivatives	Cash Flow Hedge/Fair Value Hedge	175,695	Cash Flow Hedge/Fair Value Hedge	175,695
Non-current borrowings	Amortised cost	229,434,943	Amortised cost	229,434,943
Other non-current liabilities	Amortised cost	8,148,793	Amortised cost	8,148,793
Current borrowings	Amortised cost	105,317,719	Amortised cost	105,317,719
Other current liabilities	Amortised cost	107,863,878	Amortised cost	107,863,878
Trade payables	Amortised cost	321,264,117	Amortised cost	321,264,117
Total liabilities		772,205,145		772,205,145

Summary tables of financial instrument assets and liabilities by category

The classification of the Company financial instruments by category, according to provisions set out by IFRS 9, is reported below:

(in Euros)

Items as of 31.12.2018	Assets measured at amortised cost	Assets at FVPL	Assets at FVOCI
Other non-current assets	4,338,700	941,429	
Trade receivables	483,990,269		
Other current assets	40,367,791		
Cash and cash equivalents	152,757,670		
Total	681,454,430	941,429	

(in Euros)

Items as of 31.12.2017	Assets measured at amortised cost	Assets at FVPL	Assets at FVOCI
Other non-current assets	3,848,919	487,104	
Trade receivables	430,976,988		
Other current assets	53,651,863		
Cash and cash equivalents	181,943,568		
Total	670,421,339	487,104	

(in Euros)

Items as of 31.12.2018	Liabilities measured at amortised cost	Liabilities at FVPL	Liabilities at FVOCI	Other liabilities
Non-current borrowings	173,956,528	67,643		
Other non-current liabilities	8,790,676	946,022		
Current borrowings	64,746,223			
Other current liabilities	121,123,341			
Trade payables	355,568,776			
Total	724,185,544	1,013,665	0	0

(in Euros)

Items as of 31.12.2017	Liabilities measured at amortised cost	Liabilities at FVPL	Liabilities at FVOCI	Other liabilities
Non-current borrowings	229,434,943	175,695		
Other non-current liabilities	8,148,793			
Current borrowings	105,317,719			
Other current liabilities	107,863,878			
Trade payables	321,264,117			
Total	772,029,450	175,695	0	0

44 Transactions with related parties

During the year transactions were carried out with related parties under normal market conditions. These transactions refer to commercial activities carried out on behalf of leading clients that have produced profitability in line with normal activities.

The table below summarises both the commercial and financial operations relating to the use of cash pooling:

(in Euros)

Description	Revenues	Costs	Financial income (charges)	Trade receivables	Trade payables	Receivables cash pooling	Payables cash pooling
Engineering Sardegna S.r.l.	1,245,534	1,044,502	33,387	713,395	482,023	3,822,163	
Municipia S.p.A.	6,074,543	1,002,907	185,974	13,709,000	3,796,952	14,476,199	
Engiweb Security S.r.l.	575,335	19,837,871	69,232	2,269	9,925,155	3,219,418	
Nexen S.p.A.	2,660,370	277,562	-40,321	3,268,856	475,083		6,473,848
OverIT S.p.A.	525,941	29,823,970		748,365	21,154,890		
Sicilia e-Servizi Venture S.c.a.r.l.	452,961		505	62,303,862	33,295		
Engineering do Brasil S.A.	563,971	58,680	663,961	16,361,404	200,358		
Engineering International Belgium S.A.	396,764	3,415,020	26,964	2,370,612	1,992,033		
Engineering International Inc.	-392			-51			
Engineering D.HUB S.p.A.	10,184,753	25,760,833	-140,152	8,417,447	50,240,172		17,826,428
Engi da Argentina S.A.	287,722			2,606,140	29,320		
Engineering 365 S.r.l.	917,919	4,057,473	19,276	924,082	4,966,480	6,700,200	
WebResults S.r.l.	1,086,130	8,673,008	411	559,918	4,290,336		
Engineering Software Lab d.o.o.	294,231	2,822,808		636,140	1,213,294		
Engineering Luxembourg S.à.r.l.	40,400			214,199			
Engineering ITS AG	166,964	83,036	90,920	3,543,408			
Engineering Ingegneria Informatica S.L.	266,491	567,925	2,788	634,769	584,798		
Engineering DSS GmbH					18,456		
Engineering Software Labs GmbH	787,586	160,000		600,161	160,000		
Sofiter Tech S.r.l.	848,525	24,000		395,129	24,000		
Sogeit Solutions S.r.l.	61,311	802,220		75,019	449,790		
Engineering USA Inc.	633,672			276,769			
Total	28,070,731	98,411,814	912,946	118,360,893	100,036,436	28,217,979	24,300,276

Customer contract assets is included in the "Trade Receivables" item. Loans granted to subsidiaries are also included, namely:

- Engineering do Brasil S.A. 12,500,000
- Engineering International Belgium S.A. 2,100,000
- Engineering 365 S.r.l. 550,000
- Engineering ITS AG 3,370,688
- Engineering Ingegneria Informatica Spain S.L. 139,411
- Sicilia e-Servizi Venture S.c.a.r.l. 403,000

No transactions were undertaken with executives with strategic responsibilities and their related parties during the year. In relation to the stability agreement in place with some senior managers, reference should be made to paragraph 22 herein.

Information on remuneration of members of the Board of Directors and Control Boards

The Members of the Board of Directors and Control Boards are listed in paragraph I. “Corporate Governance and Corporate Bodies” in the Directors’ report.

Directors in office were appointed on the occasion of the Ordinary Shareholders’ Meeting held on August 4, 2016 and accrued a total amount of Euro 65 thousand over the year.

The Chairman and the Chief Executive Officer, acting consistently with the previous mandate, continue to receive remunerations. The total amount accrued for the year amounted to Euro 1,539 thousand.

As regards the Board of Statutory Auditors, always appointed on the occasion of the Ordinary Shareholders’ Meeting held on August 4, 2016, a remuneration was decided based on the resolution taken by the Board of Directors, in the related meeting held on the same day. The total amount accrued for the year amounted to Euro 44 thousand.

The Supervisory Board accrued a total amount of Euro 30 thousand over the year.

For the Independent Auditors Deloitte & Touche S.p.A. reference is made to paragraph 34 of this document.

Net profit for the year amounted Euro 35,465,582. The Board of Directors proposed to deliberate as retained earnings the entire amount of net profits. In case this proposal should be accepted by the Shareholders’ General Meeting, the entire amount of net profits will be fully recorded as a reserve for non distributed profits.

Board of Statutory Auditors' report on the Financial Statements as of December 31, 2018

Pursuant to Article 2429 of the Italian Civil Code

To the Sole Shareholder of
Engineering Ingegneria Informatica S.p.A.

The financial statements as of December 31, 2018, that the Board of Directors are submitting you for approval, were approved by the Board of Directors in the meeting held on March 14, 2019.
We preliminary state that we have waived the terms as per article 2429 of the Italian Civil Code.

As per Article 13 of Legislative Decree no. 39/2010, the independent audit was performed, pursuant to Article 2409-bis of the Italian Civil Code, by the Independent Auditors Deloitte & Touche S.p.A., with registered office in Milan.

In the fulfilment of its tasks, the Board of Statutory Auditors acquired information by attending all Shareholders' Meetings and the meetings of the Board of Directors, as well as through meetings held with the Company's management and the Independent Auditors, Deloitte & Touche S.p.A., in charge of the independent audit of the Company's financial statements for the year and the consolidated financial statements.

On February 18, 2019, the Board of Statutory Auditors in office at the date of this report, was supplemented with the substitute auditor Patrizia Paleologo Oriundi, in replacement of Francesco Tabone, who resigned due to serious health problems.

Supervisory activity carried out by the Board of Statutory Auditors, pursuant to Article 2403 of the Italian Civil Code

During the financial year ended December 31, 2018, the auditing activities were carried out as set out by Article 2403 and seq. of the Italian Civil Code, with reference, as per other necessary and appropriate provisions, to the code of conduct of the Board of Statutory Auditors recommended by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

We hereby also acknowledge the following:

- (1) during the year, we asked and obtained from the Board of Directors information on the general operating performance and the business outlook, as well as on the most significant transactions, according to their size and features, made by the Company;
- (2) we are aware of and supervised, where competent, on the adequacy of the Company's organization, on the adequacy of the administrative and accounting system, as well as on the reliability of the latter in providing a true and fair view of operations, through the acquisition of information obtained by persons in charge of the various corporate functions and the evaluation of corporate documents. To this purpose, no particular comments are to the reported;
- (3) there were no claims made pursuant to article 2408 of the Italian Civil Code;
- (4) unless for single and justified impediments, the members of the Board of Statutory Auditors attended regularly the meetings of the Board of Directors and the Shareholders' Meetings and we are in a position to certify that the same took place in compliance with statutory, legislative and regulatory provisions governing their functioning;
- (5) during the supervisory activities, as described above, no infringements to law or the Company's Articles of Association are to be reported, nor were there transactions that were manifestly imprudent, risky, in potential conflict of interest, or such as to compromise the integrity of the shareholders' equity;
- (6) we exchanged information with the Independent Auditors, as set forth by Article 2409-septies of the Italian Civil Code;

- (7) we have also viewed the financial statements of subsidiaries, within the limits of information required for the drawing up of this report and to the purpose of expressing an opinion on the Company's financial statements as of December 31, 2018. This opinion, however, does not cover the single financial statements of subsidiaries;
- (8) we acknowledged the 2018 annual report of the Supervisory Body, established pursuant to the Legislative Decree no. 231/2001, in which no relevant critical issues are reported.

During the supervisory activities described above, no significant facts were identified that would require mention herein.

Comments and proposals as to the financial statements and its approval

We reviewed the draft financial statements ended December 31, 2018 and the following further information is given:

- the financial statements under evaluation reported a profit for the year of Euro 35,465,582;
- we supervised, where competent, the general format of the financial statements, their general compliance with regulations in force and the IFRS International Accounting Standards concerning their preparation and structure, as well as their consistency with facts and information we are aware of;
- we also assessed the compliance to law on the preparation of the Directors' report. To this purpose, there are no remarks to report herein;
- the accounting criteria utilised are consistent with those used for the preparation of the 2017 financial statements and were applied evenly, except for "IFRS 9 - Financial Instruments" and "IFRS 15 - Revenues from contracts with customers", as well as other accounting standards, amendments and interpretations applicable for accounting periods beginning on January 1, 2018. For these standards, the Company opted to recognise the effect related to the retroactive remeasurement of amounts, in shareholders' equity on January 1, 2018, without remeasuring the balance of items of compared previous years;
- we supervised the formation of accounts related to extraordinary merger transactions carried out in 2018 (including mergers by incorporation of two wholly owned companies: - Infinity Technology Solutions S.p.A. and Infogroup – Informatica e Servizi Telematici S.p.A.), as well as the resulting effects for the purposes of impairment testing;
- according to the International Accounting Standards, it is worth noting that, as approved by the Board of Directors on March 14, 2019, intangible assets with indefinite useful life, especially "Trademarks" (Euro 453.0 million) and Goodwill (Euro 44.6 million), were tested for impairment pursuant to criteria and methodologies envisaged by IAS 36 – Impairment of assets. The impairment test performed confirmed that the values entered in the assets were consistent and there was no impairment loss on the value of assets with indefinite useful life. As required by IFRS, the main data and base assumptions required for impairment testing are widely described in the Explanatory Notes. During our supervisory activities we assessed the impairment test itself and results included in the Explanatory Notes. No remarks are to be reported to this purpose;
- pursuant to article 2426, par. 5, of the Italian Civil Code, we approved the recording, in the assets of the statement of financial position, of item "Development costs" related to intangible assets and amounting to Euro 5,318,608, net of amortisation. As reported in the Explanatory Notes, they are amortised according to their useful life or over a period not exceeding five years if the amount cannot be reliably determined. Moreover, further development costs, totalling Euro 2,877,121, were recorded under assets in progress, for still incomplete projects regarding new solutions. As referred by Directors, projects still underway will be completed during 2019;
- as regards item "Receivables from subsidiaries", it is noted that receivables from customers include the exposure as of December 31, 2018, with respect to Sicilia e Servizi Venture S.c.a.r.l. in liquidation ("SISEV"), equal to Euro 68,994,546 (gross of the related bad debt provision amounting to Euro 6,690,684), of which Euro 8,996,914 of construction contracts, and were related to the IT activities connected with the building of an integrated IT platform for the Sicilian Region within specifications and provisions set out in the convention signed between the Sicilian Region, Sicilia Digitale S.p.A. (former Sicilia e-Servizi S.p.A.) and Sicilia e-Servizi Venture S.c.a.r.l. in liquidation on May 21, 2007 and expired on December 22, 2013. The Board of Statutory Auditors acknowledges what was certified by Deloitte and described in the Explanatory Notes, under item "Receivables from subsidiaries". In particular, it acknowledges that, today, the ability to collect the receivables of the subsidiary SISEV is not affected.

Lastly, we certify that, to the extent of our knowledge, while preparing the financial statements, the Directors did not avail of the exceptions to law, pursuant to Article 2423, paragraph 5, of the Italian Civil Code.

As regards inter-group transactions, disclosures included in the Explanatory Notes confirm that they were completed in the Company's interest and no atypical and/or unusual transactions were carried out with respect to ordinary operations.

On April 1, 2019, the Independent Auditors Deloitte & Touche S.p.A. issued their report pursuant to Article 14 of Legislative Decree no. 39/2010, in which they express an opinion with no remarks. In their report, the Independent Auditors certified that the financial statements ended December 31, 2018 provide a true and fair view of the Company's financial position, results of operations and cash flows. Moreover, in the Independent Auditors' opinion, the Directors' report is consistent with the financial statements as of December 31, 2018.

Conclusions

In light of the above considerations, also taking account of the outcome of the audit carried out by the Independent Auditors, we hereby express a favourable opinion on the approval of the financial statements, as drawn up by Directors and we agree on the proposal made by the same Directors on the allocation of the profit for the year, equal to Euro 35,465,582.

We wish to recall that our mandate is about to expire, after three years, as it is the mandate of the Board of Directors and the Independent Auditors Deloitte & Touche S.p.A.. The Shareholders' Meeting will be therefore called to resolve, inter alia, on the appointment of the new Board of Statutory Auditors, the new Board of Directors and the new Independent Auditors, for the 2019-2021 three-year period.

The Statutory Auditors

Rocco Corigliano
Patrizia Paleologo Oriundi
Massimo Porfiri

Resolutions of the Shareholders' Meeting

The Ordinary Shareholders' Meeting, held on April 11, 2019 resolved:

Item 1) on the agenda

1. the approval of the financial statements as at December 31, 2018 of Engineering Ingegneria Informatica S.p.A., consisting of the statement of financial position, the income statement, the Explanatory Notes and the annexes, as presented by the Board of Directors as a whole and as individual entries.

Also:

To carry forward the entire financial year profit, equal to Euro 35,465,582 as reserve for retained earnings.

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ENGINEERING

Piazzale dell'Agricoltura, 24
00144 Rome - Italy



+39 06.8759.1



info@eng.it



eng.it



@EngineeringSpa



Engineering Ingegneria
Informatica Spa



Engineering Ingegneria
Informatica S.p.A.