



Almaviva

**INTERIM CONSOLIDATED FINANCIAL REPORT FOR
NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018**

BOARD OF DIRECTORS NOVEMBER 21TH, 2018

ALMAVIVA S.P.A. AND SUBSIDIARIES
INTERIM CONSOLIDATED FINANCIAL REPORT
FOR NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

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ALMAVIVA S.P.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(in thousands of Euro)</i>	Note	At September 30, 2018	At December 31, 2017
Intangible assets	6	54,969	55,862
Goodwill		38,828	33,778
Property, plant and equipment		51,710	60,493
Investments accounted for using the equity method		1,100	1,993
Non-current financial assets	7	1,646	1,446
Deferred tax assets		16,871	13,383
Other non-current assets		2,136	1,658
Total non-current assets		167,260	168,614
Inventories and amount due from customers	8	0	0
Inventories and amount due from customers	8	65,221	30,809
Trade receivables	9	288,334	305,029
Current financial assets	7	3,967	9,406
Other current assets		104,003	86,087
Cash and cash equivalents		43,355	69,502
Total current assets		504,880	500,832
Non-current assets held for sale		2,459	2,459
Total assets		674,599	671,905
Share capital		154,899	154,899
Share premium reserve		17,788	17,788
Other reserves		(192,605)	(166,659)
Profit/(loss) for the year		7,653	221
<i>Total group shareholders' equity</i>		<i>(12,265)</i>	<i>6,249</i>
<i>Non-controlling interests</i>		<i>4,321</i>	<i>4,529</i>
Total shareholders' equity	10 (*)	(7,943)	10,779
Non-current liabilities for employee benefits		51,567	52,872
Non-current provisions		6,418	6,346
Non-current financial liabilities	11	272,376	251,121
Deferred tax liabilities		1,672	1,672
Other non-current liabilities		789	892
Total non-current liabilities		332,822	312,903
Current provisions		8,221	7,162
Trade payables	12	206,938	204,120
Current financial liabilities	13	15,297	12,021
Current tax liabilities		32,356	42,932
Other current liabilities		86,907	81,898
Other current liabilities for dividends to be paid		(0)	90
Total current liabilities		349,719	348,223
Total liabilities		682,542	661,126
Total equity and liabilities		674,599	671,905

(*) The Shareholders' equity net of non-recurring and extraordinary events should be equal to a positive amount of Euro 37,236 thousands; for further details please refer to Note 9.

ALMAVIVA S.P.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

<i>(in thousands of Euro)</i>	Note	For the nine months ended September 30,	
		2018	2017
Revenues from contracts with customers	14	577,708	544,273
Other Income		14,123	11,195
Total revenues and other income		591,831	555,468
Cost of raw materials and services		(194,206)	(176,856)
Personnel expenses	15	(339,794)	(324,571)
Depreciation and amortization	16	(20,281)	(21,872)
Losses from sale of non-current assets		(79)	(62)
Other expenses		(6,740)	(8,116)
Operating profit/(loss)		30,731	23,991
Financial income	17	373	773
Financial expenses	17	(22,448)	(25,509)
Exchange gains/(losses)	17	(107)	(1,122)
Profit/(loss) from investments accounted for using equity method		6	183
Profit/(Loss) before taxes		8,555	(1,683)
Income taxes	18	219	(73)
Profit/(Loss) from continuing operations		8,774	(1,756)
Profit/(Loss) for the year		8,774	(1,756)
of which:			
Profit/(loss) pertaining to the group		7,653	(2,065)
Profit/(loss) pertaining to non-controlling interests		1,121	309

ALMAVIVA S.P.A. AND SUBSIDIARIES

**INTERIM CONSOLIDATED STATEMENT OF OTHER
COMPREHENSIVE INCOME**

<i>(in thousands of Euro)</i>	Note	For the nine months ended September 30,	
		2018	2017
Profit/(loss) for the year		8,774	(1,756)
<i>Other components of comprehensive income that may be subsequently reclassified to profit or loss, after taxes:</i>			
Exchange differences on translation of foreign operations		(14,961)	(3,783)
Gains/(losses) on cash flow hedging instruments		0	0
Total		(14,961)	(3,783)
<i>Other components of comprehensive income that will not be subsequently reclassified to profit or loss, after taxes:</i>			
Actuarial gains/(losses) on valuation of liabilities for employee benefits		1,073	1,462
Total		1,073	1,462
Comprehensive income/(loss) for the year		(5,114)	(4,077)
of which:			
Comprehensive income/(loss) pertaining to the group		(5,428)	(4,042)
Comprehensive income/(loss) pertaining to non- controlling interests		314	(35)

ALMAVIVA S.P.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(in thousands of Euro)</i>	Share capital	Share premium reserve	Other reserves	Profit/(loss) for the year	Total Group shareholders' equity	Reserves pertaining to NCIs	Profit/(loss) for the year	Total non-controlling interests	Total shareholders' equity
Shareholders' Equity at December 31, 2017	154,899	17,788	(166,660)	221	6,249	3,887	642	4,529	10,779
Profit/(loss) for the year				7,653	7,653		1,121	1,121	8,774
Exchange differences on translation of foreign operations			(14,154)		(14,154)	(807)		(807)	(14,961)
Gains/(losses) on cash flow hedging instruments			0		0			0	0
Actuarial gains/(losses) on valuation of liabilities for employee benefits			1,073		1,073			0	1,073
Comprehensive income/(loss) for the year	0	0	(13,081)	7,653	(5,428)	(807)	1,121	314	(5,114)
Allocation of prior year's profit/(loss)			221	(221)	0	0	(642)	(642)	(642)
Dividends			(13,342)		(13,342)				(13,342)
Other movements			256		256	120		120	376
Shareholders' Equity At September 30, 2018	154,899	17,788	(192,606)	7,653	(12,265)	3,200	1,121	4,321	(7,943)

ALMAVIVA S.P.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

<i>(in thousands of Euro)</i>	Share capital	Share premium reserve	Other reserves	Profit/(loss) for the year	Total Group shareholders' equity	Reserves pertaining to NCIs	Profit/(loss) for the year	Total non-controlling interests	Total shareholders' equity
Shareholders' Equity at December 31, 2016	154,899	17,788	(139,563)	(16,907)	16,217	4,291	764	5,055	21,272
Profit/(loss) for the period				(2,065)	(2,065)		309	309	(1,756)
Exchange differences on translation of foreign operations (Note 17)			(3,439)		(3,439)	(344)		(344)	(3,783)
Gains/(losses) on cash flow hedging instruments			0		0			0	0
Actuarial gains/(losses) on valuation of liabilities for employee benefits (Note 18)			1,462		1,462			0	1,462
Comprehensive income/(loss) for the period	0	0	(1,977)	(2,065)	(4,042)	(344)	309	(35)	(4,077)
Allocation of prior year's profit/(loss)			(16,907)	16,907	0	764	(764)	0	0
Dividends			(4,433)		(4,433)	(490)		(490)	(4,923)
Other movements			598		598	21		21	619
Shareholders' Equity At September 30, 2017	154,899	17,788	(162,282)	(2,065)	8,340	4,732	309	4,551	12,891

ALMAVIVA S.P.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in thousands of Euro)</i>	Note	At September 30, 2018	At September 30, 2017
Profit/(loss) for the year		8,774	(1,756)
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
Income Taxes	18	(219)	73
Financial income	17	(373)	(773)
Financial expenses	17	22,448	25,509
Exchange (gains)/losses	17	107	1,122
Depreciation, amortization and write-downs	16	20,281	21,872
Write-downs/(revaluations) of non-current financial assets and equity investments		(6)	(130)
Losses from sale of non-current assets		79	62
Interest received		269	773
Interest paid		(12,685)	(23,962)
Income taxes paid		(2,678)	(2,015)
<i>Cash flows generated from operating activities before changes in working capital</i>		<i>35,997</i>	<i>20,775</i>
Change in trade receivables	9	16,798	20,167
Change in inventories and amount due from customers	8	(34,412)	(8,341)
Change in trade payables	12	2,551	8,127
Change in other assets		(18,395)	(25,535)
Change in other liabilities		(2,862)	(53,009)
Foreign exchange rate effect related to items of working capital		7,227	7,939
Change in liabilities for employee benefits and provisions		220	(2,645)
Change in deferred tax assets (liabilities)		(3,488)	(957)
Cash-flow generated from/(absorbed by) operating activities (A)		3,637	(33,478)
Investments in property, plant and equipment		(6,302)	(4,160)
Investments in intangible assets	6	(15,741)	(11,186)
Acquisition of investments accounted for using the equity method		(293)	(1,365)
Proceeds from divestments of PP&E, intangible assets and investments accounted for using the equity method		116	7
Change in non-current asset held for sale		0	1,790
Change in non-current financial assets	7	(191)	157
Change in current financial assets		5,439	(3,050)
Cash-flow generated from/(absorbed by) investing activities (B)		(16,972)	(17,807)
Proceeds from non-controlling interests for payment of share capital of subsidiaries		1,024	339
Dividends approved to non-controlling interests (*)		(13,342)	(5,405)
Proceeds from borrowings	11	22,554	30,128
Repayment of borrowings	11	(2,720)	(45,598)
Reclassification and change in consolidation area	11	1,421	0
Change in current financial liabilities	13	(31,719)	100,505
Cash-flow generated from/(absorbed by) financing activities (C)		(22,782)	79,969
Cash flow of the year (A+B+C)		(36,116)	28,684
Effect of foreign exchange rates on cash and cash equivalents		9,969	3,497
Cash and cash equivalents at beginning of the year		69,502	48,181
Cash and cash equivalents at end of the year		43,355	80,363
<i>*of which paid</i>		<i>13,342</i>	<i>5,315</i>

The net change in current financial assets and current financial liabilities is stated net of exchange differences.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES

1. GENERAL INFORMATION

AlmavivA The Italian Innovation Company S.p.A. (hereinafter “AlmavivA S.p.A”, the “Parent Company” or the “Company”) is the parent company of one of the leading Italian groups in the Information & Communication Technology sector that operates globally, with an organisational structure incorporating roughly 44,000 employees and several offices distributed throughout Italian regions and abroad.

The parent company’s registered office is in Via di Casal Boccone, 188/190, Rome and is governed by Italian law.

The unaudited interim condensed consolidated financial statements of the parent company and its subsidiaries (the “AlmavivA Group”) were drafted in compliance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) adopted by the European Union, in particular the international accounting standard applicable for the preparation of interim financial statements (IAS 34 - Interim Financial Reporting) and include the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders’ equity and the consolidated cash flow statement for the nine months period ended as at September 30, 2018 compared, as regards the income statement part, cash flow part and change in shareholders’ equity, with nine months period ended as at September 30, 2017, and as regards the balance sheet part, with December 31, 2017, together with the associated notes.

When used in these explanatory notes, unless otherwise specified or the context otherwise indicates, all references to the terms “AlmavivA Group”, “Group”, “we”, “us”, “our” and the “Company” refer to AlmavivA S.p.A., the parent company, and all entities included in the Consolidated Financial Statements.

The term “IFRS” also includes all valid international accounting standards (“IAS”), as well as all interpretations of the committee for IFRS interpretations, previously called the Standing Interpretations Committee (“SIC”) and later the International Financial Reporting Interpretations Committee (“IFRIC”).

The activities of the Group and its sectors are described in Note 4, while paragraph 2.2 presents the information on the Group’s structure.

The unaudited interim condensed consolidated financial statements as at September 30, 2018 were approved by the company’s Board of Directors on November 21, 2018.

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS

Drafting principles

The AlmavivA Group interim condensed consolidated period financial statements were drafted in compliance with current laws.

AlmavivA S.p.A. prepares the interim condensed consolidated period financial statements of its group (hereinafter “AlmavivA Group”), although all the exemption prerequisites provided for by paragraph 4 of IFRS 10 apply.

The interim condensed consolidated period financial statements are drawn up on the basis of the going concern assumption. In this regard, the evaluation of AlmavivA’s Board of Directors, presented hereunder in paragraph 2.1, is based on the assumption that there no uncertainties (as defined in paragraph 25 of IAS 1) regarding the AlmavivA Group and its ability to continue its activitie.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS (Continued)

Form and contents of the interim condensed consolidated period financial statements

The interim condensed consolidated period financial statements of the Almoviva Group are drafted according to the International Financial Reporting Standards (hereinafter "IFRS" or "international accounting standards") issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure set out in Art. 6 of (EC) Regulation no. 1606/2002 of the European Parliament and Council of July 19, 2002. The interim condensed consolidated period financial statements are composed of the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and these notes, and are drafted by applying the general historical cost principle, with the exception of the financial statement items that, based on IFRS, are measured at fair value, as indicated in the measurement criteria for the individual items.

The interim condensed consolidated financial statements were prepared pursuant to the international accounting standard referring to interim financial statements (IAS 34 - Interim financial reporting). It should be noted that the Almoviva Group adopts the nine months period as the reference interim period for the purposes of application of the aforementioned IAS 34 and definition of the interim financial statements indicated therein.

The accounting standards adopted the recognition and measurement criteria, as well as the consolidation criteria and methods applied to draft the condensed period financial statements conform to those used to prepare the consolidated financial statements as at December 31, 2017, with the exception of the new accounting standards, amendments and interpretations in force from January 1, 2018, for the description, see the following paragraph 3.3.

The financial statement layouts adopted are consistent with those in IAS 1; in particular:

- the **consolidated balance sheet** is presented by classifying assets and liabilities according to the current/non-current criterion. Current assets are those intended to be realised, sold or used in the company's normal operating cycle or in the twelve months after the close of the financial year. Current liabilities are those which are expected to be extinguished in the company's normal operating cycle or in the twelve months after the close of the financial year;
- the **consolidated income statement** was prepared by classifying operating costs by nature, given that this type of presentation is deemed most suited to represent the Group's specific business, conforms to the internal reporting methods and is in line with the industrial sector practice;
- the **consolidated statement of comprehensive income** includes not only profit (loss) for the year, but also the other changes in shareholders' equity other than those generated by transactions performed with the shareholders;
- the **statement of changes in consolidated shareholders' equity** which provides separate information on the comprehensive income result and the transactions performed with the shareholders;
- the **cash flow statement** was drafted by disclosing the cash flows generated by operating activities according to the "indirect method" as permitted by IAS 7.

In the representation with indirect method, the cash flow is reconstructed by adjusting the result of the year of the non-monetary components.

IFRS were applied in accordance with the guidelines provided in the "Framework for the Preparation and Presentation of Financial Statements", and no critical aspects were identified which required the use of the exceptions set forth in IAS 1. **All amounts are stated in thousands of Euro, except where indicated otherwise.** The Euro represents the functional currency of the parent company and subsidiaries, and that used for presenting the financial statements. Each item of the interim condensed consolidated period financial statements is

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS (Continued)

compared with the corresponding value of the previous year. The following table indicates the exchange rates adopted:

Exact exchange rates					
Amount of currency for 1 Euro					
Country	Currency	ISO	30.09.2018	31.12.2017	30.09.2017
Brazilian	Real	BRL	4.654	3.973	3.764
China	Yuan	CNY	7.966	7.804	7.853
Colombian	Peso	COP	3457.210	3580.190	3468.370
Europe	Leu	RON	4.664	4.659	4.559
United States	Dollar	USD	1.158	1.199	1.181
Tunisian	Dinar	TND	3.246	2.974	2.917

Average exchange rates					
Amount of currency for 1 Euro					
Country	Currency	ISO	30.09.2018	31.12.2017	30.09.2017
Brazilian	Real	BRL	4.296	3.604	3.531
China	Yuan	CNY	7.779	7.626	7.572
Colombian	Peso	COP	3447.893	3333.837	3272.322
Europe	Leu	RON	4.652	4.569	4.552
United States	Dollar	USD	1.195	1.129	1.113
Tunisian	Dinar	TND	3.042	2.729	2.660

2.1. Going Concern

As indicated above, Almoviva's Board of Directors judged that there are no uncertainties which could put the Almoviva Group's capacity to continue operations in doubt. The reasons supporting these conclusions are illustrated in detail below.

The results of the interim condensed consolidated financial statements as at September 30, 2018 are better than those recorded in the first nine months of 2017 despite the unfavourable result of currency exchange rate R\$/Euro. In fact, considering constant currency rate with respect to the first nine months of 2017, revenues from contracts with customers rose by Euro 33,435 thousand (from Euro 544,273 thousand to Euro 577,708 thousand), the operating result increased by Euro 6,740 thousand (from Euro 23,991 thousand to Euro 30,731 thousand) and the net result went from a loss of Euro 1,756 thousand to a profit of Euro 8,774 thousand.

The forecast for the last quarter of 2018 confirms the growth in revenues from contracts with customers of the IT market (especially Central and Local PA, thanks to the progressive development of SPC contracts awarded in 2017, and Finance sector), the increase in volumes in the international market, where is foresee a last quarter considerably better than the same quarter of the previous year, and the recovery of volumes in the CRM Europe market; an increase in sales of Irade platform of Almovave products. Average marginality is expected to be increased.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS (Continued)

Management continues to carry out actions, with the maximum amount of attention and intensity of control, which in particular referred to:

- Containment of overhead costs
- Greater efficiency in procurement policies
- The reduction of external costs through correct balancing of direct and indirect resources and optimisation of productive processes and management
- Optimisation of the management of working capital, with particular attention to trade related receivables and work in progress
- The redesign of the corporate and organisational structure, in order to improve productive and operational efficiency, with particular focus on technical and managerial skills.

From a financial perspective, April 2018 saw the conclusion of the process to acquire 100% of the shares in the company Wave S.r.l. and, therefore, the underlying majority stake in the company Sadel S.p.A., a leading company in Italy in the field of production of PIS and IoT equipment and solutions for transport, with its own factory. The acquisition allows Almoviva to cover the entire chain of value in relation to the services offered (from solution design, to the production of equipment, the design and writing of software, to maintenance and analysis of the data collected).

Note should also be taken of the benefits to the cost of labour of Almoviva S.p.A. connected with the agreement signed with the trade union organisations on February 7, 2018, aimed at strengthening the competitive positioning and boosting profit margins. The use of Solidarity Contracts settled by the agreement was concluded on 11 August while the suspension of some supplementary institutions continues.

In the IT domain, note should be taken of the start-up of the activities of the new company Almoviva Digitaltec, established in Naples in November 2017, heavily focused on the development of skills relating to emerging technologies (Mobile, IoT, GIS, Industry 4.0, API and Big Data Analytics, Microservice & Containers), and initially focused on the development of new products and projects in the local Public Administration, Central Public Administration and Finance domains. The company expects rapid and significant development in the workforce in the second part of 2018, reaching over 200 staff at the end of the year.

Regarding CRM Europe, the "Patto per il Lavoro" (Labour Pact) will take effect on August 1 in the Almoviva Contact productive centre in Palermo, as a result of the positive outcome of the consultation with workers. The Pact develops the framework of initiatives contained in the recent Agreement signed by the company and the Trade Union Organisations, in the presence of the Regional Departments of Productive Activities, Labour and Training and the Department of Labour of the Municipality of Palermo.

The main initiatives refer to the implementation of a quality plan for the boosting of efficiency and increase in productivity, with the active involvement and participation of workers and a reference role for trade union representatives, training and professional retraining courses as part of the area digital transformation process.

The development on international markets continues and is mainly based in Brazil. The CRM market continues to develop and grow in leaps and bounds.

Almoviva do Brasil's role is ever more important and of leadership within the market, and its presence is therefore continuously growing, both insofar as customers already present in our portfolio as well as those just recently acquired, some of which in non-telco business sectors previously not served.

Moreover, the Group and in particular Almoviva S.p.A. on the basis of the economic results achieved in the 2017 financial statements, also in compliance with the agreements in place, distributed dividends to shareholders.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS (Continued)

2.2. Consolidation Scope and Principles

Based on the above and on the positive results obtained by the Almagiva Group, the directors drafted the Almagiva Group interim condensed consolidated period financial statements on the going concern assumption.

The interim condensed consolidated period financial statements comprise the financial statements of Almagiva S.p.A. and of the Italian and foreign companies controlled directly or indirectly by Almagiva S.p.A.

Determination of the existence of control

The Group has control over an investee when it is exposed, or has rights, to the variable returns of the investee and the ability to affect those returns through decision-making power over the investee. More specifically, the Group controls an investee if, and only if, it has:

- The decision-making power over the investee in the presence of rights that give the parent company the actual ability to direct the relevant activities of the investee, i.e. the activities that significantly affect the investee's returns.

Generally, an entity is controlled when the majority of voting rights are held. When the Group holds less than the majority of voting rights or similar rights of an investee, the Group considers all the relevant facts and circumstances in evaluating whether it has power over an investee, including:

- The contractual agreements with the other holders of voting rights of the investee;
- The rights deriving from the other contractual agreements;
- The voting rights of the Group and potential voting rights.

In particular, the entities consolidated are those whose control is held by the parent company either due to its direct or indirect ownership of the majority of votes that can be exercised at the shareholders' meeting or due to its exercise of a dominant influence expressed by the power to make the financial and management decisions of the entity, obtaining the relevant benefits, even regardless of equity relationships. The subsidiary entities are included in the scope of consolidation starting from the date when the Group gained control and are left out of the scope starting from the date when the Group loses control over them. The list of companies included in the area of consolidation is provided below. The statement of comprehensive income result regarding a subsidiary is attributed to the minority shareholders, even if this implies that the minority interest has a negative balance. Changes in the parent company's interest in a subsidiary that do not involve the loss of control are accounted for as changes in shareholders' equity. If the parent company loses control of a subsidiary, it:

- eliminates the assets (goodwill included) and the liabilities of the subsidiary;
 - eliminates the book values of all minority shares in the former subsidiary;
 - eliminates the cumulative exchange differences recognised in the shareholders' equity;
 - recognises the fair value of the consideration received;
 - recognises the fair value of all equity investments held in the former subsidiary;
 - reclassifies the interest pertaining to the parent company of the components, previously recognised in the statement of comprehensive income, in the income statement or in the profit carried forward, as is deemed appropriate;
- records the profit or loss deriving from previous transfers in the income statement

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS (Continued)

Main consolidation criteria

The main consolidation criteria follow:

- the assets and liabilities, income and expenses of the companies consolidated with the line-by-line method are fully recognised in the interim condensed consolidated period financial statements;
- the book value of the equity investments is eliminated against the corresponding percentage of the shareholders' equity in the investee companies, assigning their fair value on the date control is acquired to the single asset and liability items;
- if necessary, adjustments are made to the financial statements of the subsidiaries in order to bring the accounting criteria used in line with those adopted by the Group;
- the interest of the minority shareholders in the net assets of the consolidated subsidiaries is identified separately from the Group shareholders' equity;
- profits and losses not yet realised for the Group in so far as they come from transactions between Group companies are eliminated, as well as the items that give rise to payables and receivables, costs and revenues between the consolidated companies;
- the consolidation adjustments take into account their deferred tax effect, when applicable;
- the dividends received during the year by the subsidiaries and recognised in the income statement of the parent company as income from equity investment are eliminated with the "profit carried forward" contra entry.

Translating the financial statements into non-euro currency

All assets and liabilities of foreign companies in non-euro currency that fall within the consolidation area, are translated using the exchange rates as at the date of reference of the financial statements (current exchange rates method), while the relevant revenues and costs are translated at the average exchange rate of the year. The exchange rate translation differences resulting from application of this method are classified as a shareholders' equity item until the equity investment is transferred in full or when the investee company ceases to be defined as a subsidiary. The amount of the exchange differences regarding the portion of equity investment sold is attributed to the shareholders' equity of the minority interest at the time of the partial sale, without loss of control. In preparing the consolidated cash flow statement, the cash flows of consolidated foreign companies stated in non-euro currency are translated using the average exchange rates of the year. Goodwill and the adjustments to fair value generated at the time the purchase cost of a foreign company is attributed are recognised in the relevant currency and are translated using the year-end exchange rate.

Business combinations and goodwill

Business combinations are recognised using the acquisition method. The cost of an acquisition is determined as the sum of the transferred prices measured at fair value on the date of purchase and the amount of the minority equity investment in the purchased company. The Group decides whether to measure the minority equity investment in the purchased company at fair value or in proportion to the minority equity investment in the identifiable net assets of the purchased company for each business combination. The acquisition costs are paid during the year and are classified as administrative costs. When the Group acquires a business, it classifies and attributes the financial assets acquired or the liabilities assumed in accordance with the contractual terms, economic conditions and other pertinent conditions existing on the date of purchase.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS (Continued)

If the business combination is executed in multiple steps, the previously held equity investment is taken back to fair value at the purchase date and any resulting profit or loss is recognised in the income statement. The potential consideration to recognise is booked by the purchaser at fair value as at the date of purchase. The change in fair value of the potential consideration classified as an asset or liability, such as a financial instrument covered by IFRS 9 Financial Instruments, must be recognised in the income statement or in the statement of other comprehensive income. In the cases in which the potential consideration does not fall within the scope of IFRS 9 Financial Instruments, it is measured according to the appropriate IFRS. If the potential consideration is classified in the shareholders' equity, its value is not recalculated and its next settlement is recognised in the shareholders' equity.

Goodwill is initially recognised at cost represented by the surplus of the total of consideration paid and the amount recorded for the minority interest with respect to the identifiable net assets purchased and the liabilities assumed by the Group. After the initial recognition, goodwill is measured at cost less the accumulated losses of value and is subject to impairment testing.

Equity investments in associated companies and joint ventures

An associated company is a company over which the Group exercises significant influence. The term "significant influence" means the power to participate in determining the financial and management policies of the investee company without having control or joint control of it. A joint venture is a joint arrangement in which the parties holding joint control benefit from rights on the net assets of the agreement. The term "joint control" means the contract-based sharing of the control of an agreement, which exists only when the decisions on the significant assets require unanimous consent of all the parties sharing the control.

Equity investments in associated companies and in joint ventures are included in the interim condensed consolidated period financial statements with the equity method as required by IAS 28 (Equity investments in associated companies and joint ventures) and IFRS 11 (Joint arrangements), respectively. The associated companies and joint ventures are included in the interim condensed consolidated period financial statements starting from the date when the significant influence or joint control commences and continue until this situation ceases to exist.

Recognition and measurement criteria for associated companies and joint ventures: equity-accounted investments

In applying the equity method, the equity investment in an associated company or a joint venture is initially recognised at cost. The book value of the equity investment is increased or decreased to recognise the interest of the participant in the profits or losses of the investee company realised after the date of purchase. The goodwill pertaining to the associated company or joint venture is included in the book value of the equity investment and is not subject to amortisation or to individual impairment testing. The aggregate amount of the profit (loss) of the associated companies and joint ventures attributable to the Group is recognised on the profit/(loss) statement for the year after the operating result, and represents the profit (loss) after taxes and the amounts due to the other shareholders of the associated company or joint venture. After the equity method is applied, the Group assesses whether it is necessary to recognise a loss in value of its equity investment in the associated companies or joint ventures. The Group assesses whether there is objective evidence that the equity investments in the associated companies or joint ventures have sustained impairment on every balance sheet date. If this is the case, the Group calculates the amount of the loss as the difference between the recoverable value of the associated company or joint venture and its book value in its financial statements, and recognises this difference on the profit/(loss) statement for the year. When significant influence over an associated company or joint control over a joint venture is lost, the Group assesses and recognises the residual equity investment at fair value. The difference between the carrying amount of the equity investment on

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS (Continued)

The date the significant influence or the joint control is lost and the fair value of the residual equity investment and considerations received is recognised in the income statement.

2.3. Effects of seasonality

The turnover and economic results of the Group are not significantly impacted by factors relating to the seasonality of the activities carried out in the Group's different operating sectors. The Group's performances actually tend to be generally uniform over the year, also thanks to the distribution to the operating activities in the two hemispheres, which makes it possible to mutually offset the periods of reduced operations of the Brazilian and European subsidiaries in the summer and winter periods. Therefore, taking into account the low economic impact of these trends, no additional financial disclosure is provided (required by IAS 34.21) relating to the trend in the last 12-month period ended as at September 30, 2018.

Consolidation area

The consolidated companies as at September 30, 2018 are listed below. With respect to the consolidated financial statements as at December 31, 2017, the consolidation area changed as following:

- the acquisition, on April 19, 2018, of 85% of the share capital of Wave S.r.l., a company whose capital therefore became wholly-owned by AlmagivA S.p.A..
- Wave S.r.l., in turn, holds 84.05% of the share capital of Sadel S.p.A..
- the completion on September 21, 2018 of the merger by incorporation of AlmagivA Credit Ltda into Amaviva do Brasil Telemarketing and Informatica SA.

With respect to September 30, 2017, the consolidation area changed as following:

- the incorporation of AlmagivA Digitaltec S.r.l. wholly-owned by AlmagivA S.p.A.;
- the acquisition by AlmagivA S.p.A. of 100% of the share capital of Wave S.r.l., of which 15% in the second half of 2017 and the remaining 85% in the first half of 2018, as already stated in previously.
- the merger by incorporation of AlmagivA Credit Ltda into Amaviva do Brasil Telemarketing and Informatica SA completed on September 21, 2018.

The Group's interim condensed consolidated period financial statements includes:

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS (Continued)

<i>Companies and method of consolidation</i>	Currency	Share held	At September 30, 2018	At December 31, 2017	At September 30, 2017
Almaviva S.p.A. (Parent Company) Rome, Italy	Euro	100.00%	Full	Full	Full
Lombardia Gestione S.r.l. Milan, Italy	Euro	51.00%	Full	Full	Full
Almaviva de Belgique S.A. Brussels, Belgium	Euro	100.00%	Full	Full	Full
Almaviva Digitaltec S.r.l. * Naples, Italy	Euro	100.00%	Full	Full	-
Wave S.r.l. ** Pianoro Italy	Euro	100.00%	Full	-	-
Sadel S.p.A. ** Pianoro Italy	Euro	84.05%	Full	-	-
Almaviva Contact S.p.A. Rome, Italy	Euro	100.00%	Full	Full	Full
Almaviva do Brasil S.A. San Paolo, Brazil	Brazilian Real	94.70%	Full	Full	Full
Almaviva Participações Ltda. Belo Horizonte, Brazil	Brazilian Real	100.00%	Full	Full	Full
Almaviva Credit Ltda.*** Belo Horizonte, Brazil	Brazilian Real			Full	Full
Almacontact Bogotá, Colombia	Colombian Peso	100.00%	Full	Full	Full
Italy Call S.r.l. Rome, Italy	Euro	100.00%	Full	Full	Full
Almaviva Tunisie S.A. Ville de Tunisi, Tunisie	Tunisian Dinar	56.25%	Full	Full	Full
Almaviva Services S.r.l. Iasi, Romania	Romanian Leu	100.00%	Full	Full	Full
Almawave S.r.l. Rome, Italy	Euro	100.00%	Full	Full	Full
Almawave do Brasil Ltda. Belo Horizonte, Brazil	Brazilian Real	100.00%	Full	Full	Full
Pervice S.r.l. Trento, Italy	Euro	50.90%	Full	Full	Full
Almawave USA Inc. San Francisco, U.S.	US Dollar	100.00%	Full	Full	Full
Agrisian S.C.p.A. in liquidazione Rome, Italy	Euro	50.86%	Full	Full	Full

* Established as at October 2017; entry in the scope of consolidation with effect from 1 November 2017
**Acquired a further 85% stake in April 2018
***Merged in Almaviva do Brasil in september 2018

<i>Companies and method of consolidation</i> <i>(continued)</i>	Currency	Share held	At September 30, 2018	At December 31, 2017	At September 30, 2017
Sin S.p.A. **** Rome, Italy	Euro	20.02%	-	-	-
CCID – Almaviva Inform. Technol. Co. Ltd Shangai, People’s Republic of China	Chinese Yuan	50.00%	Equity	Equity	Equity
Consorzio Hypertix Rome, Italy	Euro	49.99%	Equity	Equity	Equity
TVEyes L.T. S.r.l. Trento, Italy	Euro	20.00%	Equity	Equity	Equity
Wave S.r.l.***** Pianoro, Italy	Euro	15.00%	-	Equity	-

****Presented as Non-current assets held for sale in the Consolidated Financial Statements.

*****Established as at October 31, 2017, consolidated from November 30, 2017

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

2. PRELIMINARY INFORMATION OF THE CONSOLIDATION PROCESS (Continued)

The ultimate parent Company

The ultimate parent company of the Almoviva Group is Almoviva Technologies S.r.l, a holding company domiciled in Italy.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. New accounting standards, interpretations and updates adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 15 Revenues from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenues and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standards requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using modified retrospective method as indicated in IFRS 15.C3b.

The effect of adopting IFRS 15 is not material as indicated in consolidated financial statements as of December 31, 2017. However, mentioned adoption has affected several reclassification in consolidated balance sheet. The most significant one is, as follows:

- Euro 11,609 thousand related to invoices to be issued that have been accounted as contract assets and for this reason reclassified from item Trade receivables to item Amount due from customers.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurements; impairment; and hedge accounting.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group centrally managed the adoption of IFRS 9 and, for these reasons, made an assessment on financial instruments affected by new requirements of IFRS 9 in terms of Classification & Measurement and developed new process in terms of Impairment of Assets to support the expected credit losses calculation. Furthermore, as indicated in the new standard, the Group adopted the "Option Out" for Hedge Accounting (IFRS 9, Par. 7.2.21), applying for the financial statements of fiscal year 2018, the requirements of IAS 39 awaiting the endorsements of new rules in terms of accounting for macro hedge.

The effect of adopting IFRS 9 is not material, as follows. ***Classification & Measurement***

The new standard provides for the classification of financial assets on the basis of the Business Model with which a company manages the financial assets and the contractual characteristics of the cash flows of these instruments (Solely payments of principal and interest on the principal amount outstanding:

- i. The assessment of the Business Model determines the classification of the instrument based on the objective with which the instrument is held within the company's portfolio. Financial assets are measured at amortized cost if they are held with the aim of collecting contractual cash flows (Held to Collect). Financial assets are measured at fair value with changes to the Other Comprehensive Income if these are held with the aim of both collecting contractual cash flows and being sold (Held to Collect and Sell). Finally, they are measured at fair value with changes in income statement if they are not held with the objectives typical of the other Business Models.
- ii. The assessment of the characteristics of the contractual cash flows requires that the financial assets are valued at amortized cost if the characteristics of the contractual cash flows represent only expected cash flows which provide for the repayment of the principal and interest accrued on that capital. In the event that this condition is not respected, an evaluation will be made by determining the fair value.

At present, the Almaviva Group does not hold financial instruments for trading purposes or financial instruments that envisage contractual cash flows not only representing repayment of capital and accrued interest, with the exception of receivables systematically subject to non-recourse assignment. This category of receivables is recorded in the financial statements at fair value, which is approximable with the sale price of the same.

Equity instruments are measured at the Fair value through profit and loss unless the specific accounting option at Fair value through other comprehensive income (OCI) is exercised. The latter possibility may be exercised only if the Company does not hold such investments for trading purposes and, in this case, the changes recorded in OCI are never charged to the income statement.

The investments held by the Almaviva Group that fall within the definition of Equity Instrument according to IFRS 9 have an insignificant value within the consolidated financial statements of the Group.

Financial liabilities are recorded at amortized cost unless they are held for trading purposes. IFRS 9 grants a specific option to account for the liabilities at fair value in the event that this option helps eliminate an accounting misalignment. At the time the option is exercised, all changes in fair value are recognized in the income statement, with the exception of changes in fair value attributable to the effect of their own credit risk, which are instead charged to OCI. The Group analyzed the characteristics of the contractual cash flows of loans and receivables considering that they meet the criteria for the amortized cost valuation in accordance with IFRS 9. Therefore, it is not expected to proceed with a reclassification of these financial instruments.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Assets

IFRS 9 introduces a new framework related to the calculation of the impairment of financial assets and certain types of off-balance sheet financial instruments (loan commitment and financial guarantees). The new calculation method provides for the estimate of the devaluation of certain financial instruments on the basis of the concept of expected loss (Expected Loss) which differs from the methodology provided by IAS 39 which provides for the determination of losses based on a concept of realized loss (Incurred Loss).

The adoption of the Expected Credit Loss model for the impairment of financial assets involves the recognition of a write-down on said financial assets on the basis of a predictive approach, based on the forecast of the counterparty default (so-called PD) and recovery capacity in the event that the default event occurs (so-called loss given default or LGD). IFRS 9 requires the Group to record expected credit losses on all bonds in the portfolio, loans and trade receivables, with reference to either a 12-month period or the entire duration of the instrument (eg lifetime expected loss) according to the adoption of the General or Simplified Model as better described below. Given the characteristics and the duration of exposures, the Group has applied the simplified approach for trade receivables and therefore will record the expected losses based on their residual contractual duration.

General Approach

The expected loss is depends on the probability of default (PD), exposure to default (EAD) and loss given default (LGD), and this estimate must be made both by incorporating forward looking information and through the use of judgments dictated by credit experience in order to reflect factors that are not captured by the models.

The PD represents the probability that an activity is not repaid and goes into default, this magnitude is determined both in a time horizon of 12 months (Stage 1) and in a lifetime time horizon (Stage 2). The PD for each instrument is constructed considering both historical data and precise market conditions, through the use of reasonable and supportable information on future economic conditions, also through the use of Internal Rating where available.

The EAD represents the estimated credit exposure to the counterparty when the default event occurs. This parameter includes an estimate of any value that is expected to be recovered at the time of default (such as collateral, guarantees, insurance policies, etc.).

LGD represents the amount that is expected to fail to recover at the time the default event occurs and is determined both on a historical basis and via supportable and reasonable information regarding future market conditions.

Simplified Approach

IFRS 9 also grants the possibility of using a further approach, defined as "simplified". This method can be used only for the categories of financial instruments:

- i. Trade receivables;
- ii. Leasing under IFRS 16;
- iii. Contract Assets under IFRS 15.

This approach allows only the use of the PD lifetime to calculate the expected losses eliminating the need to determine the PD at 12 months and to monitor the credit risk at each evaluation date.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision Matrix (Simplified Approach)

A further expedient envisaged by IFRS 9 within the simplified approach envisages the use of the c.d. Provision Matrix. This model provides for the use of write-down percentages determined by maturity date based on the historical losses recorded by the Group. These percentages must be subsequently enriched with forward looking information in order to reflect in such percentages also market information as well as historical information. The Group has adopted the simplified approach regarding the impairment of assets. For commercial claims relating to customers operating in the private sector, the practical expedient of the provision matrix was used. The data processed by the applied models, supported by qualitative considerations on future market conditions, led to an impact of devaluations that is not significant compared to the previous IFRS 9 Financial Instruments.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

3.2. Use of estimates and assumptions by management

The drafting of financial statements in compliance with IFRS also requires the use of estimates and assumptions which are reflected in the book values of assets and liabilities, costs and revenues, and in the disclosure of contingent assets and contingent liabilities. The estimates and assumptions are based on the best information available on the reporting date and on previous experiences when the carrying amount of assets and liabilities is not easy to infer from other sources. Therefore, the final results could differ from these estimates. The estimates and assumptions are periodically reviewed and the effects of any changes booked immediately to the income statement.

ASSUMPTIONS BY MANAGEMENT

The main assumptions made by management in preparing the financial statements of the AlmagivA Group refer primarily to the following aspects:

- the evaluation of the existence of control, joint control or a significant influence over the Group entities, as described in paragraph 2.2;
- the evaluation of the useful life of the intangible assets and tangible assets;
- an analysis of whether the conditions for qualifying an asset or transaction as a non-current asset held for sale in compliance with IFRS 5 are satisfied and whether these assets or transactions also represent disposal operations or not;
- the definition of the Group's operating segments which are relevant for the business and that reflect the regular revision process in terms of operating results performed at the top decision-making level regarding the resources to be allocated to the segments and the evaluation of their performances, as detailed in paragraph 4;
- the identification of the cash generating units (CGU) as small groups of assets that generate cash inflows that are largely independent and to which goodwill is also allocated.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The assumptions not addressed in other parts of this document are commented hereunder.

Non-current assets (or disposal groups) classified as held for sale or assets being disposed

Non-current assets (or disposal groups) whose carrying amount will be recovered through sale, rather than continuous use, are classified as held for sale and are shown separately from other assets in the balance sheet. The liabilities associated to assets being disposed are also reported separately from the other balance sheet liabilities. This occurs only when the sale is highly probable and the non-current assets (or disposal groups) are available for immediate sale in their present condition. Management evaluates whether these conditions are satisfied for qualifying non-current assets (or disposal groups) as non-current assets held for sale pursuant to IFRS 5. Non-current assets (or disposal groups) classified as held for sale are recognised for the first time in compliance with the IAS/IFRS applicable to specific assets or liabilities and subsequently valued at the lower of their carrying amount and fair value, less costs to sell. Any subsequent impairment is recognised as direct adjustments to the non-current assets (or disposal groups) classified as held for sale and are stated in the income statement. The corresponding values for the previous period are not reclassified.

A discontinued operation is a component of an entity that has been transferred or classified as held for sale and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan for the disposal of a separate major line of business or geographical area of operations;
- is a subsidiary acquired exclusively with a view to resale.

Gains or losses on discontinued operations, both sold or classified as held for sale, are shown separately in the income statement net of the tax effects. The corresponding values for the previous period, if present, are reclassified and reported separately in the income statement net of the tax effects, for comparative purposes.

Management uses its judgment in determining whether the non-current assets held for sale or the disposal group qualify as such.

Non-current assets that no longer meet the requirements for being classified as held for sale or that cease to belong to a disposal group classified as held for sale are measured at the lower of:

- the carrying amount of the asset (or disposal group) before its classification as held for sale, adjusted for amortisation/depreciation, write-downs or write-backs that would have been recognised if said asset (or disposal group) had not been classified as held for sale; and
- the recoverable value, equal to the greater of its fair value less costs to sell and its value in use, calculated on the date on which the decision not to sell was taken.

Identification of Cash Generating Units (CGU)

In application of the provisions of "IAS 36 - Impairment of assets", the goodwill booked to the Group's interim condensed consolidated period financial statements, by virtue of business combinations, was allocated to the single CGUs or groups of CGUs, which are expected to benefit from the combination. In the process of identification of the aforementioned CGUs, management took into account the specific nature of the activity and of the business it belongs to (regional area, business areas, reference legislation, etc.), verifying that the cash flows deriving from a group of assets was strictly independent and completely separate from those deriving from other assets (or groups of assets).

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The assets included in each CGU were also identified on the basis of the methods used by the management to manage and monitor them as part of the “business model” adopted. As a result of this process, the following CGUs were identified to which goodwill was allocated: AlmagivA Contact S.p.A., Alicos, AlmagivA do Brasil S.A., In Action, AlmagivA Finance, Pervoice, Gempliss, Atesia and Wave.

Use of estimates

Estimates mainly relate to the critical evaluation processes and key assumptions used by the Group for IFRS purposes, which could have a significant impact on the data presented in the consolidated period financial statements or which involve the risk of possible substantial differences with respect to the future values of the amounts of assets and liabilities. The main areas in which estimates are used as reported below.

Recoverability of non-current assets

The carrying amount of non-current assets is subject to periodic verification and whenever the circumstances or events dictate the need to. Goodwill is verified at least annually. These recoverability checks are performed according to the criteria set out in IAS 36, described in more detail in Note 9 below. In particular, the recoverable value of a non-current asset is based on the estimates and assumptions used to determine the amount of the cash flows and the discount rate applied. If it is believed that the carrying amount of a non-current asset has suffered impairment, it is written down to the amount of the associated recoverable value, estimated with reference to its use and any future sale, based on the contents of the most recent company plan approved.

Provisions for risks

In relation to the legal risks to which the AlmagivA Group is exposed, provisions have been allocated to cover all significant liabilities for cases in which the legal representatives have verified the likelihood of an unfavorable outcome and a reasonable estimate of the loss amount.

Pension plans

Some Group employees benefit from pension plans that offer social security benefits based on the salary history and respective years of service. The calculations of the costs and liabilities associated to these plans are based on the estimates made by actuarial consultants, who use a combination of statistical-actuarial factors, including statistical data relating to previous years and forecasts of future costs. Mortality and withdrawal indexes, assumptions regarding the future evolution of discount rates, salary growth rates and inflation rates are also considered as estimate components. These estimates may differ substantially from the actual results, due to the evolution of the economic and market conditions, increases/reductions in withdrawal rates and the life span of the participants. These differences may have a significant impact on the quantification of the pension costs and the other related expenses.

Determination of the fair value of financial instruments

The fair value of financial instruments is determined on the basis of the prices directly observable on the market, where available, or, for unlisted financial instruments, by using specific valuation techniques that maximise the observable inputs on the market. In circumstances where this is not possible, the inputs are estimated by the management by taking into account the characteristics of the instruments subject to valuation. In compliance with IFRS 13, the Group includes the measurement of credit risk, both of the counterparty (Credit Valuation Adjustment or CVA) and its own credit risk (Debit Valuation Adjustment or DVA), in order to be able to adjust the fair value of the

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

derivatives for the corresponding measurement of the counterparty risk, by applying the methodology reported in the section "Information on fair value measurement". Variations in the assumptions made in estimating the input data could impact the fair value recognised in the financial statements for these instruments.

Recovery of prepaid taxes

As at September 30, 2018, the interim condensed consolidated period financial statements include prepaid taxes, connected to the recognition of tax losses that can be used in future years and income components subject to deferred deductibility of taxes, for an amount whose recovery in future years is considered highly likely by the directors. The recoverability of the aforementioned prepaid taxes is subject to the achievement of sufficient future taxable income to absorb the aforementioned tax losses and for the use of the benefits of other deferred tax assets. Significant management judgments are required in order to determine the amount of prepaid taxes that can be recognised in the financial statements, based on the timing and amount of the future taxable income as well as the future tax planning strategies and tax rates in force at the moment of their reversal. However, at the moment the Group should ascertain that it is unable to recover, in future years, all or part of the prepaid taxes recognised, the consequent adjustment will be booked to the income statement in the year in which said circumstance occurs. The test related to impairment indicators of deferred tax assets in the interim condensed consolidated financial statements as at 30 September 2018 was carried out on the current business plan 2017 -2021 approved by the Board of Directors.

3.3. Recently issued accounting standards

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 Leases, 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. IFRS 16 defines the principles for recognising, measuring, presenting and disclosing leases and requires lessees to recognise all leases based on a single lessee accounting model similar to that used to recognise financial leases pursuant to IAS 17. The standard envisages two recognition exemptions for the lessee – leases where the underlying asset has a "low value" (such as personal computers) and short-term leases (such as leases with a lease term of 12 months or less). At the start date of the lease, the lessee will recognise a liability in respect of lease payments (i.e. the leasing liability) and an asset that represents the right to use the underlying asset for the duration of the lease (i.e. right to use the asset). The lessees will have to recognise separately interest expenses on a lease liability and the amortisation of a right-of-use asset.

The lessees will also have to re-measure the lease liability when certain events occur (e.g.: change in the lease term, change in future lease payments resulting from a change in an index or a rate used to determine those payments). The lessee will recognise generally the re-measurements of the lease liability as adjustments to the right-of-use asset.

The accounting by lessors envisaged by IFRS 16 is essentially unchanged from the current accounting in accordance with IAS 17. Lessors will continue to classify all leases using the same classification principle provided by IAS 17 and by distinguishing two types of leases: operating lease and finance lease.

IFRS 16 requires lessees and lessors more extended disclosure compared to IAS 17.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 16 is effective for years starting on or after January 1, 2019. Early application is allowed, but not before the entity has adopted IFRS 15. A lessee shall either apply the standard with full retrospective effect or modified retrospective effect. The transitional provisions envisaged by the standard allow for some benefits.

In 2018, the Group will continue to define the potential impact of IFRS 16 on its consolidated financial statements.

4. OPERATING AND REPORTABLE SEGMENTS

The Group provides the disclosure required by IFRS 8 regarding Segment Reporting. This disclosure was supplemented in 2017- in anticipation of the bond loan transaction - in the special purpose financial statements included in the F-Pages of the Offering Memorandum.

As sets forth in IFRS 8, the management identified its operating segments based on the criteria indicated in the standard, which requires the identification of those segments whose reported revenue, from both external customers and from sales or intersegment transfers, is 10% or more of the combined revenues from contracts with customers, internal and external, of all operating segments. Consequently, the following three main operating segments were identified: (a) IT Services; (b) CRM Europa; and (c) CRM International.

In addition to the above, the management identified a fourth operating segment, Almawave - New Technology, which it is believed to provide important information to stakeholders and investors in terms of significant investments made by the Group in the new technologies sector in the last few years, regardless of the fact that it does not exceed the quantitative threshold set out in IFRS 8.

Information on the operating segment based on the four operating segments indicated above is consistent with the information used by the top management in its collective role of Chief Operating Decision Maker, as they monitor the operating results of these operating segments separately in order to take decisions on the allocation of resources and the evaluation of performances. The trend in the sector is evaluated on the basis of the profit or loss and is assessed consistently with the income statement in the interim condensed consolidated period financial statements.

The Group's financing strategy (including financial costs and financial income) is managed at Group level and, therefore, is not allocated to the operating segments and the reportable segments. Consequently, income taxes also remain unallocated.

For management purposes the organization into segments is based on the products and services supplied as illustrated hereunder:

- a. IT Services, provide ICT and Cloud Computing solutions, includes the following companies: AlmavivA, Lombardia Gestione, AlmavivA de Belgique, Agrisian, AlmavivA Digitaltec, Sadel and Wave;
- b. CRM Europe, provides Contact Centre services and operates predominantly in the European Union, includes the following companies: AlmavivA Contact, Italy Call and AlmavivA Services;
- c. CRM International, provides the same services as those in the previous point in South America and in Tunisia, includes the following companies: AlmavivA do Brasil, AlmavivA Participacoes, Almacontact and AlmavivA Tunisie;
- d. Almawave – New Technology, segment operating in the supply of innovative solutions geared towards the best interaction with work instruments, aimed at improving the people experience, includes the following companies: Almawave, Pervoice, Almawave do Brasil and Almawave USA.

No segment combinations took place for the purpose of determining the reportable operating segments.

The transfer prices between the operating segments are negotiated internally using similar methods to transactions with third parties.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

4. OPERATING AND REPORTABLE SEGMENTS (Continued)

The following tables outline the main economic results of the Group's business segments. Intra-segment revenues and costs are eliminated or adjusted after consolidation and reflected in the column "Adjustments, eliminations and eliminations". Financial income and expense and gains and losses on equity investments are not allocated to the single segments given the underlying instruments are managed centrally on a Group basis. The income taxes also remain unallocated.

For the nine months ended September 30, 2018

<i>(in thousands of Euro)</i>	IT Services	CRM Europe	CRM International	Almawave New Technology	Total Segments	Adjustments, eliminations and other	Consolidated
Revenue							
Revenues from contracts with customers	295,685	104,876	170,138	7,009	577,708	0	577,708
Inter-segment	2,506	5,372	51	4,613	12,542	(12,542)	0
Total revenues from contracts with customers	298,191	110,248	170,189	11,622	590,250	(12,542)	577,708
Income/(Expenses)							
Cost of raw materials and services	(130,143)	(25,990)	(50,326)	(3,791)	(210,250)	16,044	(194,206)
Personnel expenses	(140,140)	(90,372)	(104,367)	(5,290)	(340,169)	375	(339,794)
Depreciation and amortization and write-downs	(11,498)	(1,582)	(6,169)	(1,346)	(20,594)	313	(20,281)
Losses from sale of non-current assets	5	(84)	0	0	(79)	0	(79)
Other operating income	15,024	482	123	2,013	17,642	(3,519)	14,123
Other operating expenses	(6,094)	(674)	0	(98)	(6,866)	126	(6,740)
Operating Profit	25,345	(7,973)	9,451	3,110	29,933	798	30,731

At September 30, 2018

Total assets	454,027	146,316	147,077	35,127	782,547	(132,891)	649,656
Total liabilities	283,257	99,691	38,031	11,345	432,324	(71,483)	360,840

For the nine months ended September 30, 2017

<i>(in thousands of Euro)</i>	IT Services	CRM Europe	CRM International	Almawave New Technology	Total Segments	Adjustments, eliminations and other	Consolidated
Revenue							
Revenues from contracts with customers	249,354	92,836	198,077	4,007	544,274	(0)	544,273
Inter-segment	2,749	4,902	29	5,423	13,103	(13,103)	0
Total revenues from contracts with customers	252,103	97,738	198,106	9,430	557,377	(13,103)	544,273
Income/(Expenses)							
Cost of raw materials and services	(106,446)	(24,657)	(58,393)	(2,700)	(192,196)	15,341	(176,856)
Personnel expenses	(124,348)	(77,784)	(117,314)	(5,396)	(324,842)	270	(324,571)
Depreciation and amortization and write-downs	(11,509)	(1,665)	(7,832)	(1,179)	(22,185)	313	(21,872)
Losses from sale of non-current assets	(52)	0	0	(10)	(62)	0	(62)
Other operating income	11,629	1,342	155	657	13,783	(2,588)	11,195
Other operating expenses	(4,948)	(1,822)	(1,866)	0	(8,636)	520	(8,116)
Operating Profit	16,429	(6,848)	12,857	802	23,239	752	23,991

At December 31, 2017

Total assets	421,795	127,650	160,052	30,590	740,088	(94,877)	645,211
Total liabilities	275,252	82,635	35,130	11,272	404,289	(50,909)	353,380

The income statement and balance sheet reconciliations between the operating result attributable to the individual segments and the net income of the Group and between total assets attributable to the operating segments and total Group assets are shown below, as well as between total liabilities attributable to the operating segments and total Group liabilities excluding shareholders' equity

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

4. OPERATING AND REPORTABLE SEGMENTS (Continued)

Reconciliation of Operating Profit

	For the nine months ended September 30,	
<i>(in thousands of Euro)</i>	2018	2017
Segment profit	30,731	23,991
Finance income	373	773
Finance costs	(22,448)	(25,509)
Exchange gains/(losses)	(107)	(1,122)
Gains/(losses) on equity investments	0	0
Profit/(loss) from investments accounted for using equity method	6	183
Inter-segment income/expenses (elimination)	0	0
Profit/(loss) before taxes	8,555	(1,683)

Reconciliation of Total assets

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Segment operating assets	649,656	645,211
Deferred tax assets	16,871	13,383
Current financial assets	3,967	9,406
Non-current financial assets	1,646	1,446
Non-current assets held for sale	2,459	2,459
Total assets	674,599	671,905

Reconciliation of Total liabilities

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Segment operating liabilities	360,840	353,380
Non-current financial liabilities	272,376	251,121
Current financial liabilities	15,297	12,021
Current tax liabilities	32,356	42,932
Deferred tax liabilities	1,672	1,672
	0	
Total liabilities	682,542	661,126

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

4. OPERATING AND REPORTABLE SEGMENTS (Continued)

Revenues from contracts with customers by geographic area

Geographic information		
<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
<i>Revenues from external customers</i>		
Italy	402,515	342,806
Brazil	162,402	191,755
Tunisia	1,450	1,565
Colombia	6,522	4,936
Europe	4,819	3,211
Total	577,708	544,273
Of which:		
<i>Rendering of services</i>		534,627
<i>Sales of goods</i>		1,305
<i>Revenues recognized over the time</i>	554,349	
<i>Revenues detected at a point in time</i>	3,050	

5. SIGNIFICANT TRANSACTIONS IN THE PERIOD

During the period that closed on September 30, 2018, certain corporate transactions took place, which are described briefly below, which involved AlmagivA S.p.A. and certain companies which are direct or indirect investees of the latter, the main information regarding said transactions is provided below.

Among the transactions that took place during the period, the most significant one concerns the conclusion in April 19, 2018 of the process of acquisition of 100% of the shares of Wave S.r.l. which, in turn, holds 84.05% of the share capital of Sadel S.p.A.. Therefore, from April 2018, Wave S.r.l. and its subsidiary Sadel are fully consolidated in the AlmagivA Group.

On April 19, 2018, the Group completed the acquisition of Sadel S.p.A. by signing the full share capital of Wave Srl which holds 84.05% of the target company. Sadel S.p.A. as previously mentioned, it is a leading company in Italy in the production of PIS and IoT equipment and solutions for mobility, with its own factory in Bologna.

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

5. SIGNIFICANT TRANSACTIONS IN THE PERIOD (Continued)

<i>(in Euro thousands)</i>	Fair value recognised on acquisition
NON CURRENT ASSETS	
<i>Property, plant and equipment</i>	95
<i>Intangible assets (provisional)*</i>	7
<i>Non current assets</i>	31
<i>Deferred tax assets</i>	8
TOTAL NON CURRENT ASSETS	141
CURRENT ASSETS	
<i>Inventory</i>	1,845
<i>Trade receivables</i>	8,640
<i>Other current assets</i>	733
<i>Cash and cash equivalents</i>	352
TOTAL CURRENT ASSETS	11,570
TOTAL ASSETS	11,711
NON CURRENT LIABILITIES	
<i>Employee severance indemnity</i>	266
<i>Non current financial liabilities</i>	1,700
TOTAL NON CURRENT LIABILITIES	1,966
CURRENT LIABILITIES	
<i>Trade payables</i>	3,772
<i>Current financial liabilities</i>	3,885
<i>Deferred tax liabilities</i>	81
<i>Other current liabilities</i>	367
TOTAL CURRENT LIABILITIES	8,106
TOTAL LIABILITIES	10,072
Fair value of net assets	1,639
Minorities	(260)
Goodwill (provisional)*	5,121
Purchase consideration transferred	6,500
Cash and cash equivalents acquired	352
Consideration paid	(4,100)
Net acquired cash flow	(3,747)

**The valuation of the fair value of intangible assets requires additional information that could lead to a change in the goodwill recorded. These changes may be incorporated from April 18, 2019 (one year from acquisition)*

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

5. SIGNIFICANT TRANSACTIONS IN THE PERIOD (Continued)

The net cash flow of the acquisition includes only the consideration paid on the reference date of the condensed period yearly consolidated financial statements.

For changes in goodwill recorded in the period, please refer to the information in note n. 6.

From the acquisition date, Sadel contributed for Euro 2,896 thousand to Group's net revenues and for Euro 2,606 thousand to the Group's Profit before taxes. If the acquisition took place at the beginning of the year, revenues from contracts with customers would have been Euro 579,533 thousand and the profit for the year Euro 7,009 thousand.

The recognized goodwill refers to the opportunity that the Group has acquired and that allows it to oversee the entire value chain within the services offered (from the design of the solution, to the production of equipment, from the design and writing of software, to maintenance and analysis of collected data). Goodwill is not tax-deductible. All transaction costs, equal to Euro 300 thousand have been expensed in the income statement and recognized in the operating cash flow of the cash flow statement.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

6. INTANGIBLE ASSETS AND GOODWILL

Intangible assets of the Group amounted to Euro 93,797 thousand (Euro 89,640 thousand as at December 31, 2017) and are composed as follows:

<i>(in thousands of Euro)</i>	Goodwill	Industrial patent and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible assets	Assets under construction	Total
At December 31, 2017	33,778	26,440	608	12,265	16,549	89,640
Additions	5,121	877	37	14	277	6,326
Capitalisation for internal projects		157	280		8,979	9,416
Amortization		(5,409)	(202)	(4,774)		(10,385)
Disposals						0
Reclassifications and other		3,856	25	5,769	(9,639)	11
Foreign exchange differences	(71)	(1,160)	21			(1,210)
At September 30, 2018	38,828	24,761	769	13,274	16,166	93,797

Group investments as at September 30, 2018 amounted to Euro 6,326 thousand and essentially relate to the goodwill of Euro 5,121 thousand recorded for Almoviva S.p.A.'s acquisition of Wave S.r.l. and its subsidiary Sadel S.p.A., to "industrial patent and intellectual property rights"; the increases refer to the costs for the acquisition of open-ended and proprietary user licenses and software development costs incurred by almost all operating segments, in addition to reclassifications from assets under construction for assets that were deployed during the year; the decrease is mainly due to the amortisation in the year calculated on a straight-line basis in relation to the residual possibility of use of said assets.

The Group also carried out additional investments in the reference period, through capitalisations for own work, totalling Euro 9,416 thousand relating to costs incurred primarily as part of the creation and internal development of assets (software, IT applications and research activities) also employed in the implementation and management of the services offered in the operating segments in which said Group operates.

On completion of the aforementioned activities, the investments are incorporated primarily in the item "Industrial patent and intellectual property rights" which, at the close of the period, totalled Euro 24,761 thousand and, therefore, highlights the Group's software and IT applications developed internally and the developmental maintenance carried out on them. In relation to these assets, the Group periodically conducts an analysis targeted at verifying their recoverable value with respect to the book value based on the expected future economic benefits related to said assets (active contracts in the portfolio and planned acquisitions). At the close of the period, following the analyses conducted, the values booked are fully recoverable.

Amortisation of the intangible assets in the period totalled Euro 10,385 thousand. The main depreciation rates adopted as at September 30, 2018 are included in the following intervals:

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

6. INTANGIBLE ASSETS AND GOODWILL (Continued)

	Rates %
Industrial patent and intellectual property rights	10~33
Concessions, licenses, trademarks and similar rights	25
Other intangible assets	~20

The exchange differences from the translation to Euro of the financial statements of companies operating in non-euro areas, amounting to a negative Euro 1,210 thousand, mainly regard companies that draft their financial statements in the Brazilian Real. Goodwill that has arisen over the years is detailed as follows:

<i>(in thousands of Euro)</i>	At December 31, 2017	Exchange differences	Additions	At June 30, 2018
Alicos	2,007			2,007
Almaviva Contact	26,533			26,533
Almaviva do Brasil	1,748			1,748
Almaviva Finance	745			745
Atesia	44			44
Gempliss	198			198
In Action	1,017			1,017
Pervoice	314			314
Wave	0		5,121	5,121
Third	1,172	(71)		1,101
Total	33,778	(71)	5,121	38,828

The goodwill determined after business combinations was attributed to the cash generating units (CGU) that benefit from the synergies that emerged from the acquisition. The recoverable value of the goodwill booked in the financial statements was estimated by determining the value in use of the CGUs under review, through the use of the discounted cash flow models, which provide for the estimate of expected cash flows and the application of an appropriate discount rate, determined by using market inputs like the risk-free, beta and market risk premium rates. The cash flows are determined on the basis of the information available at the time of the estimate, deducible (i) for the first five years of the estimate, from the business plan approved by Company Management and containing the forecasts on volumes, investments, operating costs, and the margins and industrial and commercial structures; (ii) for the years after the fifth, cash flow projections based on the perpetuity method of the last year of the business plan are taken.

The Almaviva Group verifies the recoverability of the goodwill at the close of the year or at least once per year, or more frequently if there are indicators of impairment.

As of June 30, 2018, even if no indicators of impairment losses in value were found, management have performed the impairment test based on the current business plan, after to have verified the criteria set forth in IAS 36.

The results of the impairment tests confirmed that the values in use exceeded the book values. The aforesaid also in the assumption of a shock-down (-20%) in margins and a shock-up (+2%) in the discount rates of cash flows considered.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

7. CURRENT AND NON-CURRENT FINANCIAL ASSETS

The Almoviva Group's non-current financial assets amounted to Euro 5,613 thousand (Euro 10,462 thousand as at December 31, 2017) and are composed as follows:

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Current financial assets	3,967	9,406

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Long-term loans	1,605	1,414
Others Equity investments	41	32
Non-current financial assets	1,646	1,446

Of which:

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Amount failling due within 12 months	0	0
Amount failling due between 1-5 years	1,605	1,414
Non-current financial receivables	1,605	1,414

Non-current financial receivables, amounting to Euro 1,605 thousand (Euro 1,414 thousand as at December 31, 2017) are all instrumental to operating activities and concern loans to personnel for Euro 424 thousand and financial assets due to Auselda S.p.A. for Euro 1,181 thousand. The aforementioned financial receivables relate entirely to Almoviva S.p.A.

Other Equity investments amounting to Euro 41 thousand (Euro 32 thousand as at December 31, 2017), refer to equity investments in other companies and are composed as follows:

Other Equity investments

	At September 30, 2018	At September 30, 2017
CONAI	1	1
CALPARK	5	5
BANCA BRUTIA	5	5
SEMANTIC VALLEY	0	0
UIRNET	5	5
CONSORZIO NAMEX	3	3
OTHER	22	13
Total	41	32

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

8. INVENTORIES AND AMOUNT DUE FROM CUSTOMERS

Group inventories and amounts due from customers amounted to Euro 65,221 thousand (Euro 30,809 thousand as at December 31, 2017) and are composed as follows:

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Amount due from customers (gross)	47,874	30,200
Amount due from customers due to IFRS 15	11,609	0
Inventories	5,738	609
Inventories and Amount due from customers	65,221	30,809

They mainly refer to the contracts work in progress relating to the activities performed by Almoviva S.p.A.

The overall increase of Euro 34,412 thousand refers to:

- the gross amount due from customers for Euro 17,674 thousand attributable mainly to the IT Services sector, net of advances received for Euro 204 thousand following the increase of activities;
- in addition, starting from January 1, 2018, in application of new IFRS 15, the company carried out a reclassification to the item "Amount due from customers in application of IFRS 15" of the contractual activities for which, at that date, there was no unconditional right of the individual Group companies to receive the consideration from customers given relating to activities still not completed and previously recorded under trade receivables for an amount of Euro 11,609 thousand;
- inventories totaled Euro 5,129 thousand, are mainly changed due to the contribution of the company Sadel.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

9. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables totaled Euro 288,334 thousand (Euro 305,029 thousand as at December 31, 2017)

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Trade receivables, gross amount	302,866	321,189
Trade receivables, amount retained as a guarantee	5,870	4,349
Bad debt provision	(20,402)	(20,509)
Trade receivables	288,334	305,029

Receivables are stated net of the bad debt provision of Euro 20,402 thousand (Euro 20,509 thousand as at December 31, 2017), its movement is evidenced below:

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Balance at the beginning of the year	20,509	20,448
Provisions	0	67
Uses	(144)	0
Other	37	(6)
Balance at the end of the year	20,402	20,509

The bad debt provision refers to receivables past due by more than 120 days.

Some trade receivables are collected by assignment of receivables to factoring companies with Non-recourse contracts.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

10. SHAREHOLDERS' EQUITY

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Share capital	154,899	154,899
Share premium reserve	17,788	17,788
Legal reserve	5,073	4,384
Other reserves:		
<i>FTA reserve</i>	4,493	4,493
<i>OCI reserve</i>	2,970	1,897
<i>CFH reserve</i>	0	0
<i>Translation reserve</i>	(25,126)	(10,972)
<i>Other reserves</i>	(180,016)	(166,462)
	(197,678)	(171,043)
Profit/(loss) for the year	7,653	221
Total group shareholders' equity	(12,265)	6,249
Reserves pertaining to NCIs:		
<i>Translation reserve</i>	(1,306)	(499)
<i>Other reserves</i>	4,506	4,386
	3,200	3,887
Profit/(loss) for the year pertaining to NCIs	1,121	642
Total non-controlling interests	4,321	4,529
Total Shareholders' equity	(7,943)	10,779

In general, the decrease in the Group's shareholders' equity, despite the positive net result achieved for Euro 8,774 thousand, is mainly attributable to the negative effect deriving from the worsening of the translation reserve recorded in the nine months period of 2018 for Euro 14,961 thousand, mainly linked to the worsening of the R\$/Euro exchange rate during the reference period. In fact, the spot exchange rate for the Brazilian currency against the functional currency of the consolidated financial statements grew-up from 3.973 at 31 December 2017 to 4.654 at 30 September 2018, with an average of 4.296 (the average exchange rate used for the financial statements as at 31 December 2017 it was 3.604). Furthermore, another impact deriving from the distribution of the dividends related to the net result as at 31 December 2017 of Almagora SpA. for Euro 12,600 thousand, Lombardia Gestione for Euro 1,200 thousand (of which third parties for Euro 588 thousand) and Almagora Tunisie for Euro 347 thousand (of which third parties for Euro 154 thousand). The effects just mentioned contributed significantly to the reduction in consolidated equity.

In order to have a representation of the "Normalized Shareholders' Equity" excluding non-recurring events, the underlying prospectus, that simulates the Shareholders' Equity net of exchange differences and dividends distribution, is proposed as follows:

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Group Shareholders' Equity as at September 30, 2018	(7,943)
Deleting of cumulated Translation Reserve pertaining to Group as at 30/09/2018 (as indicated in Consolidated Statement of Shareholders' Equity)	25,126
Deleting of cumulated Translation Reserve pertaining to Minorities as at 30/09/2018 (as indicated in Consolidated Statement of Shareholders' Equity)	1,306
Deleting of dividends distribution occurred in fiscal year 2017 (as indicated in Consolidated Statement of Shareholders' Equity)	5,405
Deleting of dividends distribution occurred in fiscal year 2018 (as indicated in Consolidated Statement of Shareholders' Equity)	13,342
Pro-Forma Group Shareholders' Equity as at September 30, 2018	37,236

The table above shows that the Pro-Forma Group Shareholders' Equity of Al maviva Group would amount to Euro 37,236 thousand as at September 30, 2018.

Share Capital

As at September 30, 2018 the share capital of Euro 154,899,065.00 was fully paid-up and consisted of:

- no. 107,567,301 ordinary shares;
- no. 32,331,764 special Class A shares;
- no. 15,000,000 special Class B shares.

In August 2017, the parent company Al maviva Technologies S.r.l. bought all Interbanca S.p.A. shares. As a result of the aforementioned transfer of ownership, the stake in Al maviva S.p.A. held by the parent company Al maviva Technologies S.r.l. reached 95.11%.

The shares, all of which have a nominal value of Euro 1.00 (one/00) each, are held by:

<i>in number of shares</i>	Ordinary shares	"Class A" special shares	"Class B" special shares	Total shares	% of Total shares
Al maviva Technologies S.r.l.	100,000,000	32,331,764	15,000,000	147,331,764	95.11%
RAI S.p.A.	1,291,522			1,291,522	0.83%
Ligestra Due S.r.l.	1,119,894			1,119,894	0.72%
Confagricoltura	1,093,172			1,093,172	0.71%
Conf. Italiana Agricoltori	1,093,172			1,093,172	0.71%
Confederazione Nazionale Coldiretti	1,093,172			1,093,172	0.71%
Assicurazioni Generali S.p.A.	1,056,490			1,056,490	0.68%
Visualnet S.r.l.	819,879			819,879	0.53%
Share capital	107,567,301	32,331,764	15,000,000	154,899,065	100.00%

The special Class A and Class B shares have the following differences compared to the ordinary shares:

- Class A shares allow holders to receive a profit increased by 10% when dividends are distributed; this is deferred in the case of losses; they are convertible into ordinary shares at a ratio of one to one upon the request of the shareholder in the event of the listing of the company or disposal to third parties, or they will acquire, upon the application of the shareholder, the right to vote in the company's ordinary and extraordinary shareholders' meetings; in the event of the liquidation of the company, they are entitled to receive a percentage of the liquidation proceeds, increased by 10%;

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

10. SHAREHOLDERS' EQUITY (Continued)

- Class B shares allow holders to receive a profit increased by 10.1% when dividends are distributed; this is deferred in the case of losses; they are convertible into ordinary shares at a ratio of one to one upon the request of the shareholder in the event of the listing of the company or disposal to third parties, or they will acquire, upon the application of the shareholder, the right to vote in the company's ordinary and extraordinary shareholders' meetings; in the event of the liquidation of the company, they are entitled to receive a percentage of the liquidation proceeds, increased by 10.1%.

11. NON-CURRENT FINANCIAL LIABILITIES

Non-current financial liabilities amounted to Euro 272,376 thousand (Euro 251,121 thousand as at December 31, 2017) and they refer to long-term payables as detailed below.

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Banks	21,400	1
Bond	235,612	233,427
Amounts due to other lenders	15,364	17,693
Non-current financial liabilities	272,376	251,121

of which as at September 30, 2018 by maturity:

<i>(in thousands of Euro)</i>	> 12 months	< 5 years	> 5 years
Banks	21,400	21,400	0
Bond	235,612	235,612	0
Amounts due to other lenders	15,364	14,167	1,197
	272,376	271,179	1,197

The tables relating to proceeds, repayments and reclassifications carried out in the period ended as at September 30, 2018 are shown below by company:

<i>(in thousands of Euro)</i>	At January 1, 2018	Proceeds from borrowings	Repayments of borrowings	Reclassification and other adjustments	At September 30, 2018
AlmavivA S.p.A.	239,620	22,185	(2,720)	0	259,085
Sadel S.p.A.	0	0	0	1,421	1,421
AlmavivA do Brasil	501	369	0	0	870
SIMEST Operation	11,000	0	0	0	11,000
Non-current financial liabilities	251,121	22,554	(2,720)	1,421	272,376

<i>(in thousands of Euro)</i>	At January 1, 2017	Proceeds from borrowings	Repayments of borrowings	Reclassification and other adjustments	At September 30, 2017
AlmavivA S.p.A.	2,001	2,518	(6,449)	6,000	4,070
AlmavivA do Brasil	12,477	27,512	(39,051)	0	938
Simest	11,000	98	(98)	0	11,000
Non-current financial liabilities	25,478	30,128	(45,598)	6,000	16,008

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

11. NON-CURRENT FINANCIAL LIABILITIES (Continued)

<i>(in thousands of Euro)</i>	At January 1, 2017	Proceeds from borrowings	Repayments of borrowings	Reclassification and other adjustments	At December 31, 2017
AlmavivA S.p.A.	2,001	234,375	(2,756)	6,000	239,620
AlmavivA do Brasil	12,477	27,512	(39,488)	0	501
SIMEST Operation	11,000	0	0	0	11,000
Non-current financial liabilities	25,478	261,887	(42,244)	6,000	251,121

Long-term financial liabilities of Euro 272,376 thousand refer primarily to the bond of Euro 250,000 thousand issued on October 5, 2017, 7.25% coupon with period payment on October 15 and April 15 of each year, and final maturity on April 15, 2022. The bond was listed on the Luxembourg stock exchange on the Euro MTF Market (unregulated market).

The issue and placement were performed by the merchant bank Goldman Sachs as Sole Book Runner and banca Ubi in the role of co-Manager.

The issue was preceded by a Road Show in the main European financial markets including London, Paris, Frankfurt, Amsterdam and Milan, achieving resounding success among investors. Demand was actually 4 times higher than supply, concentrated among large international high profile investors. The issue was also supported by a Revolving Facility for an original amount of Euro 20,000 thousand, increased to Euro 40,000 thousand on October 5, 2017. The revolving line expires on February 5, 2022, and can be used for general purposes relating to company business.

The bond issue was used for the full reimbursement of the Senior Secured Bridge and Revolving loan agreement, signed on August 3, 2017, between AlmavivA S.p.A. and Goldman Sachs International which made provision for total financing of Euro 270,000 thousand composed of the following two lines:

- 1 - Facility B of Euro 250,000 thousand;
- 2 - Revolving Facility of Euro 20,000 thousand.

The sources of financing were used to repay the financial indebtedness of AlmavivA S.p.A. deriving from the loan agreement signed on August 13, 2012 with a pool of banks, the extinguishment of the expired VAT payable of AlmavivA S.p.A., amounting to Euro 32,766 thousand at said date, including sanctions and interest, and of the subsidiary AlmavivA Contact S.p.A., amounting to Euro 33,758 thousand at said date, including sanctions and interest, plus the reimbursement of some with-recourse factoring contracts, the reimbursement of the financial indebtedness of the subsidiary AlmavivA do Brasil and the payment of costs relating to the transaction.

Thanks to the Senior Secured Bridge and Revolving transaction before the bond issue and the increase from Euro 20,000 thousand to Euro 40,000 thousand of the Revolving line after, AlmavivA made the Group's debt structure more stable, extending the average term of the loans by making provision for medium-term repayments in a single expiry and reducing the overall cost of debt between liabilities in Italy and Brazil.

The bond is accounted in the financial statements using the amortised cost method and has a value of Euro 235,612 thousand as at September 30, 2018.

Bank liabilities totalled Euro 21,400 thousand and relate to AlmavivA S.p.A. for Euro 20,001 thousand for the draw of the Revolving line and to Sadel for Euro 1,399 thousand. With regard to the Revolving Credit Facility line every quarter, the observance of a covenant called "Net Consolidated Leverage Ratio" is assessed. This covenant is complied with at September 30, 2018.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

11. NON-CURRENT FINANCIAL LIABILITIES (Continued)

Liabilities to other lenders amounting to Euro 15,364 thousand refer primarily to the subsidised loans received on the financed projects of Almagiva S.p.A. (Euro 3,472 thousand) and, for Euro 11,000 thousand relating to the payable due to Simest.

12. TRADE PAYABLES

Trade payables amounted to Euro 206,938 thousand, increase of Euro 2,818 thousand compared to the previous year. They mainly include payables for the provision of services, as well as those relating to various services for activities carried out in the year. More specifically, trade-related payables past due amounted to Euro 49,962 thousand (Euro 64,337 thousand in 2017), while those falling due in under 12 months amounted to Euro 156.976 thousand (Euro 139,783 thousand in 2017).

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Trade payables	206,938	204,120

Please note that the trade-related payables are regulated based on the contractual conditions and specific agreements with the Group's suppliers.

13. CURRENT FINANCIAL LIABILITIES

The analysis of short-term financial liabilities is indicated below:

<i>(in thousands of Euro)</i>	At September 30, 2018	At December 31, 2017
Payables due to banks	3,248	497
Current portion bonds	8,320	4,335
Payables due to other lenders	3,136	4,126
Financial lease payables	257	2,820
Accrued liabilities from financial expenses	325	168
Other financial payables	11	75
Current financial liabilities	15,297	12,021

Short-term financial liabilities of Euro 15,297 thousand refer to payables for short-term loans taken out with banks, the portion of payables for interest accrued vis-à-vis bondholders whose payment is set for October 15, 2018. Lastly, the item also includes payables for finance leases, primarily of Almagiva do Brasil, financial accruals and various short-term payables.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

13 CURRENT FINANCIAL LIABILITIES (continued)

In the Consolidated Cash Flow Statements, reported above, the item “Net Changes in Current Financial Liabilities” include both changes in current financial liabilities abovementioned and exchange rates differences, non-paid interests and other items, as better explained in detailed table, as follows:

As at September 30, 2018

	at 30/09/2018	at 30/09/2017	Changes
Current financial liabilities	15,297	12,021	3,276
Exchange rate differences on cash and cash equivalents			(9,969)
Exchange rate differences on net working capital			(7,227)
Exchange rate differences on shareholders' equity			(14,961)
Exchange rate differences on tangible and intangible assets			6,352
Non-paid interests expenses and amortization cost effects			(8,817)
Exchange rate differences from P/L			(107)
Other changes and reclassification from non current to current liabilities			(266)
			(31,719)

As at September 30, 2017

	al 30/9/2017	al 31/12/2016	Variazione
Current financial liabilities	256,491	150,873	105,618
Exchange rate differences on cash and cash equivalents			(3,497)
Exchange rate differences on net working capital			(7,939)
Exchange rate differences on shareholders' equity			(3,783)
Exchange rate differences on tangible and intangible assets			5,079
Non-paid interests expenses and amortization cost effects			(613)
Exchange rate differences from P/L			(1,122)
Other changes and reclassification from non current to current liabilities			6,762
			100,505

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

14. REVENUES FROM CONTRACTS WITH CUSTOMERS

The main items of “Revenues from contracts with customers” are analysed hereunder.

Revenues from contracts with customers

<i>(in thousands of Euro)</i>	For the year ended September 30	
	2018	2017
Revenues from sales and services	554,349	534,627
Revenues from sale of goods	3,050	1,305
Revenues from contract work in progress	20,309	8,341
Revenues from contracts with customers	577,708	544,273

<i>(in thousands of Euro)</i>	Revenues detected at a point in time	Revenues recognized over the time	Total At September 30, 2018
Revenues from contracts with customers	3,050	574,658	577,708

Revenues from contracts with customers from ordinary operations of the Group include the contractual revenues accrued from production recorded in the year, determined according to the percentage of completion method and revenues from contracts with customers recorded in relation to the provision of services and sale of assets.

The table below shows the breakdown of the revenues from contracts with customers of the operating segments for 2018 and 2017, net of the effect of intersegment revenues:

<i>(in thousands of Euro)</i>	For the year ended September 30	
	2018	2017
Revenues from sales and services	554,349	534,627
Revenues from sale of goods	3,050	1,305
Revenues from contract work in progress	20,309	8,341
Revenues from contracts with customers	577,708	544,273

The revenues from contracts with customers of the IT Services segment as at September 30, 2018 rose by Euro 46,331 thousand, equal to 19% compared to the previous year. This increase is due mainly to the growth in the demand for services with respect to customers of the Transport, Homeland Security, Local Government, Welfare, Utility and Ministry business areas. This growth was partially offset by a reduction in revenues attributable to the Agriculture-Environment and Others areas.

The revenues from contracts with customers of the CRM Europe segment recorded an increase of Euro 12,509 thousand in 2018 compared to the previous period. The increase mainly concerned the Government, Telco and Media business areas while the Utilities and Transport business areas recorded a decrease in revenues in the period.

The revenues from contracts with customers of the CRM International segment recorded a decrease of Euro 27,939 thousand, down by 14% as at September 30, 2018 when compared to the previous year. The decrease in revenues is mainly related to effect of currency exchange rates.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

14. REVENUES FROM CONTRACTS WITH CUSTOMERS (Continued)

The revenues from contracts with customers of the Almaxwave-New Technology segment rose by Euro 3,002 thousand, up 75% compared to the previous year, while the intersegment revenues dropped by Euro 810 thousand compared to the previous year. Therefore, total revenues, including intersegment revenues, increased by Euro 2,192 thousand. This rise is primarily due to the increase in revenues deriving from the sale of software technologies to customers (including other segments) in Telco, Media and Others areas, partially offset by the fall in revenues from customers in Utilities, Banking/Insurance areas.

Revenues from contract work in progress include the contractual revenues deriving from production recorded in the year from customers and still not completed, net of invoices in the year and related to contracts not concluded in previous years; the value was determined according to the percentage of completion method.

Almaxviva Group revenues from contracts with customers are mainly realized in Italy. Revenues produced abroad primarily regard Brazil and to a lesser extent, Tunisia and Colombia. For more details on the breakdown by geographical area, please refer to Note 4.

The following table shows the amount related to the performance obligation not completed or partially completed at the reporting date according to paragraph 122 in IFRS 15:

<i>(in thousands of Euro)</i>	Total	To absorb within the current financial year	To absorb within the next financial year	To absorb beyond the next financial year
Backlog at September 30, 2018 (*)	1,403,686	(132,006)	(408,852)	(862,827)

(*) IT Services and Almaxwave New Technology segments

The table does not include variable fees that are not determined or determinable at the reporting date.

15. PERSONNEL EXPENSES

Personnel costs are broken down as follows:

<i>(in thousands of Euro)</i>	For the year ended September 30	
	2018	2017
Salaries and wages	277,727	266,927
Social security contributions	51,301	46,414
Employee benefit expenses	8,781	9,285
Other costs	3,305	2,145
Agency work	6,077	8,198
Costs of seconded personnel	0	0
Expenses for redundancy incentives	0	0
Personnel expenses capitalised for assets created internally	(7,396)	(8,398)
Personnel expenses	339,794	324,571

Personnel costs rose by Euro 15,223 thousand, equal to 4.69%.

The average number of employees of companies included in the consolidation area, broken down by category, is as follows:

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

15. PERSONNEL EXPENSES (Continued)

	At September 30, 2018	At September 30, 2017
Executives	202.3	207.0
Middle managers	745.6	751.5
White-collar employees	42,474.3	40,145.8
Total Group average employees	43,422.2	41,104.3
Agency workers	-	521.5
Total workforce	43,422.2	41,625.8

16. DEPRECIATION AND AMORTISATION

This item is analyzed below:

<i>(in thousands of Euro)</i>	For the year ended September 30	
	2018	2017
Industrial patent and intellectual property rights	5,409	4,245
Concession, licence and trademarks	202	1,260
Other	4,775	4,763
Total Amortisation	10,385	10,268
Civil and industrial buildings	605	586
Industrial and commercial equipment	109	106
Plants and machinery owned and leased	3,458	4,767
Other assets owned and leased	5,724	6,145
Capital (gains) from disposals of fixed assets	0	0
Total Depreciation	9,896	11,604
Total Depreciation and Amortisation	20,281	21,872

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

17. FINANCIAL INCOME (EXPENSES) AND EXCHANGE GAINS/(LOSSES)

Financial income (charges) are analysed as follows:

<i>(in thousands of Euro)</i>	For the year ended September 30	
	2018	2017
Financial income	373	773
Financial expenses	(22,448)	(25,509)
Exchange gains/(losses)	(107)	(1,122)
Net financial result	(22,182)	(25,857)

As per the previous table, the result of financial income and expenses was negative for Euro 22,182 thousand as at September 30, 2018, compared to a negative result of Euro 25,857 thousand as at September 30, 2017, marking an improvement of Euro 3,675 thousand.

18. INCOME TAXES

Income taxes are analyzed below:

<i>(in thousands of Euro)</i>	For the year ended September 30	
	2018	2017
Italian Companies		
<i>IRAP (Regional business tax)</i>	1,022	780
<i>IRES (Corporate income tax)</i>	4,000	2,448
<i>(Income) expenses from compliance with tax consolidation</i>	(2,282)	(2,385)
	2,740	843
Foreign companies		
<i>Other current taxes</i>	1,948	501
	1,948	501
Current Taxes	4,688	1,344
Italian Companies		
<i>IRAP (Regional business tax)</i>	36	31
<i>IRES (Corporate income tax)</i>	(1,809)	632
	(1,773)	663
Foreign companies		
<i>Other deferred taxes</i>	(2,688)	(1,965)
	(2,688)	(1,965)
Deferred taxes	(4,461)	(1,302)
Income taxes for the year - Non recurring portion	(447)	31
Total Income taxes	(219)	73

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

19. RECONCILIATION BETWEEN THE THEORETICAL AND ACTUAL IRES RATES OF GROUP COMPANIES:

(in thousands of Euro)	For the year ended September 30	
	2018	2017
Income before taxes	8,555	(3,515)
Theoretical tax rate	24.0%	24.0%
Theoretical taxes	2,053	(844)
Effect of different foreign tax rates	(268)	1,462
Non-deductible expenses	4,163	2,331
Tax losses previous years / consolidated tax revenues	(2,282)	(2,385)
Effect of writedowns for deferred tax assets and redetermination of tax rates	0	0
IRAP (Italian regional business tax)	1,022	780
Effect on deferred taxation of changes in tax rates	(4,461)	(1,302)
Other differences and minor items	(447)	31
Total	(219)	73

20. LEGAL ISSUES AND LITIGATIONS

Tax, administrative, civil and labour disputes are handled by the Almagiva Group's competent departments that provided, for the drafting of the financial statements, a comprehensive and exhaustive overview of the different proceedings in progress. In respect of these disputes, the group entities, also with the help of the opinions provided by the Group's external legal representatives, carried out an accurate assessment of the risk of being the losing party which determined the recognition of the appropriate provisions for disputes likely to have a negative outcome and, which could be reasonably quantified, as represented and commented on in these notes, under "Provisions for risks and charges". For those proceedings whose negative outcome, owing to the different case law positions, was only considered possible, no specific allocations were made in accordance with the regulations governing the drafting of the financial statements.

Contingent liabilities

The disputes for which, also based on the opinions provided by the Group's external legal representatives, it was only deemed possible that the legal proceedings would result in an unfavorable outcome are indicated below. Therefore, no specific allocations were made in accordance with the regulations governing the drafting of the financial statements.

Shown below are the main contingent liabilities as at September 30, 2018 not recorded in the financial statements owing to the absence of the necessary requirements set out in reference standard IAS 37.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

20. LEGAL ISSUES AND LITIGATIONS (Continued)

AlmavivA S.p.A.

Aubay Research & Technologies S.p.A./Sogei S.p.A./AlmavivA S.p.A. (as the agent of RTI with Bit Media S.p.A.)

Aubay S.p.A. requested, upon suspension of effectiveness, the annulment of the communication of its exclusion from the open procedure for the assignment of the support service for usage of the ETL product "Informatica Power Centre. Call for Tenders E 901", proclaimed by Sogei S.p.A.. At the council chambers on October 14, 2009, Aubay S.p.A. asked for postponement of the precautionary claim in order to bring forth additional reasons against the final award which had taken place in the meantime. On November 20, 2009, Aubay S.p.A. notified RTI AlmavivA of the additional reasons. RTI AlmavivA completed the activities as required by the contract. The relative hearing date has not been set yet. The outcome of the risk assessment did not determine the need to record any provisions for risks.

Eustema S.p.A./FAPI-Fondo Formazione Piccole Medie Imprese/AlmavivA TSF S.p.A., currently AlmavivA S.p.A.

Eustema S.p.A. requested the annulment, upon suspension of effectiveness, of the call for tenders and the resolution of the Board of Directors of FAPI reached on November 9, 2010, in relation to the appointment of the Awarding Committee for the call for tenders initiated by FAPI, for the creation of a new IT system and the relative activities in support of the automation of the flows relating to funding for training. The Lazio TAR (regional administrative court) rejected the precautionary application. The relative hearing date has not been set yet. The outcome of the risk assessment did not determine the need to record any provisions for risks.

RTI Exitone S.p.A. (as the agent of RTI with Dedalus S.p.A. and Lutech S.p.A.)/Consip S.p.A./RTI AlmavivA S.p.A. (as the agent of RTI formed with Telecom Italia S.p.A. and Agriconsulting S.r.l.)

RTI Exitone requested the cancellation, upon the adoption of precautionary measures, of the measure of August 4, 2016, announcing the final award in favour of RTI AlmavivA of the "Restricted procedure tender for the award of the concession for the SISTRI waste tracking system for the Ministry of the Environment and Protection of the Land and the Sea - ID 1642" announced by the sole shareholder company Consip S.p.A. The precautionary claim was rejected. By resolution of November 30, 2016, Consip S.p.A. cancelled, by means of its own determination, the award measure of August 4, 2016. By means of judgment of January 25, 2017, the appeal of RTI Exitone was consequently declared barred to further proceedings. Consip S.p.A., after once again conducting the procedure to verify the anomaly of RTI AlmavivA, awarded the tender to the same RTI by measure dated February 1, 2017. RTI Exitone requested the annulment, following the adoption of precautionary measures, of the measure of February 1, 2017. RTI AlmavivA has filed a cross-appeal. Subsequently, RTI Exitone waived the precautionary measure. The TAR (regional administrative court) ordered the CTU (court-appointed expert witness) and deferred a discussion of the case to the hearing of January 24, 2018, then put back to October 24, 2018. Following this hearing, the case was held in decision. The outcome of the risk assessment did not determine the need to record any provisions for risks.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

20. LEGAL ISSUES AND LITIGATIONS (Continued)

RTI Almoviva S.p.A. (agent of the RTI with Fastweb S.p.A., and Infoblu S.p.A.)/Ministry of Infrastructures and Transport/RTI Engineering S.p.A. (agent of the RTI with Leonardo S.p.A., Telecom Italia S.p.A., and Intersistemi Italia S.p.A.)/RTI Enterprise Services Italia S.r.l. (agent of the RTI with Abramo Customer Care S.p.A., Ecosfera Servizi S.r.l. and Postel S.p.A.)

RTI Almoviva requested the cancellation, upon the adoption of precautionary measures, of the measure for the final award to RTI Engineering of the Tender for the assignment of Information System Management and Development Services for the Department of Transport, Navigation, General Matters and Personnel, called by the Ministry of Infrastructures and Transport. RTI Engineering and RTI Enterprise appeared in court and filed a cross-appeal. In parallel, RTI Almoviva was constituted in another judgment started by the RTI Enterprise against the awarding of the same tender. At hearing on June 20, 2018, with the precautionary claim having been waived, a public hearing was set for October 17, 2018, following the meeting of the two judgments referred to above. Subsequently to this hearing the case was held in decision. With rulings of 6 November 2018, the TAR upheld the appeal of the RTI Enterprise - canceling the tender documents - and dismissed the appeal of the RTI Almoviva. The outcome of the risk assessment did not determine the need to record any provisions for risks.

Almoviva S.p.A., Almovave S.r.l. and Almovave USA Inc.

Loop AI Labs Inc./Almoviva S.p.A. + others

A Californian start-up subpoenaed a former senior manager of Almovave USA Inc. together with Almovave S.r.l., Almoviva S.p.A. and third parties before a U.S. court regarding the alleged conduct of the senior manager of Almovave USA Inc. Those summoned appeared before the court and contested the claim. With a decision of March 9, 2017, the U.S. court rejected the demands of Loop AI Labs Inc., which appealed the decision. The Almoviva Group companies lodged an appeal for the recovery of legal costs, and any further procedural initiatives are currently under assessment. The outcome of the risk assessment did not determine the need to record any provisions for risks.

Almoviva S.p.A. + others/Lloyd's Insurers (at the General Representative for Italy of Lloyd's)

Almoviva S.p.A. and the other Group companies, as the insured parties, requested the Court of Milan to order Lloyd's Insurers to be sentenced to reimburse expenses and the legal defence costs that they incurred and will be incurred as part of the dispute pending in the USA (described above), in addition to compensation for damages. At the preliminary hearing on May 16, 2017, the judge invited the Insurers to submit a proposal for the settlement of the dispute and postponed the discussion of the case, for the same parties, to the hearing on June 28, 2017. At said hearing, the judge - having acknowledged the failure of the parties to reach an agreement and, disregarding the reservation assumed previously - adjourned the case for the presentation of final conclusions to the hearing on February 27, 2019. The outcome of the risk assessment did not determine the need to record any provisions for risks.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

20. LEGAL ISSUES AND LITIGATIONS (Continued)

AlmavivA Contact S.p.A.

3G S.p.A./Consip S.p.A./AlmavivA Contact S.p.A.

3G S.p.A. has requested annulment, upon suspension, of the ruling based on which Consip S.p.A. excluded it from the call for tenders for a “Framework Agreement with several operators based on which several specific tenders will be awarded, pursuant to Art. 2, par. 225 of Law no. 191/2009 for the provision of Contact Centre services.” In its meeting in the council chambers of January 22, 2014, the TAR (regional administrative court) of Lazio rejected the application for an injunction. The relative hearing date has not been set yet. The outcome of the risk assessment did not determine the need to record any provisions for risks.

Alicos S.p.A., now AlmavivA Contact S.p.A./Alitalia Linee Aeree Italiane S.p.A. under E.A.

On November 14, 2008, Alicos S.p.A. applied for inclusion in proving a debt in bankruptcy with regard to Alitalia Linee Aeree Italiane S.p.A. under E.A., requesting recognition as a preferential lender for the call centre services it provided.

Alicos S.p.A., admitted as an unsecured creditor, appealed in accordance with art. 111 bis of the Bankruptcy Law, then rejected. AlmavivA Contact S.p.A. filed an appeal against this decision of rejection, which was then rejected. With appeal in accordance with art. 98 of the Bankruptcy Law, AlmavivA Contact S.p.A. challenged the debt in bankruptcy. The appeal was rejected and AlmavivA Contact S.p.A. filed an appeal at the Court of Cassation. Management, in consideration of the risk assessment conducted, saw fit to allocate a bad debt provision in relation to the ongoing dispute.

Alicos S.p.A., currently AlmavivA Contact S.p.A./Alitalia Servizi S.p.A. under E.A.

On January 19, 2009, Alicos S.p.A. applied for inclusion in proving a debt in bankruptcy with regard to Alitalia Servizi S.p.A. under E.A., requesting recognition as a preferential lender for the call centre services it provided. Alicos S.p.A., which had not been admitted as the Administrator considered its debt to have been paid in full, appealed pursuant to art. 111 bis of the Bankruptcy Law, then rejected. AlmavivA Contact S.p.A. filed an appeal against this rejection decision, later rejected. With appeal in accordance with art. 98 of the Bankruptcy Law, AlmavivA Contact S.p.A. challenged the debt in bankruptcy. The appeal was rejected and AlmavivA Contact S.p.A. filed an appeal at the Court of Cassation. Management, in consideration of the risk assessment conducted, saw fit to allocate a bad debt provision in relation to the ongoing dispute.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

20. LEGAL ISSUES AND LITIGATIONS (Continued)

Labour Disputes

During 2016, Almoviva Contact started a collective dismissal procedure with a declaration of 2,511 redundant staff including no. 1,666 people working at the headquarters of Rome (1,063 full time equivalent positions) and 845 people working at the headquarters of Naples (560 full time equivalent positions). This procedure was concluded, at the Ministry of Economic Development, in the presence of the Ministry of Labour and Social Policy, on December 22, 2016, by signing a Statement of Agreement. This Agreement made provision, as regards the headquarters of Rome, for the company's right to proceed with the dismissal of surplus workers and, as regards the Naples headquarters, the continuation of meetings, following which, it was possible to stipulate an agreement to reduce the cost of labour and to apply the call centre "cassa integrazione guadagni" (wages guarantee fund) on February 28, 2017.

In 2017, the first appeals submitted by the dismissed workers were received.

In this regard, we must point out that, in April 2017 the Civil Court of Rome, labour division (by means of decree of April 22, 2017, GR no. 2342/2017), rejected an appeal lodged by CGIL - Rome and Lazio region – with which the trade-union organisation requested the sentencing of the company for anti-union behaviour, deducing the unlawfulness of the dismissal procedure. The decision on the legitimacy of the dismissal procedure was also confirmed by the judge involved in the claim, with a ruling issued in June 2018.

In terms of individual litigation, the magistrates of the Court of Rome who have ruled the validity of the procedure are as many as 41 out of 43, who have been affected by the proceedings in question. As for the decisions of the two magistrates who have adopted decisions that differ from the majority, they have already been partly reformed. At the same time, the first cases under appeal started.

On another front, continuing on with the approach of previous years, the company, in application of the ASSTEL-ASSOCONTACT/OO.SS (trade unions) collective agreement of August 1, 2013 and subsequent amendments and updates - which regulated the call centre collaborations - stipulated the transactions with associates obligated in the previous year in order to guarantee their inclusion in the scope of pre-emption for the stipulation of new contracts and to eliminate the risk of disputes targeted at requalification of collaborations as employment relationships.

The level of participation of contracted associates in the conciliation procedure was extremely high in the headquarters involved, so that no out-of-court appeals were received.

With reference to the residual dispute initiated by former associates of the company of the headquarters of Catania and Palermo, we must point out that the Court of Appeal of Palermo confirmed the line favourable to Almoviva Contact. The Court of Catania has, up until now, declared the appeals lodged by certain associates to be inadmissible for procedural reasons.

With regard to the temporary employees subject-matter of a stabilisation offer during 2007-2008 by the company Atesia S.p.A. (then merged into Almoviva Contact S.p.A.), there were no new court appeals concerning the qualification of the relation during the period; whereas some appeals relating to the quantification of salary differences that are being defined were notified by subjects who were already reinstated by virtue of the judgement.

In this case as in the case of further disputes, the risks based on the individual cases were assessed, and where necessary, the appropriate provisions for risks were made in the financial statements.

ALMAVIVA S.P.A. AND SUBSIDIARIES

EXPLANATORY NOTES (Continued)

21. SUBSEQUENT EVENTS

The trend of the R\$/ Euro exchange rate, after 30 September 2018, results in an improvement, also following recent political polls in Brazil. That fact could lead to recovers on the consolidated shareholders' equity in the financial statements as at 31 December 2018.

On November 15, 2018 RFI - Rete Ferroviaria Italiana, proceeded with the definitive awarding of the procedure for the assignment of the project: "Traffic planning and Traffic management". (Total contractual value Euro 88 million for 5 years, Almoviva S.p.A' share 52.6%).