

Management Report
and Financial Statements as at December 31, 2018
and Non-Financial Disclosure 2018

2018



2018 REPORTING

To continue along the path of excellence, innovation and alignment with international best practices undertaken for some time now, once again in 2018 the SIA Group has incorporated within the same report:

- the “Management Report and Financial Statements as at December 31, 2018” approved by the Shareholders’ Meeting and audited by PricewaterhouseCoopers S.p.A.;
- the “Non-Financial Disclosure 2018”, prepared on a voluntary basis according to the GRI standard and submitted to the Board of Directors for review, subject to a limited audit by BDO Italia S.p.A.

Presenting the Non-Financial Disclosure alongside financial reporting provides readers with a more comprehensive, organic and exhaustive view of the trend and performance of the SIA Group, not only from the economic viewpoint but also from the ethical, social and environmental point of view.

Management Report and Financial Statements
as at December 31, 2018
and Non-Financial Disclosure 2018



LETTER TO SHAREHOLDERS AND STAKEHOLDERS ↗



Giuliano Asperti
Chairman



Nicola Cordone
CEO

Dear Sirs,

Last year, the global economy continued to show signs of uncertainty and was unable to find that drive towards a decisive recovery that everyone has been hoping for and expecting for some time now, partly due to tensions caused by the “tariff war” between the United States and China. Europe is especially setting the pace with respect to expectations, particularly the Eurozone, where GDP growth has slowed quite significantly, dropping from +2.4% in 2017 to +1.8% in 2018. This slowdown has been caused, amongst other factors, by fears linked to Brexit as well as unforeseen difficulties in Germany, the less than brilliant results of France and modest performance in Italy, still lagging behind in a European Union where, for several years now it is the Eastern European countries that have had the highest GDP growth rates.

Despite continuing difficulties in Europe and internationally, for the SIA Group 2018 was a record year for profit as well as business results, confirming the effectiveness of the company’s strategy to support its growth process. The year just closed showed a sharp rise in revenues as well as EBITDA compared to 2017, thanks especially to the positive contributions of the parent company SIA S.p.A., the subsidiary P4cards and, in the last quarter, the companies acquired in Central and South-Eastern Europe, as well as the considerable growth in card-based electronic payment transactions and traffic volumes on the SIANet network.

Consolidated revenues reached €614.8 million, marking an increase of €47.6 million (+8.4%) compared to 2017; EBITDA reached €201.4 million, up by €21.6 million (+12%); the profit / (loss) before income taxes was €110.3 million, up by €10.2 million (+10.2%); the net profit was €79.5 million, basically in line with the previous year, taking into account the decrease in tax benefits from the Patent Box. The Cards segment made the largest contribution to revenues (63%) and was confirmed as the main segment in which the Group operates; this was followed by Payments (19%), which incorporates activities linked to electronic payments other than those made with cards, and the Institutional Services segment (18%), which includes payment clearing and settlement as well as financial market services. At geographical level, the turnover made in Italy came to €466.5 million, up by €15.2 million (+3.4%), while the turnover made abroad reached €148.3 million, marking progress of €32.4 million (+27.9%), partially due to the Group’s internationalization policy enacted in recent years.

In line with the strategy aiming to make SIA the European leader in digital payments, the acquisition from First Data of its card business in Greece and in other Central/South-Eastern European countries including Croatia, the Czech Republic, Hungary, Romania, Serbia and Slovakia was finalized in September, positioning SIA

as the top operator in this area, which is one of the most important and has the strongest growth in Europe for our sector. The operation regarded card processing and card production, call center and back office services relating to in excess of 13 million payment cards and 1.4 billion transactions, as well as the management of more than 300,000 POS terminals and 6,500 ATMs.

Including this acquisition, in 2018 the Group managed a total of 7.2 billion card transactions (+18.1% compared to 2017), 14 billion transactions for institutional services (+6.7%) and 3.1 billion payment transactions, which were down by 2.4% as, against a sharp increase in volumes relating to Jiffy (+79.3%) and Gateway services (+10.3%), there was a decline in volumes linked to non-SEPA payments and the transactions of foreign bank branches in Italy. Trading and post-trading transactions in the financial markets totaled 51.7 billion, down 8% due to increases in the technological efficiency of market logics, which reduced the number of orders. 1,204 terabytes of data was managed on the 186,000 kilometers of the SIAnet network, up by 53.6% over 2017, with a full availability of the infrastructure and service levels at 100%.

During the year, €52.1 million in operating investments were made for the development of new projects and hardware and software infrastructure. The Group's positive economic results also contributed to a significant strengthening of shareholders' equity, which is posting constant growth, also taking into account past dividend pay-out levels. In terms of employment, at the end of 2018 the Group had 3,465 employees, up 70% compared to the previous year due primarily to the above-mentioned acquisition from First Data which entailed the transfer of roughly 1,400 staff.

Furthermore, we are particularly proud to have hired 220 new people, especially recent university and high school graduates who have found work and career opportunities at the SIA Group.

For some years now, SIA has been committed to dedicating increasing attention to the topics of sustainability and corporate social responsibility and, from this perspective, it has implemented a precise strategy aiming to create sustainable value for all stakeholders, from shareholders to employees, from customers to suppliers, from the community to the environment. Thus, once again this year, as in 2017, we are presenting our non-financial disclosure alongside our financial reporting, to provide the most complete, clear and transparent view possible of the Group's activities from various perspectives.

The record 2018 financial statements are the point of departure for the 2019-2021 Strategic Plan approved by the Board of Directors in February to transform SIA into the leading Pan-European Payment & Tech company. Today, the Group provides its services to customers in 50 countries across Europe, the Middle East, Africa and Oceania, but our objective is to expand our reach even further. In the course of the year, thanks to the capabilities and passion of everyone working in the Group, we consolidated customer relationships, strengthened our international positioning by becoming the leader in Central and South-Eastern Europe and increased our turnover abroad by nearly 28%. We intend to continue along this path of growth by aiming for excellence and innovation, which have always been the key identifying features of how SIA operates and on which we strive to continue to build the Group's success.

The Chairman
Giuliano Asperti

The Chief Executive Officer
Nicola Cordone

ANNUAL GENERAL MEETING OF SHAREHOLDERS ↗

Published in Official Gazette no. II Part 32 of March 16, 2019

SIA S.p.A.

Registered Office in Via Gonin 36, Milan

Share Capital €22,274,619.51= fully paid-up

Companies' Register, Tax Code and VAT no. 10596540152

Milan Economic and Administrative Register (REA) no. 1385874

Call of Shareholders' Meeting

The Shareholders of SIA S.p.A. are called to attend the Ordinary Shareholders' Meeting in Milan, at the registered office of SIA S.p.A., Via Francesco Gonin, 36, on first call on April 16, 2019 at 11:30 a.m., and possibly on second call on April 29, 2019, at 11:30 a.m., same venue, to discuss and resolve on the following

AGENDA:

- 1. Approval of the Financial Statements at December 31, 2018; related resolutions;**
- 2. Appointment of Directors;**
- 3. Appointment of the Board of Statutory Auditors for the 2019-2021 three-year period;**
- 4. Determination of remuneration for the Board of Statutory Auditors;**
- 5. Appointment of the Independent Auditing Firm.**

All holders of ordinary shares are entitled to attend the Shareholders' Meeting upon presentation of the notice issued by an authorized intermediary pursuant to applicable law.

Milan, March 13, 2019

SIA S.p.A.
The Chairman of the Board of Directors
Mr. Giuliano Asperti

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THE SIA GROUP



EXECUTIVES IN OFFICE

The Shareholders' Meeting appointed the following members of the Board of Directors of SIA S.p.A. for the 2017-2019 three-year period, and in any case, until the approval of the Financial Statements at December 31, 2019.

Board of Directors

Chairman	Giuliano Asperti
CEO	Nicola Cordone ¹
Directors	Fabio Albano Alessandro Garofalo Federico Giordano Marco Lucchini Salvatore Poloni Giacomo Riccitelli Guido Rivolta Francesco Silva ² Valerio Zappalà
Board Secretary	Monica Coppo

¹ Co-opted on November 29, 2018 to replace Massimo Arrighetti.

² Co-opted on February 14, 2019 to replace Roberto Giacchi, who resigned as of December 4, 2018.

Board of Statutory Auditors

Chairman	Riccardo Ranalli
Standing Auditors	Andrea Bignami Claudia Cattani
Alternate Auditors	Antonia Coppola Federica Mantini

The Statutory Auditors, appointed by the Shareholders' Meeting on April 15, 2016, will remain in office until the approval of the Financial Statements at December 31, 2018.

Independent Auditing Firm

PricewaterhouseCoopers S.p.A.

The Independent Auditing Firm, appointed by the Shareholders' Meeting on April 15, 2016, will remain in office until the approval of the Financial Statements at December 31, 2018.

Supervisory Body

Chairman	Riccardo Ranalli
Members	Andrea Bignami Claudia Cattani

The Board of Directors has established the following Committees within itself:

Remuneration Committee

Chairman	Giuliano Asperti
Members	Fabio Albano Marco Lucchini Valerio Zappalà

Development Committee

Chairman	Marco Lucchini
Members	Fabio Albano Nicola Cordone Giacomo Riccitelli Valerio Zappalà

GROUP PROFILE ↗

SIA is European leader in the design, creation and management of technology infrastructures and services for Financial Institutions, Central Banks, Corporates and the Public Sector, in the areas of payments, cards, network services and capital markets.

SIA Group provides its services in 50 countries, and also operates through its subsidiaries in Austria, Croatia, Czech Republic, Germany, Greece, Hungary, Romania, Serbia, Slovakia and South

Africa. The company also has branches in Belgium and the Netherlands, and representation offices in the UK and Poland.



Our vision

Everyone will be able to use their own money anytime, anywhere, simply and securely.

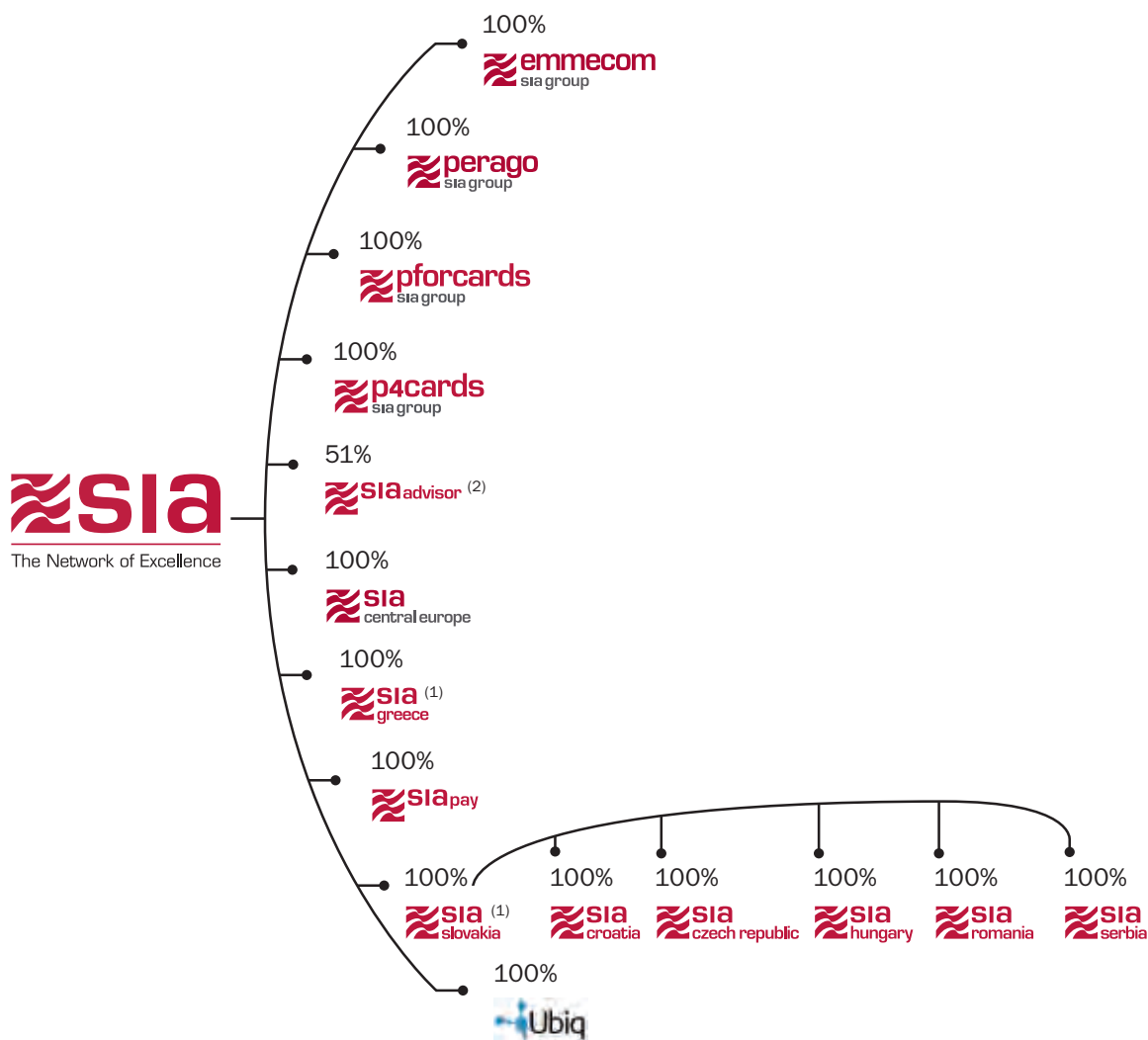
Our mission

Provide the best platforms to process all kinds of payments of institutions, people, corporates.

Our values



Structure of the SIA Group as at December 31, 2018



The companies under liquidation Consorzio QuenIT and DMAN are not shown above.

(1) On September 28, 2018, SIA acquired the card processing business of First Data in Central and South-Eastern Europe.

(2) On December 1, 2018, LM-e changed its name to SIAadvisor.

The '80s

The National Interbank Network (RNI) and payment systems

- Development of the National Interbank Network (RNI) that connects all Financial Institutions
- Automation of the interbank payment system
- Creation of the first Bancomat (ATM) circuit.

The '90s

Automation of financial markets

Technological innovation hits the financial markets: SIA is a player in the automation of the Borsa Italiana markets and in launching Italian wholesale markets: MID and MTS.

The first projects involving payment cards are launched: Bancomat and PagoBancomat, FASTpay, e-Wallet and Microcircuito project to shift from magnetic stripe cards to microchip cards.

The 2000s

The first steps in Europe

Technological excellence is acknowledged at European level. The company aims at being a competitor on the international market. Innovative services are developed in connection with the Euro and Europe:

- services membership with international EMV circuits and standards
- EBA STEP2 platform for retail payments in Euro
- Monte Titoli post trading
- surveillance
- processing solutions for issuing and acquiring.

2010 - 2015

International expertise

- Network Service Provider for access to T2S
- SIAnet Financial Ring for access to Trading Venues
- Collateral management for Central Banks and CSDs
- 4CBNet
- Outsourcing for IPs and ELMIs
- Development of Jiffy service, for transfers of cash P2P

2016 to date

New services and international success

- Development with EBA Clearing of the pan-European Instant Payment infrastructure
- Acquisition of Ubiq (Ti Frutta) for the development of digital promotion solutions
- POSs enabled to accept payments with BANCOMAT Pay, Apple Pay, Samsung Pay, Alipay and WeChat Pay
- Execution of a new interbank payment system for the Central Bank of New Zealand
- Development of a data center with "Active/Active" architecture
- Extreme contingency
- Creation of SIChain, the first private blockchain/distributed ledger infrastructure with architecture geographically distributed at European level.

Group customers segments

Central Institutions	Financial Institutions	Corporates	Public Sector	Capital Markets
<ul style="list-style-type: none"> ▶ Central Banks ▶ ACHs ▶ Financial Associations ▶ System Financial institutions 	<ul style="list-style-type: none"> ▶ Domestic and Multinational Banks and Bank Groups ▶ Foreign Banks with offices in Italy ▶ Intermediaries ▶ Brokers/traders ▶ Application Centers 	<ul style="list-style-type: none"> ▶ Telco ▶ Utility ▶ Petrol ▶ Insurance ▶ Payment Institutions ▶ Mobility ▶ Manufacturing ▶ Retail ▶ Media ▶ Services 	<ul style="list-style-type: none"> ▶ Central Public Administration ▶ Local Public Administration ▶ Agency for Digital Italy ▶ Health Authorities ▶ Education ▶ Smart Mobility ▶ Social/assistance welfare 	<ul style="list-style-type: none"> ▶ Financial Marketplaces ▶ CSDs ▶ Clearing Houses and Central Counterparties ▶ Global Custodians ▶ Supervisory Authorities

Main operating volumes 2018 (on 2017)



NETWORK

1.204 terabytes of data carried **(+53.5%)**

100% service availability

186.000 km SIAnet network **(+6.9%)**



CARDS

7.2 billion issuing and acquiring transactions **(+18.1%)**

More than **1.1 million** merchants managed **(+19.8%)**

84.2 million credit, debit and prepaid cards managed **(+15.3%)**



PAYMENTS

3.1 billion transactions **(-2.4%)**

925 customers managed **(-22.1%)**



INSTITUTIONAL SERVICES

52 billion financial transactions **(-8%)**

Over **100** brokers and traders in **18** countries adopting SIA compliance and surveillance systems

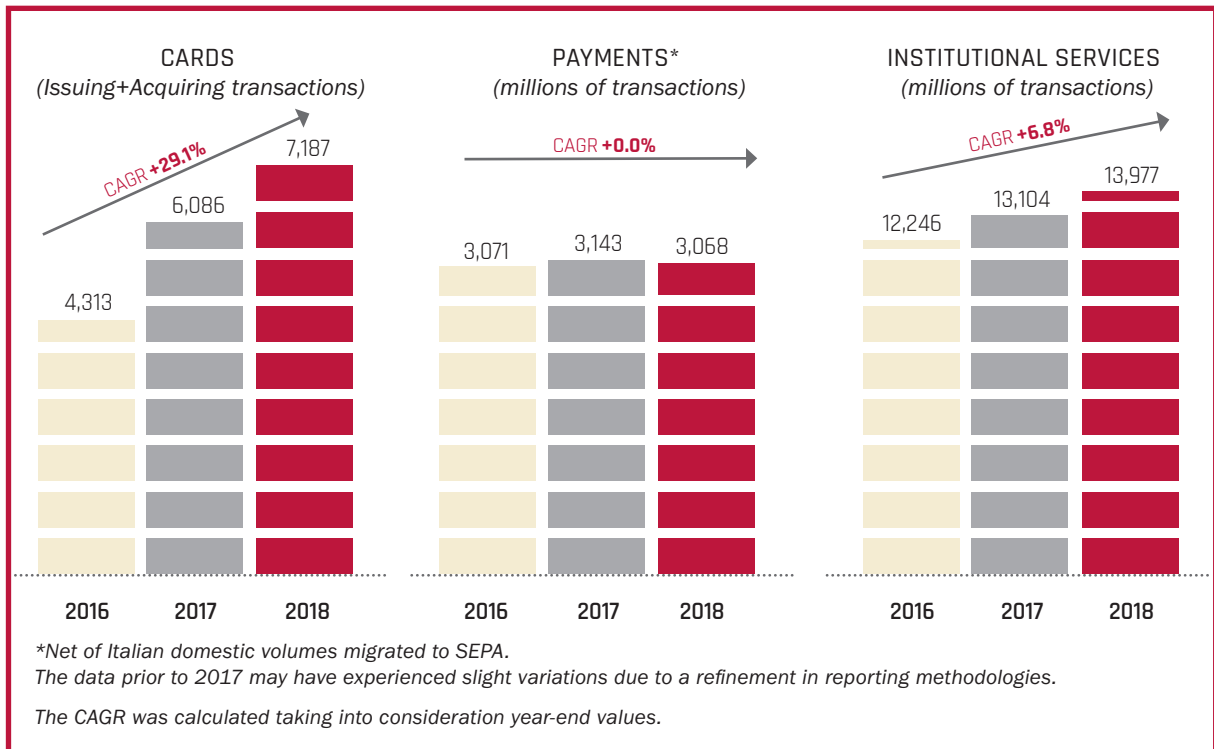
More than **350 million** deal proposals handled daily (50,000 per second)

44 trading venues and over **570** customers connected to the Financial Ring

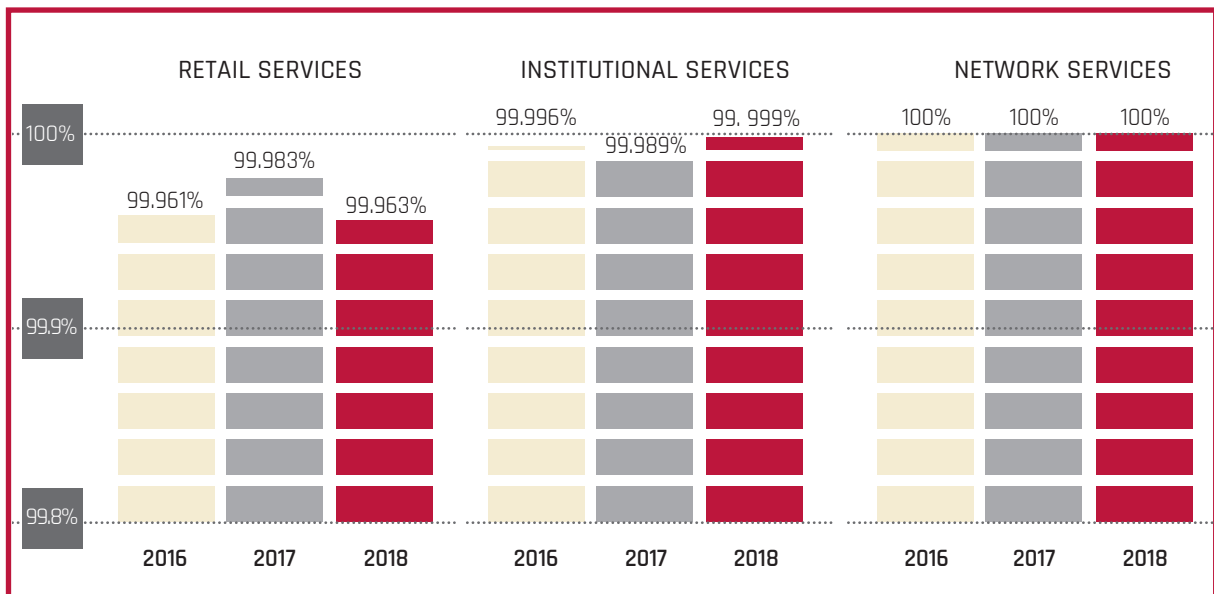
14 billion transactions for institutional services **(+6.7%)**

Over **4,800** EBA STEP2 participants

Transaction volumes managed



Service levels



SUMMARY OF SIA GROUP CONSOLIDATED RESULTS

In 2018, the SIA Group (hereinafter also referred to as the “Group”) continued along its path of growth through business combinations with third-party companies, acquiring all shares in the companies SIA Greece (formerly First Data Hellas) and SIA Slovakia (formerly First Data Slovakia) on September 28, 2018.

The latter holds the controlling interest in the companies SIA Croatia, SIA Czech Republic, SIA Hungary, SIA Romania and SIA Serbia. Taking into account their recent acquisition date, the contribution of those companies to the Group’s consolidated results is shown only for the fourth quarter of 2018.

Consolidated economic results (thousands of euro)					
	31/12/2016	31/12/2017	31/12/2018	Change 2018 vs 2017	%
Revenues from sales and services	468,222	567,213	614,802	47,589	8.4%
EBITDA	124,876	179,825	201,387	21,562	12.0%
% to revenues	26.7%	31.7%	32.8%		
EBIT	104,176	108,530	122,281	13,751	12.7%
% to revenues	22.2%	19.1%	19.9%		
Profit/(loss) before income taxes	103,753	100,063	110,255	10,192	10.2%
% to revenues	22.2%	17.6%	17.9%		
Profit/(loss) attributable to the Group	70,354	80,083	79,536	(547)	-0.7%
% to revenues	15.0%	14.1%	12.9%		

The Group’s results continue to improve significantly, supported by external growth, thanks to the contributions of P4cards (starting from 2017) and the contributions in the final quarter of the Greek and Slovakian companies due to the acquisition mentioned above.

Please note that the net profit/(loss) for the year 2017 was positively affected

by an agreement entered into with the Italian Revenue Agency with respect to the tax benefits arising from the Patent Box, which allowed for the recognition of a tax credit on income starting from 2015; thus, although margins in 2018 were up significantly, the net profit for 2018 is aligned with that of the previous year since it no longer benefits from further tax impacts.

CONSOLIDATED FINANCIAL POSITION (thousands of euro)

		31/12/2016	31/12/2017	31/12/2018	Change 2018 vs 2017	%
Net working capital	A	66,613	87,660	95,106	7,446	8.5%
Fixed assets	B	581,822	636,653	980,367	343,714	54.0%
Provisions	C	(20,036)	(72,699)	(62,737)	9,962	-13.7%
Net Invested Capital	D=A+B+C	628,399	651,614	1,012,736	361,122	55.4%
Net Financial Position		392,420	379,683	723,880	344,197	90.7%
Group Shareholders' equity		235,974	271,926	288,851	16,925	6.2%
Non-controlling interests		5	5	5	-	
Net Financial Position and Shareholders' equity		628,399	651,614	1,012,736	361,122	55.4%

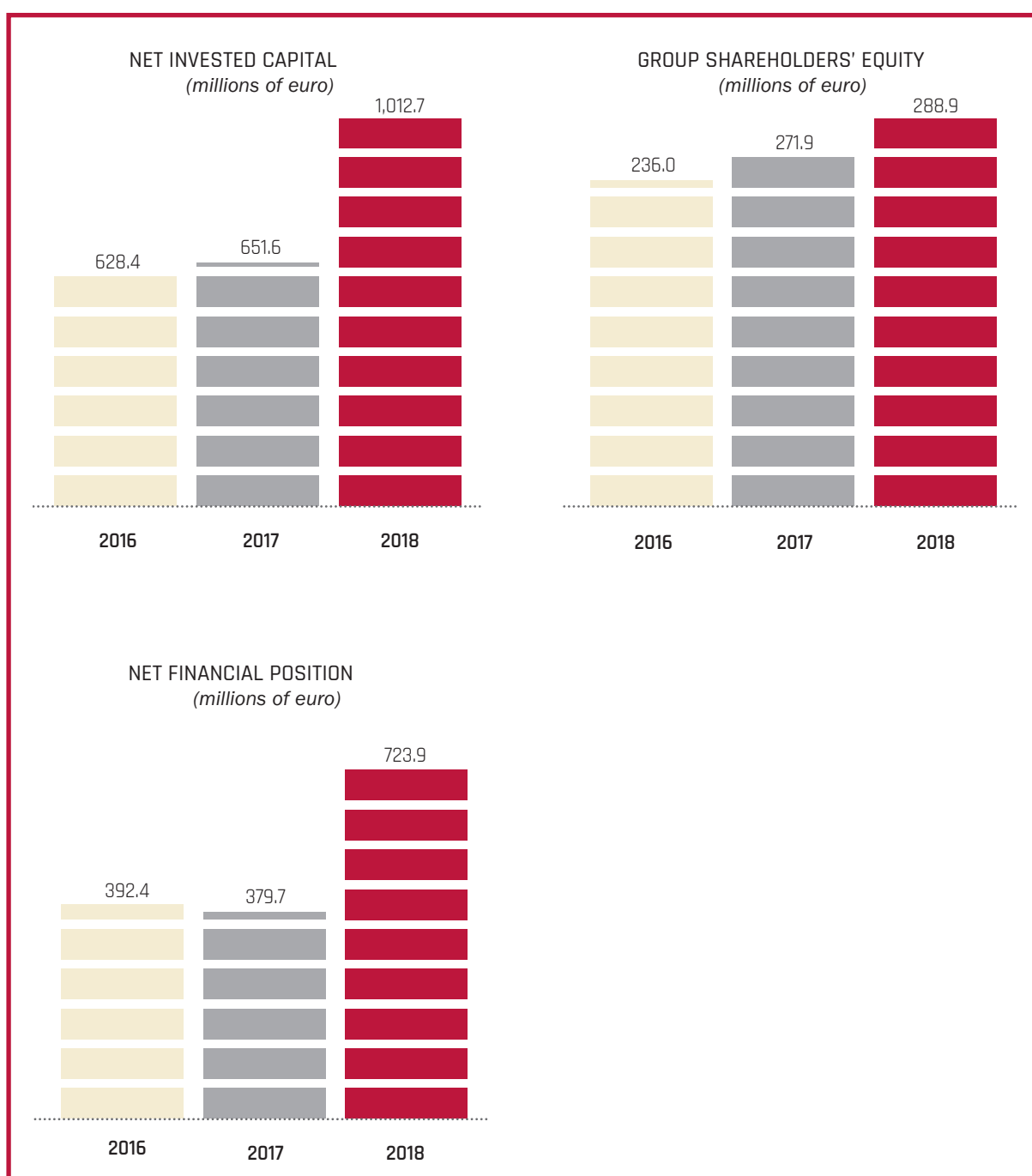
- (A) Net working capital is calculated as the difference between current non-financial assets and current non-financial liabilities.
- (B) Non-current assets are calculated as the sum of tangible assets, intangible assets and equity investments.
- (C) Provisions are calculated as the sum of provisions for risks, the provision for employees and the provision for deferred tax liabilities net of deferred tax assets.



The Group's net invested capital was up 55% compared to the previous year due to the investment made by the parent company SIA in the companies SIA Greece and SIA Slovakia and the latter's direct subsidiaries, financed by making recourse primarily to additional bank borrowings. A pool of leading banks disbursed a loan for a total of €775 million to the parent company SIA,

which made it possible to extinguish the existing loan and obtain better conditions, in economic terms as well as with respect to the financial duration.

The Group's positive economic results contributed to a significant capital strengthening in terms of shareholders' equity, which is posting constant growth, also taking into account past dividend pay-out levels.



KEY PERFORMANCE INDICATORS ON FINANCIAL STATEMENTS

	31/12/2016	31/12/2017	31/12/2018	Note
ROE - Net profit/Shareholders' equity	29.8%	29.5%	27.5%	
ROI - EBIT/Net invested capital	16.6%	16.7%	12.1%	
EBIT/Revenues from sales and services	22.2%	19.1%	19.9%	
Total assets/Shareholders' equity	3.62	3.52	4.71	
Current assets/Current liabilities	1.70	1.30	1.33	
Cash and cash equivalents/Current liabilities	0.47	0.26	0.34	
Non-current assets/Total assets	0.69	0.67	0.73	
Current assets/Total assets	0.31	0.33	0.27	
FCF Conversion (FCFO/EBITDA)	0.04	0.60	0.17	(1)

(1) The Operating Free Cash Flow (FCF) is given by the sum of the net cash flows generated/absorbed by the operating activities (after taxes) and the net cash flows generated/absorbed by investing activities, both as reported in the consolidated statement of cash flows.

The table above confirms that the Group is successfully continuing along its path of growth in terms of revenues as well as profitability, taking into account the recent acquisition operation. Indeed, for 2018 the ROI was impacted by the sharp rise in net invested capital in the final quarter of the year – following the extraordinary operation noted above – and the fact that EBIT for the year includes the contributions of the companies acquired

only for the last three months of 2018. The capital ratios were also impacted by that extraordinary operation, but they remain well balanced, in line with the objectives pursued by the Group to guarantee adequate returns on capital, while maintaining the financial resources required to support the internal and external growth initiatives outlined in the 2019-2021 Strategic Plan.

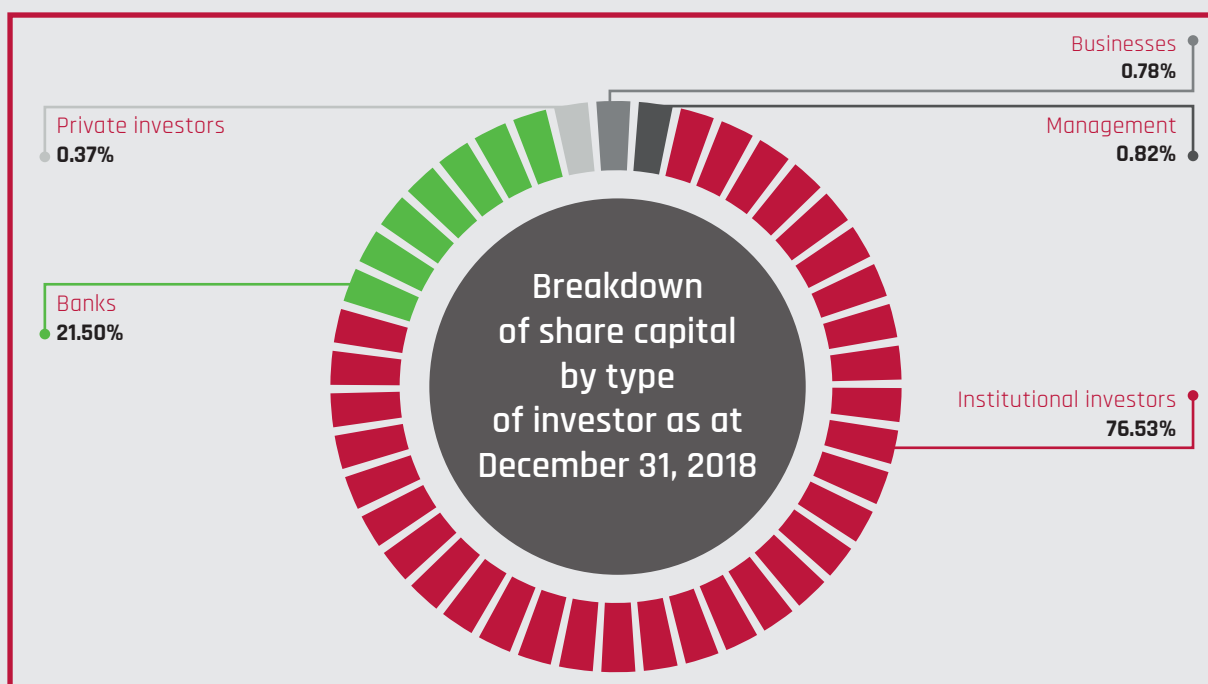
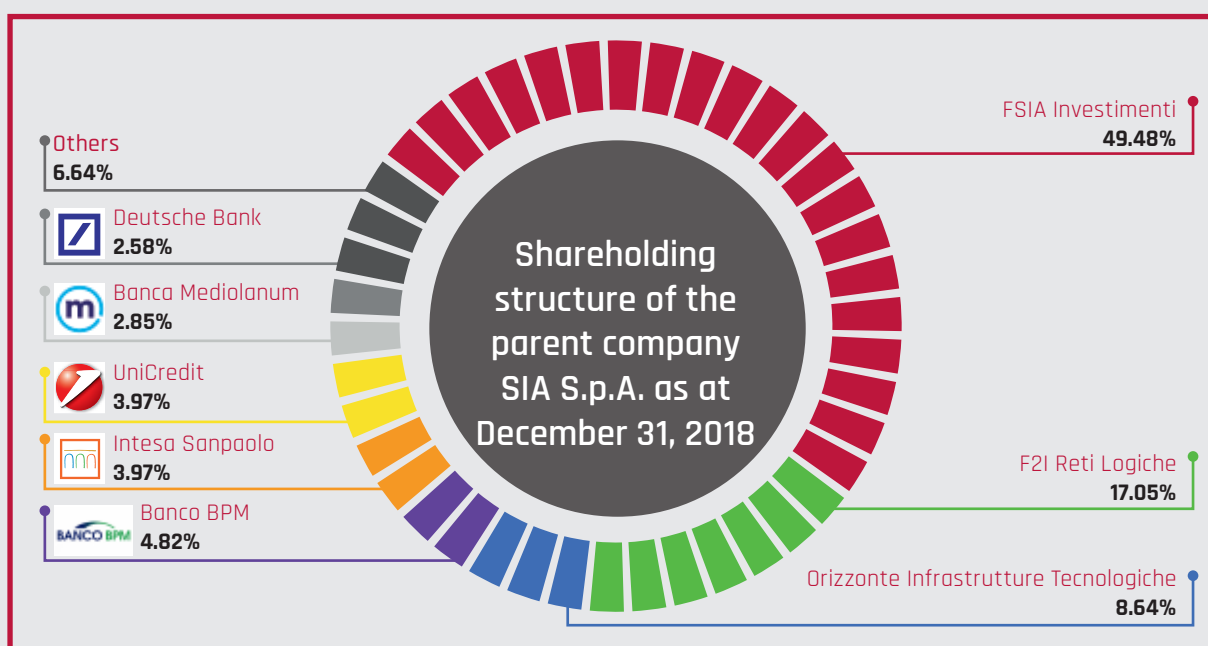
GOVERNANCE OF SIA S.P.A. ↗

Shareholders' Meeting

The Shareholders' Meeting of SIA S.p.A. (also referred to as the "parent company") is the collegial body that expresses the will of the shareholders.

Entrusted with the powers granted by the law and the Articles of Association, the Shareholders' Meeting resolves specifically on the appointment and removal of the members of the Board

of Directors and the Board of Statutory Auditors as well as on their fees and duties, on the approval of the financial statements and the allocation of profit, on the purchase and sale of treasury shares, on the changes to the Articles of Association and on the issue of convertible debentures.



Board of Directors

The parent company SIA S.p.A. is managed by a Board of Directors comprising 11 members. At the date of approval of the draft financial statements as at December 31, 2018, the Board of Directors had no female Directors, 10 directors are more than 50 years old and one is between 30 and 50 years old. Overall, the average age is just over 55 years old.

Directors are appointed by the Shareholders' Meeting and remain in office for a period that is fixed from time to time by the Shareholders' Meeting upon appointment but for a period not exceeding three financial years, without prejudice to the provisions of art. 2383 of the Italian Civil Code, and can be re-elected.

The Board of Directors is entitled to the widest possible powers for the ordinary and extraordinary management of the company with no exception and, more specifically, it has all the powers to carry out and achieve the corporate objects that are not reserved to the Shareholders' Meeting by the law.

The Chairman and the CEO are the sole Directors with executive powers that participate in Board Meetings and who receive a higher remuneration due to an additional fee paid to them for the particular office held. All the other Directors are non-executive members.

For the composition of the Board of Directors of SIA S.p.A. at December 31, 2018 please refer to the relevant table in the introduction pages.

Board of Statutory Auditors

The Board of Statutory Auditors of SIA S.p.A. comprises three Standing Auditors and two Alternate Auditors who remain in office for three financial years and can be re-elected.

The Board of Statutory Auditors supervises compliance with the Law and the Articles of Association, as well as compliance with the principles of

sound management in the performance of company activities, the adequacy of the organizational structure, the Internal Control System and the company's administration and accounting system.

For the composition of the Board of Statutory Auditors of SIA S.p.A. at December 31, 2018 please refer to the relevant table in the introduction pages.

Supervisory Body

Established to oversee the functioning of and compliance with the Organizational and Management Model pursuant to Italian Legislative Decree 231/2001 and to prevent any breaches of said Decree. The Supervisory Body informs the Board of Directors of the work performed at least once a year. Although the members of the Board of

Statutory Auditors are available to hold such an office within the Supervisory Body, SIA S.p.A. has entrusted them with those duties for the 2016-2018 three-year period.

For more details on the activity performed by the Supervisory Body, please refer to the "Control Functions" chapter in the Management Report.

Remuneration Committee

This Committee was set up and appointed by the Board of Directors in 2014 and was renewed in 2017; it carries out recommendation and advisory duties such as:

› submitting proposals to define the general policy for the remuneration

of Executive Directors and other Directors holding particular offices in the Board of Directors;

› expressing opinions in relation to proposals to increase the remuneration of managers falling under the scope of responsibility of the

Board of Directors, in accordance with the tables of powers and mandates of the Company;

- › preparing and submitting to the Board of Directors the adoption of long-term incentive schemes for the top management;

- › monitoring the performance and correct application of the aforesaid incentive schemes, regularly assessing the adequacy, overall coherence and actual application of the policy adopted for the remuneration of the aforesaid managers.

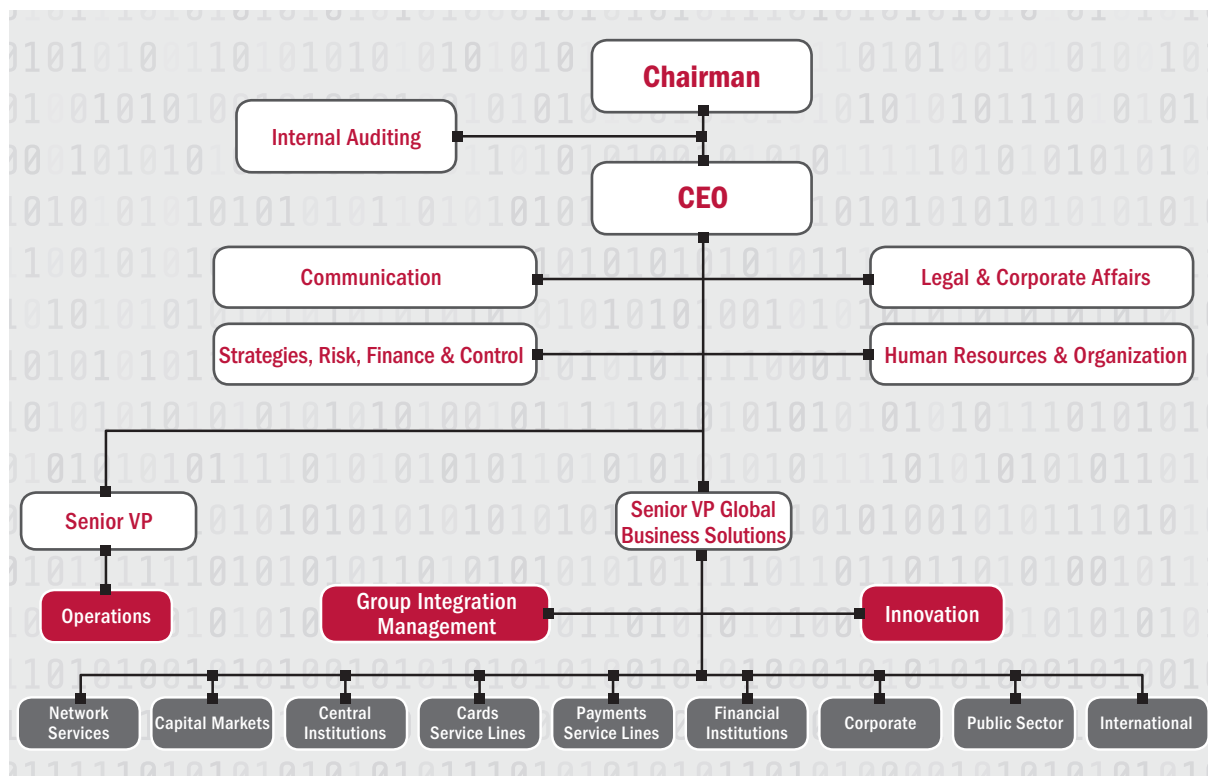
Development Committee

In 2017 the “Committee for researching and evaluating new opportunities”, set up three years previously, was renewed with a partial change in the duties and was renamed the “Development Committee”.

It currently provides recommendations and advice such as:

- › analysis of the main market trends and the strategic positioning of competitors;
- › strategic analysis and assessment of M&A opportunities for SIA;
- › evaluation of the structure of possible M&A operations.

Organizational structure of the parent company SIA S.p.A.*



* The structure shown here was in force as at December 31, 2018.

Code of Ethics

The Code of Ethics of SIA, approved by the Board of Directors, is binding for all the company's officers and all external collaborators. Also suppliers, business partners and anyone that, either directly or indirectly, entertains commercial, professional or employment relationships with SIA is required to act in accordance with the principles contained in the Code.

In the Code of Ethics, SIA also expresses its commitment to eliminating any form of conflict of interest of a personal or corporate nature, as well as its attention to the protection of the environment.

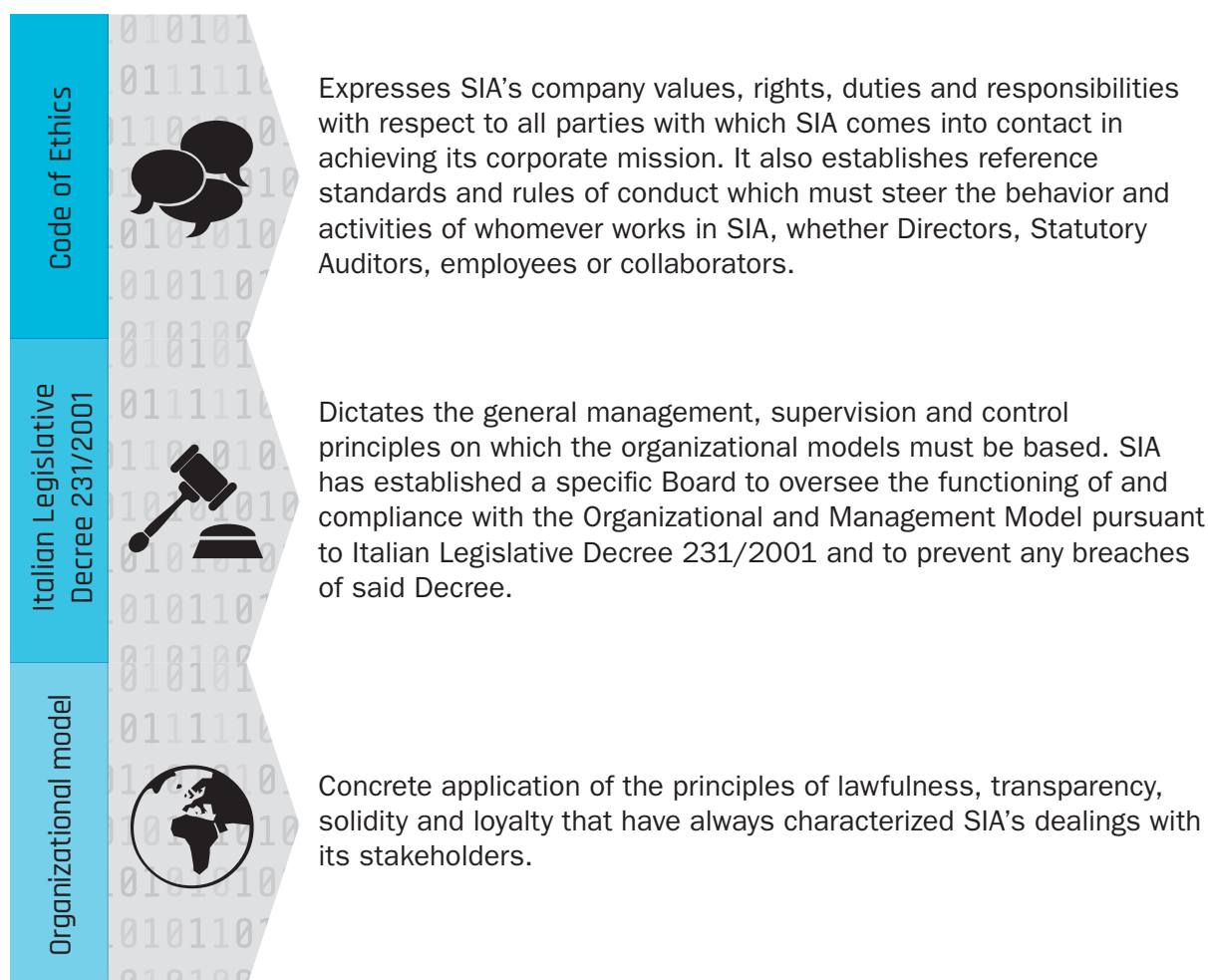
In compliance with the Governance and Control System adopted by the Group, the members of the Corporate Bodies must carry out their activities

in accordance with the principles of correctness and integrity, abstaining from situations of conflict of interest in their area of activity.

The members of the Corporate Bodies are also requested to behave in accordance with the principles of autonomy, independence and the corporate guidelines in all the relationships that they maintain, on behalf of SIA, with Public Entities and any other private subject.

The obligations of loyalty and confidentiality are binding on these subjects also after they terminate their relationship with the Group.

The most recent version of the Code of Ethics was approved by the Board of Directors on May 25, 2017.



Anti-corruption

The SIA Group has adopted anti-corruption guidelines to promote compliance with ethical standards and full respect for domestic and international rules for preventing corruption, in all of its direct and indirect forms, as well as the application of principles of integrity, transparency and fairness in carrying out business activities.

These guidelines define the Group's general anti-corruption policy.

The following risk areas are identified within the anti-corruption guidelines:

- › Public Administration
- › External Collaborators
- › Suppliers and Customers
- › Relevant Third Parties
- › Partnerships
- › Counterparties involved in extraordinary operations
- › Facilitated payments
- › Sponsorship activities
- › Public contributions
- › Charitable contributions
- › Entertainment and hospitality expenses
- › Gifts
- › Entertainment, travel and hospitality expenses
- › Bookkeeping and accounting.

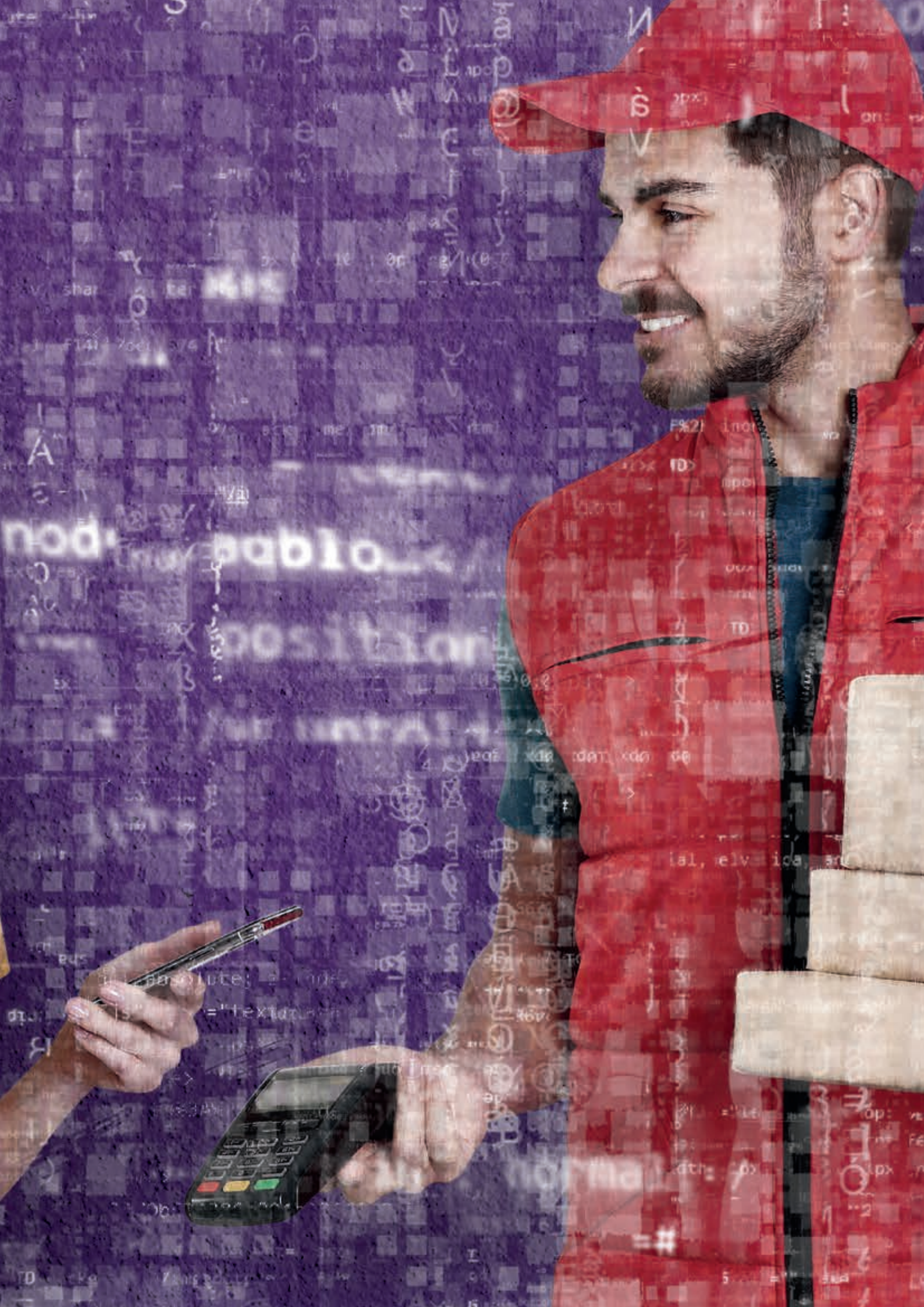
The Group periodically prepares a crime risk map.

The output is incorporated within risk analyses and assessments for services/products as well as the Divisions/Departments.

The objectives for 2019 include further specific anti-corruption courses and an improvement in whistleblowing procedures.



MANAGEMENT REPORT



DEVELOPMENT OF THE MACROECONOMIC SCENARIO ↗

In the course of 2018, estimated global economic growth was around 3.7%, with a slowdown in the final quarter that caused the International Monetary Fund to revise its estimates for 2019 and 2020 downward to 3.5% and 3.6%, respectively.

These revisions were for the most part due to the United States-China tariff war, but they were also influenced by uncertainty surrounding the United Kingdom's exit from the European Union, slowing Chinese economic growth and sovereign and financial risk in Italy. It is also necessary to consider the uncertainties linked to the upcoming European elections scheduled for May 2019.

Strong domestic demand is supporting the US economy, which closed 2018 with growth of 2.9% compared to the previous year, the best amongst the economies of developed countries (+2.3%); on the other hand, China decelerated to 6.6%, in any event remaining above the average of emerging economies (+4.6%). With respect to 2017, there were economic slowdowns in Canada (+2.1%), the United Kingdom (+1.4%) and Japan (+0.9%), while India (+7.3%), Russia (+1.7%) and Brazil (+1.3%) all saw improvements in their performance.

Estimated Eurozone growth for 2018 is limited (+1.8% compared to +2.4%

in 2017) due to economic trends in Germany (+1.5%), characterized by low domestic demand in the last year, a decline in foreign demand and weaker industrial output, particularly due to updated automotive emissions standards, and France (+1.5%), whose forecasts suffered from street protests and industrial segment slowdowns.

In Italy, the results of the final quarter of 2018 marked an economic deterioration in the industrial sector (+1.2% in the first eleven months of the year, according to ISTAT data) and an improvement in foreign demand which, however, is unable to balance out weaker domestic demand, particularly for operating assets. Expectations for year-end GDP growth were therefore revised downward, stabilizing at a year-on-year improvement of 0.8%.

According to the most recent economic bulletin published by the Bank of Italy, household consumption has risen moderately (+0.6%), total exports grew little (+0.8%) compared to imports (+1.7%) and expected inflation is just over 1%.

SITUATION AND PROSPECTS FOR THE ELECTRONIC PAYMENTS MARKET ↗

The global electronic payments market remains one of the most dynamic: electronic payment transaction volumes worldwide are expected to grow between 6% and 7% per year over the next three years.

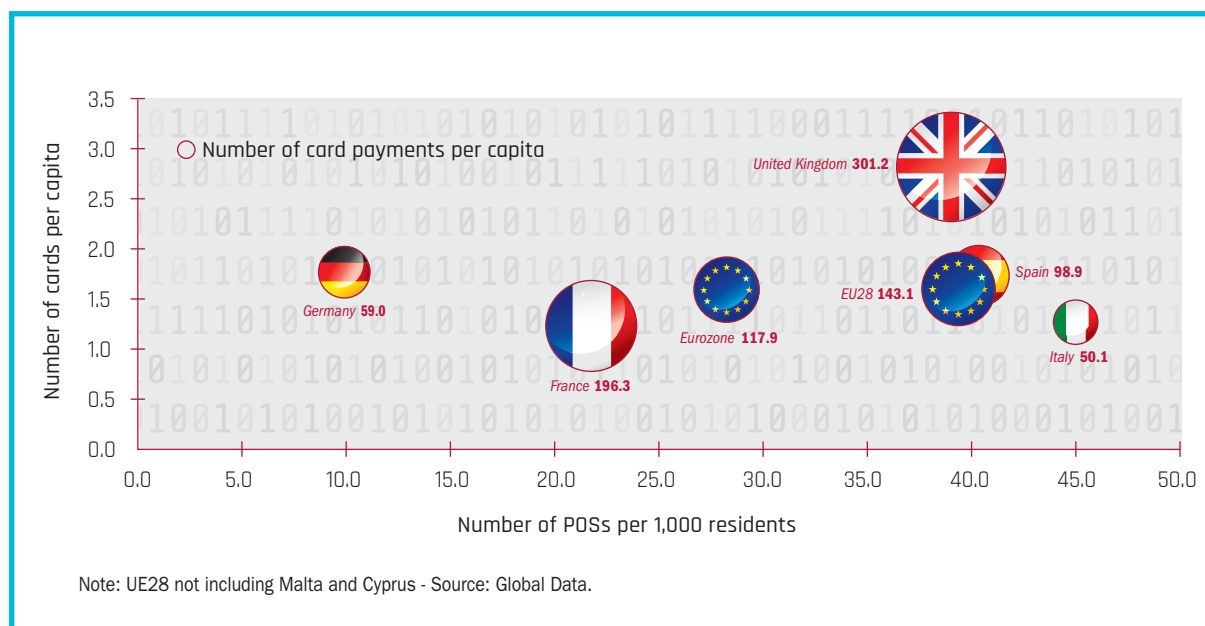
The European market, which is more mature than others, will grow at a slower pace, between 3% and 4% per year, but higher growth is forecast for Italy (+5% CAGR 2018-2021).

As highlighted by the Global Data surveys (shown in the chart below), Italy has an extensive payment card acceptance network, but there is still a low percentage of payments made by card.

In Italy, there are roughly 45 POS terminals for every 1,000 residents: this is more than 4 times higher than in Germany. However, annual card

payments per capita (50), even if up on 2016 (43), were lower not only than the average in the major European economies, but also than the average of the 19 countries of the Eurozone (118) and the 28 countries of the European Union (143).

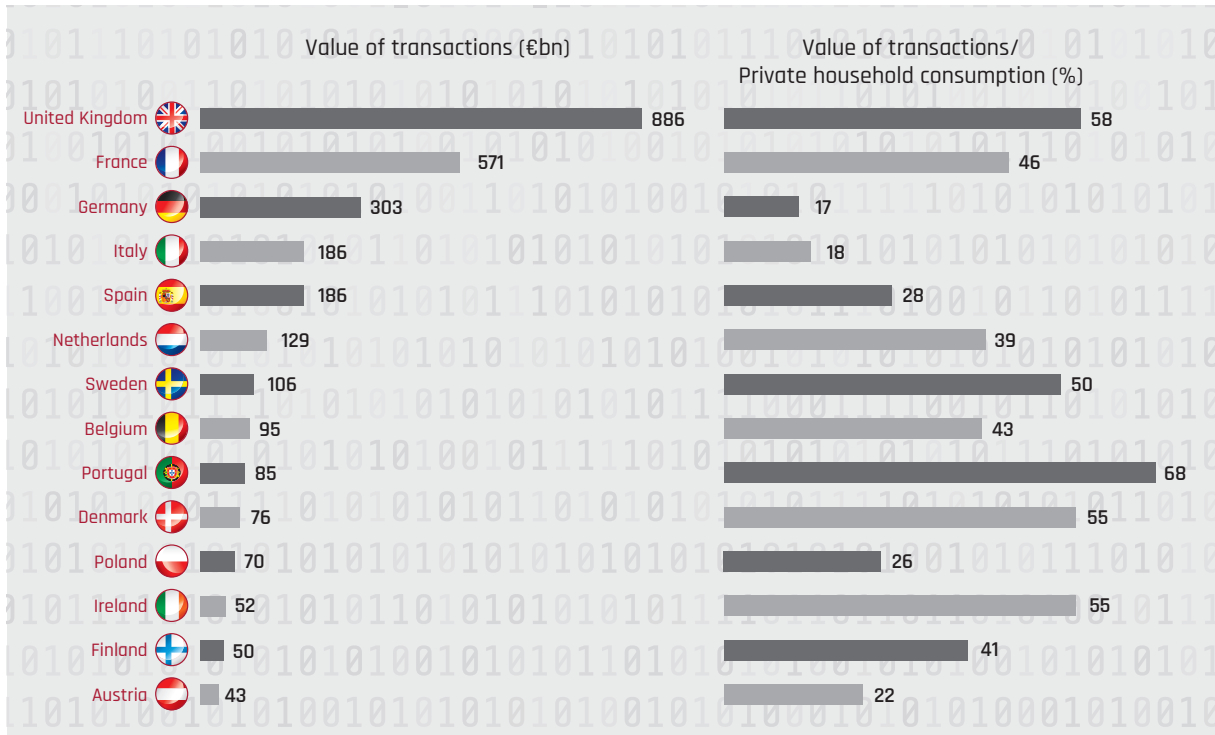
This situation reflects Italians' continued high propensity towards using cash: in 2017, it was used in 83% of payments, which is still very far from other European countries which used cash on average only 37% of the time.



The propensity towards using cash is confirmed by a comparison between Global Data and Eurostat figures, which show that the value of transactions carried out in Italy in 2017 with payment cards, totaling €186 billion, represents 18% (up compared to 17% in 2016)

of private household consumption: a rather low penetration rate if compared with that of the “better” European countries such as the United Kingdom (58%), Portugal (58%), Denmark (55%) and Sweden (50%).

Transactions with payment cards / debit cards



Source: Global Data; Eurostat 2017.

Note: The value of transactions relates to transactions with debit and credit cards and does not include cash withdrawals.

BUSINESS AND POSITIONING OF THE SIA GROUP ↗

In 2018, the Group confirmed its position as the leading operator in the processing of electronic transactions and management of European service infrastructures, in card processing markets, payment services and systems, as well as in the market for financial intermediary solutions and the networking services area. The Group provides its services to customers in 50 countries across Europe, the Middle East, Africa and Oceania.

SIA was able to enhance the value of its distinctive characteristics, more specifically:

- › proprietary technology platforms developed in-house with the most efficient, cutting-edge technologies;
- › a unique track record in “zero-impact” migration for card services from the systems of the customers to SIA solutions;
- › experience gained in the creation and management of infrastructure services considered as mission critical;
- › excellent know-how in the most critical areas for customers regarding compliance, safety and development in standards and regulations of international markets;
- › investments in the search for innovative solutions in frontier technology.

All company activities bear the hallmarks of quality, reliability, security, solidity and innovation. The SIA Group

continues to consider the pursuit of excellence to be a key factor in its success in increasingly competitive markets, and at the base of the core values of the company, embraced by all staff, i.e.:

- › **expertise**, since the sector in which the Group operates is complex and constantly evolving;
- › **accountability** as the Group is aware of the importance and criticality of the activities that its customers assign to it;
- › **reliability**, because the Group honors its commitments;
- › **participation**, because the style of the Group companies is to both work as a team and provide the system with ideas, expertise and experience;
- › **innovation**, as the SIA Group believes that it is possible to anticipate the new demands of the market through a steady commitment.

SIGNIFICANT EVENTS

DURING THE FINANCIAL PERIOD

The main events that occurred in 2018 are described below.

- › In January, the Central Bank of Lithuania selected SIA to provide the network connection for accessing RT1, EBA Clearing's pan-European infrastructure for Instant Payments, operating since November 21, 2017. Through RT1 infrastructure, financial institutions are capable of making instant payments of up to €15,000 in less than 10 seconds, 24 hours a day, 365 days a year. Thanks to SIANet, SIA's high-speed, low latency fiber optics network extending over 186,000 kilometers, the Central Bank of Lithuania was one of the first to join the EBA Clearing system. SIANet's network infrastructure is designed to meet the specific needs of instant payments in terms of security, reliability, ease of integration with any application environment and compliance with the SEPA Instant Credit Transfer (SCT Inst) scheme created by the European Payments Council.
- › Also in January, Perago FSE, a South African company wholly owned by SIA, specialized in designing and developing infrastructure for central banks, won the "Payments and Market Infrastructure Provider of the Year" award from the well respected British publication Central Banking, dedicated to central banks, international financial institutions, financial market infrastructure and regulations. This award, received during the Central Banking Awards 2018, recognizes examples of excellence in the sector of central banks which are operating within an increasingly interconnected global economy.
- › On March 21, SIA won the call for tenders to connect ABN AMRO, one of the largest Dutch banks, to RT1, EBA Clearing's pan-European instant payment infrastructure. Thanks to SIANet, ABN AMRO was one of the first banks to introduce instant payments.
- › In March, Samsung Electronics announced that its Samsung Pay electronic payment system would be available in Italy, partly thanks to SIA's hi-tech infrastructure.
- › On March 26, UBI Banca and SIA introduced Jiffy, the service developed by SIA to send and receive money in real time from a smartphone, in Iper, La grande i (Finiper Group) points of sale, to pay for purchases via App and using a QR code.
- › On April 17, the SIA Shareholders' Meeting approved the 2017 financial statements as well as the distribution of an ordinary dividend of €59.9 million, corresponding to €0.35 per share. The same Shareholders' Meeting appointed Roberto Giacchi to the Board of Directors to replace Marco Siracusano, who resigned, and confirmed Giacomo Riccitelli, who had been co-opted at the Board meeting held on November 30, 2017. Roberto Giacchi resigned in February 2019, as described above in the "Executives in office" section, which should be referred to for the details.
- › On April 20, the Shareholders' Meeting of Consorzio QuenIT in liquidation approved the dissolution and resulting placement in liquidation of the consortium. The services provided to Eni by the consortium will be provided by P4cards, which will rely on the direct services provided by the companies that were part of Consorzio QuenIT in liquidation.
- › On May 10 the Board of Directors of SIA accepted the resignation for personal reasons of CEO Massimo Arrighetti, who remained in office until June 15.

At the same meeting, the Board of Directors approved the assignment of powers to Deputy CEO of the company, Mr. Nicola Cordone, which became effective with Mr. Arrighetti's departure. On November 29, the SIA Board of Directors appointed Nicola Cordone as CEO of the Company, after co-opting him as director.

- › Continuing along the path of international growth aiming to affirm its leadership at European level in the electronic payments sector, on May 25 SIA signed an agreement with First Data Corporation, a global leader in business technologies, to acquire First Data's activities in several Central and South-Eastern European countries. SIA's acquisition, finalized in September 2018 as mentioned above, regards card processing and production, call center and back office services relating to 13.3 million payment cards and 1.4 billion transactions, as well as the management of more than 300,000 POS terminals and 6,500 ATMs, primarily in 7 countries: Greece, Croatia, the Czech Republic, Hungary, Romania, Serbia and Slovakia. The agreement also entailed the transfer of roughly 1,400 employees from First Data to SIA.
- › As part of the SIA Group logistics streamlining activities, on May 28 the new offices at Via Lorenteggio 257 in Milan were inaugurated. The property, owned by Fondazione E.N.P.A.M., is around 6,000 m² and was leased and renovated by SIA in the first quarter of 2018. The new offices will make it possible to boost operating efficiency by creating a "SIA Campus", due to their proximity to the current office at Via Gonin 36, to support the increase in the number of employees caused by business growth as well as to optimize real estate management.
- › In June, Jiffy, the service developed by SIA to pay, send and receive money in real time from a smartphone using a cell phone number, surpassed 5 million users, with more than 130 participating banks. After "Person to Person" (P2P) money transfers, which have been available since 2015, Jiffy arrived at Italian stores in 2017, allowing users to pay instantaneously and completely securely via app, even at some of the major large-scale retail chains.
- › In June, ABI Lab launched operating trials on a project based on blockchain technology. The work group, consisting of participating banks and led by Abi Lab, selected the "Corda" DLT technology developed by R3 and, with the collaboration of NTT Data for application development and SIA as provider of node infrastructure, defined a new interbank reconciliation process.
- › Also in June, SIA announced that it had been certified as the top Network Service Provider by the Eurosystem (ECB and Eurozone national Central Banks) to provide access to TIPS Target Instant Payment Settlement, the new pan-European service for the settlement in Central Bank money of instant payments, launched in November 2018. Through the SIA network, banks and other European Payment Service Providers can participate in the pilot phase of the TIPS service.
- › At the end of June, SIA created the digital platform that makes it possible to pay for ATM urban and suburban public transport network tickets right at the turnstile using a contactless MasterCard or Visa card, easily, quickly and securely. The new payment system launched by ATM, for the first time in Italy, is also offered abroad by major industry companies, such as those in London, Moscow, Chicago, Singapore and Vancouver. This innovative service is based on SIA's technological infrastructure connecting all POS terminals, which the cards need to be waved near to open the turnstiles at the 113 subway stations in Milan's public transport network, as well as the payment circuits and the ATM system for calculating fares.
- › In July, SEA, Società Esercizi Aeroportuali, entered into an agreement

with SIA and UBI Banca which makes it possible to use a smartphone to pay for parking in lots P2 and P3 at the Milan Bergamo airport, thanks to the Jiffy service which matches the cell phone number with the vehicle license plate. This is the first case of this type of service in Italy.

- › On July 13, SIA took out a new €755 million loan for the acquisition mentioned previously of First Data's activities in several Central and South-Eastern European countries, which was disbursed on September 28, 2018 (also paying off the residual amount of €390 million of the previous loan).

UniCredit, as the SIA Group's top account bank, acted as Sole Underwriter, underwriting the full amount, Global Coordinator, Initial Bookrunner, Initial Mandated Lead Arranger and Facility Agent. UniCredit also acted as Active Bookrunner for the entire syndication process, which concluded with significant participation by top banking institutions in the roles of Mandated Lead Arranger and Bookrunner: Banca IMI, Banco BPM, BNP Paribas, Monte dei Paschi di Siena and UBI Banca.

- › On July 31, BANCOMAT S.p.A. presented the new digital payment service with the BANCOMAT Pay brand. Based on an agreement with SIA, BANCOMAT Pay will integrate the Jiffy service, enabling PagoBANCOMAT® cardholders to pay in stores and on e-commerce sites and send and receive money in real time from a smartphone completely securely simply by using their cell phone number. This partnership will make new payment services available to PagoBANCOMAT® cardholders, on the basis of technological solutions already created by SIA, in particular to transfer sums of money between private parties (P2P), purchase goods and services online and at the points of sale of merchants that accept PagoBANCOMAT® (P2B) and make payments to the Central and Local Public Administration (P2G) on the PagoPA platform.
- › In August, ATB, Azienda Trasporti Bergamo, entered into an agreement

with UBI Banca and SIA to allow for the payment of public transport passes using a smartphone, thanks to the Jiffy service which matches the user's cell phone number with their personal transport pass (b-card). In Italy, this is a completely new service.

- › In September, SIA further reinforced its positioning in the Nordic countries, developing the new Real-Time Gross Settlement (RTGS) system for Denmark's Nationalbank, which connects banks, mortgage credit institutions and settlement systems. The advanced technology developed by SIA has replaced the previous proprietary system used by Denmark's Central Bank since 2001. The new RTGS system, which manages the transfer of Danish kroner in real time and completely securely, guarantees continuous efficiency, operating reliability, evolved functionality and simplified system maintenance.

At the end of 2018, Denmark was the first country outside the Eurozone to join TARGET2-Securities, the single European platform for the settlement of domestic and cross-border security transactions.

- › In September, SIA launched a new "Open Banking" digital platform that enables banks, fintech companies, corporate clients, SMEs and Italian and European Public Administrations to promote and accelerate the implementation of innovative payment services deriving from the introduction of the Payment Services Directive 2 (PSD2), to take advantage of new business opportunities as well as guarantee regulatory compliance. The "Open Banking Platform" is one of SIA's main strategic initiatives and aims to create an ecosystem to facilitate collaboration between banks and new market participants (TPPs or "Third Party Payment Services Providers"), thus fostering the development of advanced services for consumers and businesses alike. For example, the "Open Banking Platform" provides access to the information of various bank accounts, optimizes new customer onboarding

processes, cash pooling and liquidity management and allows for multi-bank placement of payment orders, rendered more secure thanks to the real-time confirmation of the account holder as well as fund availability.

- › Based on an agreement between SIA and the Hera Group, since September it has been possible to pay bills by simply entering a cell phone number, without needing to enter credit card or checking account information, using the MyHera app or the Group's online services. Each customer receives a smartphone notification and with just one click can authorize the checking account transaction in real time. This initiative aims to create a better customer experience for increasingly connected users, and was carried out based on a joint project with SIA and Intesa Sanpaolo.
- › On September 28, 2018, SIA finalized the acquisition of First Data's card processing business activities in several Central and South-Eastern European countries for €387 million. This agreement has enabled SIA to become the top processing and services player in the area.
- › In October, Banca Popolare di Sondrio and the Crédit Agricole Italia Banking Group launched the new instant bank transfer service for their customers, individuals and businesses, using SIA's digital "EasyWay" platform which is connected directly to EBA Clearing's RT1 pan-European instant payments system.
- › Since November, SIA and Intesa Sanpaolo have provided a service for making purchases in Carrefour Italy hypermarkets, markets and express stores using Jiffy: after opening the Intesa Sanpaolo Mobile app, all a customer needs to do is scan the QR code generated at the register with their smartphone.

2019-2021 STRATEGIC PLAN ↗

On February 14, 2019, the SIA S.p.A. Board of Directors approved the new 2019-2021 Strategic Plan for the SIA Group (hereinafter, also referred to as the “Plan”). With this Plan, the Group aims to become Europe’s leading Pan-European Payment & Tech player. This goal will be pursued through international growth and the development of innovative, technological and value-added payment services.

Within a payment market environment that is experiencing significant consolidation and in which new digital players are gradually gaining a foothold (tech giants, fintech companies and e-commerce players), the Group is envisioning a change of direction to become the reference tech partner in the arena of payments and other services for banks, large companies and the public administration. The Group will leverage its reliability and excellence in service delivery to strengthen its role as a mission-critical provider of payment services and infrastructure in Europe.

The main pillars of growth will be:

- › Consolidation of the core business, focusing on strengthening SIA’s top services in the areas of cards, payments and network services, with the acquisition of new customers (both in Italy and abroad), the cross-selling of new services and the completion of migrations for recently acquired customers;
- › Positioning as the reference tech player in digital payments through considerable investments in the dissemination of solutions and platforms already in the portfolio, such as Blockchain, Instant Payments, Mobile Payments and SmartMobility, and the development of new digital solutions that leverage big data, artificial intelligence and the internet of things;

- › Acceleration of the international strategy, including by playing a proactive role in the European-level consolidation process, leveraging its extensive experience arising from recent acquisitions;

- › Support for the main “system initiatives”, providing its contribution to the success of large-scale national initiatives such as the dissemination and increased use of the PagoPA platform, the launch of the BANCORMAT Pay circuit and the progressive development of new digital services for citizens, businesses and the public administration;

- › Modernization and increased efficiency of the Group’s operations (data center, applications, back office and procurement), by making recourse to technologies and ways of working aligned with market best practices (cloud computing, flexible methodologies and robotics) and collaborating with the “expanded” ecosystem of “Open Innovation” payments.

To ensure that objectives are reached, in continuity with previous plans, the Strategic Plan increasingly hinges on the development of people, including through talent management, diversity and welfare programs, with a view to further strengthening the Group’s distinctive competencies.

GROUP CONSOLIDATED PERFORMANCE

The economic and financial results achieved in 2018 confirm the Group's development and solidity, in terms of profitability as well as financial position, and are due to a balanced internal and external growth policy pursued by the Group with a view to guaranteeing adequate returns on capital.

Customer turnover continues to be low: this confirms the quality of the services offered and the very high reliability of the management of mission-critical services, with levels of service availability among the highest in the industry.

Consolidated income statement

(thousands of euro)

	31/12/2018	31/12/2017	Change	%
Revenues from sales and services	614,802	567,213	47,589	8.4%
Other income and revenues	1,305	2,821	(1,516)	-53.7%
Revenues	616,107	570,034	46,073	8.1%
Purchases and services	(206,837)	(193,371)	(13,466)	7.0%
Payroll costs	(182,501)	(175,092)	(7,409)	4.2%
Other operating expenses	(25,382)	(21,746)	(3,636)	16.7%
Operating costs	(414,720)	(390,209)	(24,511)	6.3%
EBITDA	201,387	179,825	21,562	12.0%
Depreciation and write-off of tangible and intangible assets	(78,283)	(71,095)	(7,188)	10.1%
Provisions for risks	(823)	(200)	(623)	
EBIT	122,281	108,530	13,751	12.7%
Management of financial assets and liabilities	(396)	960	(1,356)	
Financial income	347	284	63	22.2%
Financial expenses	(11,977)	(9,711)	(2,266)	23.3%
Profit before income taxes	110,255	100,063	10,192	10.2%
Income taxes	(30,719)	(19,980)	(10,739)	53.7%
Net profit from continuing operations	79,536	80,083	(547)	-0.7%
Net profit from assets held for sale or discontinued operations	-	-	-	-
Profit/(loss) for the period	79,536	80,083	(547)	-0.7%
Profit/(loss) of non-controlling interests	-	-	-	-
GROUP NET PROFIT	79,536	80,083	(547)	-0.7%

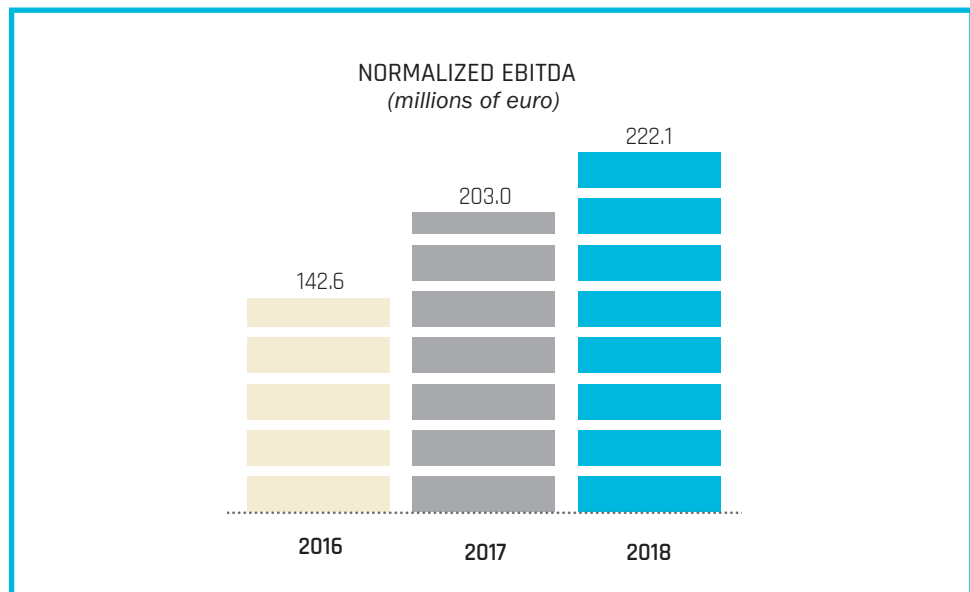
Revenues rose due to the contribution made in the final quarter of the year by the companies SIA Greece and SIA Slovakia as well as its direct subsidiaries, in addition to the organic growth of Group companies, particularly the parent company SIA and P4cards, which posted significant gains in the Cards segment, confirmed as the SIA Group's primary business area. The Payments segment, which incorporates activities linked to electronic payments other than those made with cards, and the Institutional Services Segment, which includes payment clearing and settlement as well as financial market services, had slight declines in revenues since the previous period due to the lower volumes managed. Operating expenses were up during the year due to the expanded scope of consolidation as well as the increased management of business volumes that drove internal growth.

Expenses rose for financial management due to the increase in financial leverage of the parent company SIA in order to finance the business acquisitions finalized last September.

However, financial expenses remain moderate in relation to operating margins (EBITDA and EBIT).

The table on the previous page shows the tax benefit provided to the Group in 2017 based on the Patent Box agreement entered into with the Revenue Agency, valid for income generated starting in 2015.

In order to help the reading of the financial development of the Group, provide a more targeted representation of the business capacity to generate profitability on a continuous basis, and better favor a comparison with trends over time, it was decided to provide a normalized consolidated EBITDA. This additional financial measure, which is not based on the applied GAAPs and therefore potentially not strictly comparable with similar measures adopted by other companies, represents a more clearly operational view of the financial performance that can be useful to support management, in making decisions that may have future impact, and also the shareholders in their assessment process.



The table below shows the adjustments (“normalizations”) made to each expenditure item.

Normalized consolidated EBITDA

(thousands of euro)

	31/12/2016	31/12/2017	31/12/2018	Change 2018 vs 2017	%	NoteS
EBITDA	124,876	179,825	201,387	21,562	12.0%	
Long Term Incentive	5,365	13,630	5,659			(1)
Restructuring costs	4,540	6,209	9,148			(2)
Shareholders' contribution on mergers and acquisitions	(123)	-	-			(3)
Non-recurring advisory fees and other costs	4,844	-	5,604			(4)
Contingent revenues and expenses	(604)	-	(924)			(5)
Other non-recurring items	-	-	274			(6)
One-off costs	4,181	3,779	1,702			(7)
Other residual items	(433)	(485)	(719)			(8)
Normalized EBITDA	142,646	202,958	222,131	19,173	9.4%	

Notes:

- (1) Monetary incentives for the management related to achievement of long-term goals (three-year Strategic Plan).
- (2) Individual incentives, based on agreed plans, related to early job termination.
- (3) Refund of costs from shareholders for M&A operations.
- (4) Costs incurred for professional services, external and in-house, related to non-recurring events, in particular within the M&A area.
- (5) Contingent assets and liabilities allocated to non-recurring components.
- (6) Other non-recurring components.
- (7) One-off costs for the acquisition of new customers (RFI, RFP, POC) and non-recurring expenses not related to the normal performance of the companies.
- (8) This item includes: contingent assets and liabilities (-/+), capital gains and losses from the disposal of property, plant and equipment (-/+), bank expenses relating to current operations (-), discount recognized by the lessor in the first year of the head office lease agreement (+).

Reclassified consolidated statement of financial position

(thousands of euro)

		31/12/2018	31/12/2017	Change	%
Inventories		4,375	5,031	(656)	-13.0%
Trade receivables		188,764	158,301	30,463	19.2%
Trade payables		(85,397)	(81,841)	(3,556)	4.3%
Commercial working capital	A	107,742	81,491	26,251	32.2%
Other receivables	B	81,163	88,006	(6,843)	-7.8%
Other payables	C	(93,799)	(81,837)	(11,962)	14.6%
Net working capital	D=A+B+C	95,106	87,660	7,446	8.5%
Goodwill		629,269	312,483	316,786	101.4%
Intangible assets		257,672	264,334	(6,662)	-2.5%
Tangible assets		92,706	59,078	33,628	56.9%
Investments		720	758	(38)	-5.0%
Fixed assets	E	980,367	636,653	343,714	54.0%
Employees benefits		(23,145)	(20,785)	(2,360)	11.4%
Other provisions		(1,822)	(4,187)	2,365	-56.5%
Deferred tax fund		(37,770)	(47,727)	9,957	-20.9%
Provisions	F	(62,737)	(72,699)	9,962	-13.7%
Net Invested Capital	G=D+E+F	1,012,736	651,614	361,122	55.4%
Non-current financial liabilities		714,410	365,469	348,941	95.5%
Current financial liabilities		105,997	76,063	29,934	39.4%
Cash and cash equivalents		(94,652)	(61,349)	(33,303)	54.3%
Current financial assets		(1,825)	(488)	(1,337)	
Non current financial assets		(50)	(12)	(38)	
Net Financial Position	H	723,880	379,683	344,197	90.7%
Shareholders' equity including non-controlling interests	I	288,856	271,931	16,925	6.2%
NET FINANCIAL POSITION AND SHAREHOLDERS' EQUITY	L=H+I	1,012,736	651,614	361,122	55.4%

The main changes in balance sheet assets during the year are explained for the most part by the change in the scope of consolidation following the acquisition of SIA Greece, SIA Slovakia and the latter's direct subsidiaries. In particular, fixed assets rose due to the inclusion of the acquired companies within the scope of tangible and intangible assets, as well as the recognition of consolidated goodwill equal to the difference between the purchase price and the net assets transferred. This goodwill has not yet been allocated at the reporting date, in compliance with IFRS 3, which provides a measurement period of up to 12 months in which to complete the purchase price allocation.

The foregoing is reflected in the

significant increase in the Group's net invested capital, which rose by 55% compared to the previous year.

The Group's net debt rose considerably during the year, with the net financial position up from roughly €380 million as at December 31, 2017 to around €724 million at the end of the current year. The extraordinary acquisition of the companies SIA Greece and SIA Slovakia from First Data Corporation, completed on September 28, 2018, entailed the renegotiation of the loan agreement outstanding at that date, for a residual amount of €390 million, which had been taken out to finance the acquisition of P4cards and PforCards in late 2016.

On September 28, a new loan for a total of €775 million was disbursed by a pool of leading banks with better economic conditions than the previous one, which was fully extinguished. The new loan includes 3 lines: the first is fully amortizing and for €390 million, the second is a bullet line of €185 million and the third is a “bridge to equity” bullet line for €200 million, which must necessarily be repaid in full in the case of a Stock Exchange listing. The amortizing and bullet lines have a contractual duration of five years, while the bridge to equity line matures on May 31, 2019. The contract allows for an extension of the maturity of the last line to the same date as the other two in exchange for the payment of an extension fee. The agreement also calls for the granting of a revolving line of credit of €50 million, currently unused, also for a contractual duration of five years. All lines of credit bear interest at a floating rate (Euribor+spread) and are subject to customary conditions for transactions of this type. On December 11, 2018, hedging agreements were finalized with the banks participating in the lending pool covering the risks of fluctuation of the floating interest rates on the amortizing and bullet lines, which

provide for a swap of the Euribor floating interest rate with a fixed market rate set up at the date of the contract execution.

The derivative contracts mirror the conditions and maturities of the loan, and the notional amounts of each contract correspond exactly to the shares disbursed by each bank participating in the pool on the two lines, guaranteeing complete coverage of interest rate risk.

The financing agreement provides for drawing up covenants, in the terms normally accepted for these types of transactions, based on profit level and financial indebtedness indicators, fully complied with as at the reference date.

Thanks to the positive contributions of the consolidated companies, the Group's capital has been strengthened, with the shareholders' equity as at December 31, 2018 rising by around €17 million compared to the previous period. In the course of 2018, the parent company SIA distributed dividends totaling €59,970 thousand, while in 2017 dividends of €44,549 thousand were distributed.

PERFORMANCE BY BUSINESS SEGMENT ↗

The performance of the Group is presented here for homogeneous business segments, which correspond to an equal number of business areas in compliance with the 2019-2021 Plan:

- › **Cards**, groups together the activities related to management of payments with payment / debit cards;
- › **Payments**, groups together the activities related to electronic payments that do not include payment/debit cards;
- › **Institutional services**, groups together the payment clearing and settlement services and those for financial market services.

The presentation of data and informa-

tion by segment simplifies the reading and interpretation of the performance and allows a comparison with the performance of the main business indicators of the reference markets. This combination, representing the business segments intended as services offered in line with the management view as well as the Plan, is also enhanced by the perspective of homogeneous segments of customers, as discussed at the beginning of this document.

“Cards” segment

Cards segment issuing and acquiring transactions rose by 18.1%, leading to around 7.2 billion transactions managed. The increase is due in part to the acquisition of the First Data business activities in South-Eastern Europe in October 2018, but also to the development of the business on a like-for-like basis, where the growth was supported by the increase of transactions on the International Debit circuits (Maestro and Visa Electron/Vpay) which confirm, by a +24.7% rise, the market trend of recent years. ATM withdrawals and purchases made on POS terminals with debit cards on the national circuits (BANCOMAT and PagoBANCOMAT) decreased by 1.7%, while credit card transactions registered 16.4% growth. Lastly, prepaid cards are seeing renewed growth of +10.1% versus 2017. Also on a like-for-like basis, the managed cards portfolio grew by 0.5%, whereas the portfolio of managed retailers showed 7.2% growth.

Thanks to this trend and to the renewed growth of consumer spending

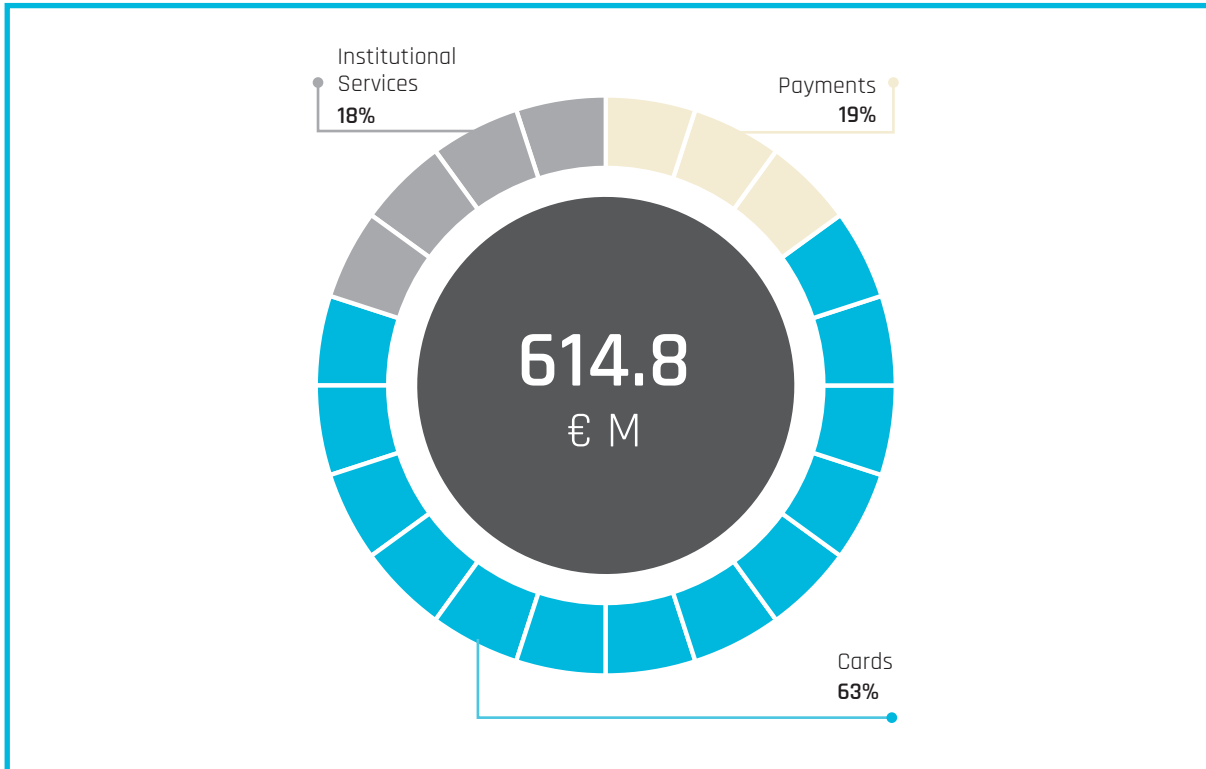
following a deflation period, in the cards segment, in 2017, SIA has increasingly positioned itself in the market as an “Adviser”, i.e. as a reference point capable of offering turnkey solutions that are complete and customized on the basis of the needs expressed from time to time by the individual customers.

In 2018, the new PowerCard platform based on open technologies was activated for Card Processing, with the issue of the first credit cards by SIAPay on behalf of third party customers. The new flexible, resilient Issuing solution with integration capabilities offered through the PowerCard platform is the result of the market experience gained by SIA over time and combined with more cost-effective and flexible infrastructure.

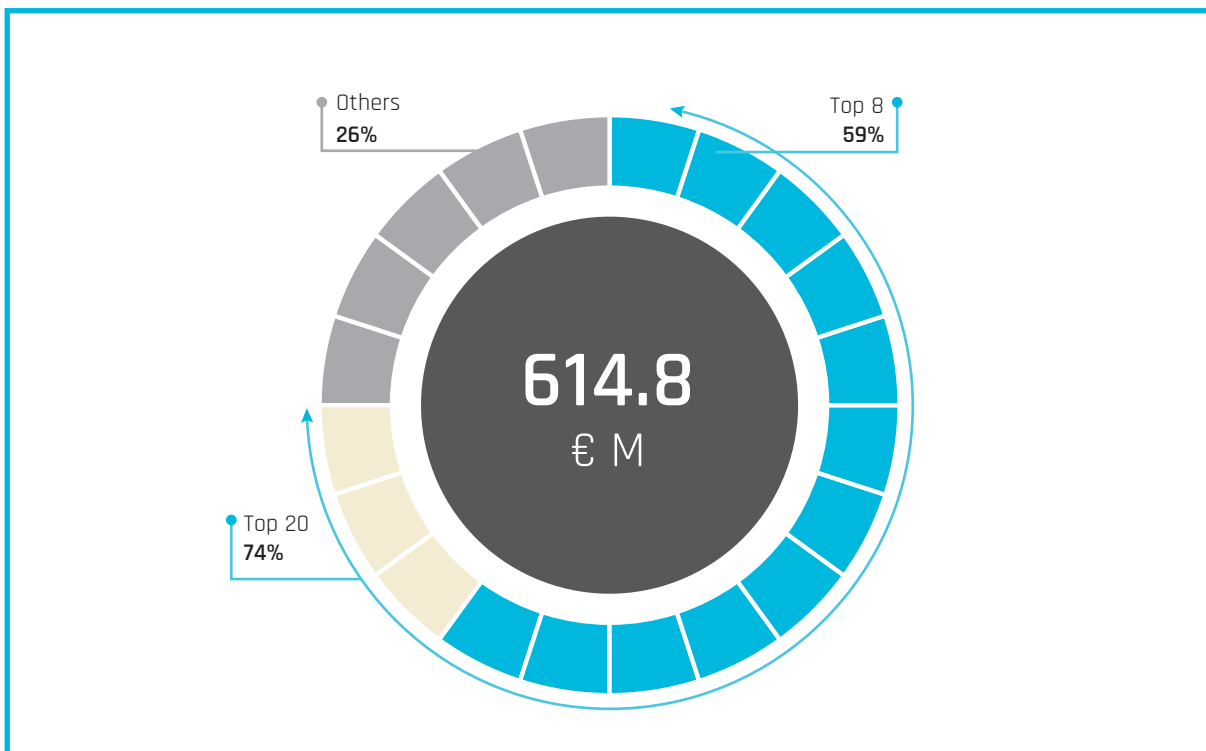
With the PowerCard platform, it is possible to:

- › manage all payment card related functions;
- › route transactions through an innova-

Revenues by segment



Structure of revenues by customer relevance



tive front-end to international circuits or other systems;

› manage 3D Secure e-commerce transactions.

During 2019, the first corporate customers will be granted access to that system and customers present on other platforms which accept the opportunities offered by this new solution will begin the migration process.

In line with its mission of innovation, SIA has introduced new functions on its Virtual POS in order to stand out in terms of its commercial offerings and increasingly satisfy the flexibility and customization requirements of existing customers and boost market share in segments that are not yet saturated (food, luxury and travel). The new functions available in 2018 include the introduction of new payment tools such as Amazon Pay, Apple Pay, Samsung Pay and Google Pay, which provide a better customer experience to consumers. In addition, in the capacity of Applications Center, the first phase of the BANCORMAT S.p.A. project for the digitalization of BANCORMAT cards on SamsungPay was completed.

As regards the acceptance network, alongside Alipay the WeChat payment service was also developed. In addition, the offer of terminals was enriched with the smartPOS line which benefits from the Android operating system to make value-added services and support for the extension of the customer's digital journey available to private parties and merchants alike.

The continuous updating required by the market, from compliance with international circuits to adaptations to security requirements for e-commerce transactions, as well as compliance with the PSD2 regulation, have enabled SIA to win a call for tenders at European level with one of the main European telephone operators in the market for the creation of a payment hub and multi-channel transaction management. SIA acts as the technological hub by linking the company's IT system

with the various parties responsible for authorizing payment transactions and provides the company with daily accounting reporting flows.

In parallel, SIA has also further developed its technological solutions that mitigate risk on all fronts: for issuers, acquirers and merchants. In particular, in the last year merchant defense has been strengthened, integrating the anti-fraud solution directly with SIA's VPOS, which manages the specific characteristics of the product sector of certain merchants and achieves levels of excellence in the dynamic profiling of card holder purchasing behaviors.

Also within the scope of value-added services, in the last year SIA updated its value chain in the world of authentication, further developing its Access Control Server (ACS)/3D Secure solution from version 1.0 to version 2.0, with a development plan in line with the timing expected by the MasterCard and Visa circuits.

To complete the transition to version 2.0 of 3D Secure, SIA also began offering the Risk Based Authentication (RBA) solution with two variants: 1.0 and 2.0 to work in perfect symbiosis with the corresponding versions of 3D Secure. The plan for releasing RBA in version 2.0 is also aligned with the timing of the MasterCard and VISA circuits and will enable SIA's customers to improve the online purchasing user experience of their cardholders by reducing the number of strong authentication requests, replacing them with a frictionless approach and, in conclusion, favoring a decline in the shopping cart abandonment rate (also in line with the requirements of international circuits).

Continuing along the path of growth that aims to affirm its leadership at European level in the electronic payments sector, in the course of 2018 SIA signed an agreement for the acquisition of First Data's activities in Greece and in several Central European countries, primarily Croatia, the Czech

Republic, Hungary, Romania, Serbia and Slovakia, becoming the top player in processing and services in the area.

In 2017, these activities generated total revenues of roughly €100 million. SIA's acquisition regarded card processing and production, call center and back office services relating to in excess of 13 million payment cards and 1.4 billion transactions, as well as the management of more than 300,000 POS terminals and 6,500 ATMs.

As regards organic commercial development, 2018 saw the Group continue with its activities for developing its presence in Europe. In Poland, a Fintech company signed a letter of intent for the implementation of credit card issuing and acquiring services and the associate SIA Central Europe received orders for the acquisition of POS terminals from two customers. Also in Poland, a contract was signed with a payment institution for the provision of card issuing and acquiring processing services in Poland and other Eastern European countries. SIA Central Europe in Hungary received a letter of intent from an acquirer which provides POS and online payment services for the provision of acquiring services. Also in Hungary, a contract was signed with Budapest Bank for the provision of card issuing processing services. The bank's portfolio was migrated and the system was activated in October.

In Germany, the project and service contract was signed with an important regional financial institution belonging to Sparkassen-Finanzgruppe. The contract calls for the supply of credit card issuing processing services and complementary value-added services such as connectivity, business intelligence, electronic archiving, fraud prevention, the production of letters and account statements and back office activities. Also in Germany, SolarisBank, to which SIA provides issuing services, concluded the certification for Visa circuit cards, in addition to MasterCard. Lastly, an agreement was signed with a Maltese bank for the provision of credit and debit card issuing services.

During 2018, the Corporate customer segment confirmed the need for highly reliable and high performing outsourced services relating to the issue and acceptance of e-money. SIA's capacity to convey strong cybersecurity skills and support initiatives for the retail market has contributed to its acquisition of new projects with multinational telco companies that operate in the market with a multi-channel approach.

The year 2018 bore witness to the role of SIApay as an enabler of issuing and acquiring services to support captive financial institutions in the mobility sector. The end-to-end infrastructural and financial services provided by SIApay enable corporate customers to simplify the creation of new offer models. The service of the subsidiary SIApay for the management of POS terminals on commercial networks indeed saw the consolidation of the customer pool and the acquisition of a new customer for the supply of latest generation terminals (Android POS).

In the petrol area, the subsidiary P4cards strengthened its reference role at national level, confirming its partnership with the three main market players, one of which is international in scope. In this sector, the first partnerships were also launched in the area of electronic invoicing, in compliance with the most recent legislation.

In public transport, in 2018 major municipalized companies started to adopt SIA's solution based on a technological infrastructure that allows transport companies to offer quick and secure access to the means of transport and simultaneous payment for tickets using contactless bank cards or NFC smartphones. In this solution, SIA acts as the technological hub connecting the IT system of the company, the acquirer and the acceptance terminals.

The architecture created also enables other types of mobility-related services (e.g., parking lots, car sharing, fines). The solution was used more than expected, confirming its ease of use, especially in the tourism and

business mobility segment. The main experience is in Milan in collaboration with the local public transport company ATM, where the service began operating

in late June 2018. At the end of 2018, 2.9 million trips were paid for using this service with more than 1.8 million c-less cards.

“Payments” segment

In 2018, the payments segment saw a -2.4% decline in volumes, leading to volumes managed of 3.1 billion. Against a strong increase in volumes of Gateway services (+10.3%) and a notable rise in volumes of Mobile Payments with Jiffy (+79.3%), there was a reduction in Secure Messaging (-16.2%) and Payment Factory (-8.7%) services, while SEPA Applications Center volumes were basically stable (-0.8%).

Instant Payments represent the most significant change on the global payment scene and are expected to be the basis for the development of payment services in the next few years. In 2018 there was a slow start-up period, with a subsequent phase of acceleration: a good deal of interest on the part of banking institutions, but transaction volumes have not yet reached expectations.

In 2018, SIA, thanks to EasyWay, offered to banks a faster “go to market”, thus significantly reducing risks and investments while supporting the new EPC SCT Instant Credit Transfer scheme and integrating with the first Pan-European clearing platform for instant payments, RT1 of EBA Clearing. The SIA solution is open to all channels used by Payment Service Providers (PSP), ensures a steady service availability and provides a basic offer that may be integrated with several value-added services.

In fact, one of the elements of discontinuity introduced by instant payments regards fraud monitoring, which previously did not need to take place instantaneously for payments. The adoption of an instant anti-fraud solution supported the development of Instant Payments and the SIA EasyWay solution.

In 2018, the service of the first customer that launched the solution in

November 2017 was consolidated and another four Italian credit institutions were acquired and started the service; the evolution to allow for a connection to TIPS as well is also of interest.

“SIA EasyWay” operates as a hub, simplifying the integration of Instant Payments with the internal systems of Financial Institutions while reducing the costs and times for the activation of new services. This is made possible thanks to an end-to-end service that covers the entire payment chain: from the order (order management) through all the channels used by banks and payment service providers - e.g. mobile, internet, points of sale, etc. - to management and processing of the transactions (business process) and up to the network connections (access gateway) for the purpose of helping the Financial Institutions and the PSPs in adopting and managing the SEPA instruments (such as SCT bank transfers and SDD direct debiting), the Instant Payments and more in general the new open banking scenario.

In instant payments, SIA's offer is complemented by secure messaging services. With its proprietary network solution named SIANet, SIA guarantees direct, secure and ultra high speed connections between participants and market infrastructure thanks to a new technology developed to guarantee extremely low latency and maximum security.

The SIANet network was the first to allow connections between banks and EBA Clearing's RT1 platform (November 2017) and in June 2018, it was the first to obtain the certification as a connectivity solution for the nascent Instant Payments infrastructure developed by the ECB named TIPS (TARGET Instant Payment Settlement). The commercial campaign linked to Instant Payment

network solutions obtained a series of significant results: indeed, the SIANet network was selected by a large number of national and international operators.

In 2018, the introduction of the Payments Service Directive 2 (PSD2) initiated the process of entry into the payment market of new players, including non-banking ones, called “Third Party Payment Services Providers” (TPP). In this context, the “SIA EasyWay” platform was implemented by introducing the Open Banking Platform module and in the last part of the year, it was adopted by a number of banking institutions to guarantee regulatory compliance. The first projects were also initiated in collaboration with some major TPP candidates in order to take advantage of the opportunities arising from the development of new services. Scouting activities have also continued along with the signing of agreements with fintech companies that can create, in collaboration with SIA and using EasyWay, a PSD2 compliant ecosystem that enables new businesses.

The recent introduction of the PSD2 has provided new business opportunities for companies that make their relationship with customers their main element of differentiation in the market. Within this scenario, the Group was selected by two important market players, in the utilities and retail segments, to support them in implementing projects based on digital wallet and innovative payment tools.

The key element of SIA’s value proposition was the capacity to cover the entire regulatory and planning process for the development of an offer based on innovative collection and payment instruments.

In this regard, the support of the subsidiary SIAadvisor contributed substantially to complementing the Group’s offerings and distinguishing them with respect to top customers in a range of industries. In particular, the role of preferential partner for payment and e-money institutions has been maintained, as, to complement traditional technological services, it provided operating advisory services to

check regulatory requirements, define the processes required by supervisory authorities and manage administrative and control activities.

As concerns payment initiation services, the Multinetwork offer for the centralized management of interbank transactions at domestic and cross-border level continues to be well received; at the same time, the market has started to express strong interest for Instant Payments and the new services set forth in the PSD2. Gateway services between companies, banks and commercial channels have also posted consistent volume growth, particularly thanks to the contribution provided by payment services routed through the PagoPA circuit by the public administration node.

The system initiatives to improve processes between citizens/businesses, banks and institutions include the EasySIOPE, Electronic Invoicing and EasyPA initiatives, which support the adoption of the central SIOPE+, Exchange System and PagoPA initiatives.

As concerns EasyPA, in 2018 collaboration was consolidated with important national financial operators to simplify the connection of local and central public administration entities to the PagoPA payments node, but the system is seeing slow adoption by the public administration, especially in terms of collection volumes routed through the node.

The SIA solution, EasyPA, which allows consumers and companies to make electronically all payments to the public administration and to the managers of public utility services, is a firm reference in terms of security, number of participating Entities, transactions carried out and simplicity of installation.

The offer is integrated with the new service for the automated management of F24 tax return collections through the presence of a univocal digital identification code public bodies can

use to manage the entire process in an integrated manner, from the phase of issuing to that of reporting the F24s, and the public can use to make the payments due in a faster and more simplified way. This is possible through agreements with a large number of parties which in the issuing phase populate the F24 archive connected to bank channels/branches in a manner analogous to traditional Gateway (Fastbank) services to digitally recover information from the F24.

As regards the entry into force of the SIOPE+ System (which facilitates the monitoring of a complete cycle of revenues and expenses, thus forcing the public administration bodies to order collections and payments with their own treasurer or cashier exclusively through electronic payment orders issued in compliance with the AgID Electronic Orders standard), in 2017 SIA developed a new service that allows local public bodies and treasury banks to carry out a simplified and monitored management of the exchange of digital flows provided by the SIOPE+ system, from and to the Bank of Italy, manager of the system on behalf of the Ministry of Economy and Finance. In 2018, SIA successfully concluded the activation of a number of banking institutions, centralizing on behalf of the banks the A2A technical exchange with SIOPE+ and sending roughly 22 million messages and around 1 billion calls to the Bank of Italy's central systems throughout 2018. SIA has also supported more than 500 public administrations in joining the system and is continuing to support the public administrations expected to be certified in 2019 (universities and smaller entities).

As regards electronic invoicing, to facilitate merchants, companies and financial institutions that issue invoices in adapting to the new regulation which extends the electronic invoicing obligation to all parties with a VAT number based on a specific schedule, SIA has updated and integrated its payment and card solutions with digital invoicing and storage services for the

main distribution network participants with regard to other interested parties.

The expansion of participation made it necessary to extend the traditional service so it can be adopted through an app-based circuit that can be integrated with the POS and operating system network: the FatturAmica circuit was created based on an app that a VAT number holder and merchant can use to initiate the issue of an invoice following a purchase. Adoption at the end of 2018 was focused on the Petrol segment to cover the requirements of those who did not intend to begin using fuel cards on January 1.

Positive steps were taken with the introduction of the new Check Image Truncation (CIT) service, started in 2016 by the Bank of Italy that allows banks to send electronic images of checks, instead of paper copies. SIA developed the new Applications Center service in continuity with the provision of the standardized procedures currently used, allowing subscribers to present checks in electronic form for payment. The CIT clearing service of the SIA Applications Center is offered with network connectivity through SIANet for the routing of traffic and manages all flows required by the reference application standard. In 2017, a sales campaign was started for the supply of Secure Messaging services in support of the new CIT service. This procedure was activated at the end of January 2018, resulting in a significant increase in traffic volumes on the SIANet network. The start of the new procedure required changes on all network infrastructures, both at central and at customer level.

In terms of B2C services provided through the subsidiary Ubiq, the interest of top brands (like Coca-Cola and Barilla) in the Ti Frutta initiative was confirmed; however, it has not yet met the business objectives established in the plan. The gaining of digital marketing and other skills has in any event enabled Ubiq to acquire new loyalty projects with the Brands Industry which markets products in the retail market.

In terms of digital payments, the Jiffy service - SIA's solution that makes it possible to transfer money between individuals in real time and make payments from the user's checking account - has seen an increase in the number of participants as well as end users; 2018 closed with 150 participating Banks and 5 million registered users. Thanks to this drive, transactions rose considerably, although they still remain limited in absolute value. Acceptance network development has focused on small merchants without POS terminals and on large-scale retailers with some large players like Carrefour and IPER. In order to pay, the customer uses the Bank's App to scan a QR Code shown on the POS connected to the cash register and authorizes the transaction by entering a PIN or biometric authentication in the Bank's App or the white label Jiffy App. The payment is made in real time through the connection to the Jiffy platform and the receipt is printed.

In 2018, the first online merchant capable of offering Jiffy payments was also activated. The Jiffy button was released on the website of the Hera group, a major Italian multi-utility company.

Within this e-commerce scenario, the payment experience is very simple and fast, since the customer simply needs to enter their phone number in the merchant's website and authorize

the payment on their App using a PIN or biometric authentication. If the merchant enables the saving of user data, it is not even necessary to enter a cell phone number, thus creating a "one click" user experience to complete the payment.

During 2018, SIA and BANCOMAT S.p.A. finalized a strategic agreement to create the new BANCOMAT Pay® service, released and launched on January 1, 2019. The agreement calls for SIA's provision to BANCOMAT S.p.A. of the Jiffy technology to support the digital evolution of BANCOMAT's offers. Based on this agreement, all BANCOMAT participant banks can offer the new account-based BANCOMAT Pay mobile payment service to all BANCOMAT cardholders (more than 37 million).

In the course of 2019, the banks will progressively update the brand and the contractual relationship with customers to align it with the new BANCOMAT Pay® service regulation and in the meantime, the 5 million Jiffy customers can continue to use the current service, which retains the same characteristics in terms of user experience.

The agreement relies on the synergies between Jiffy's innovative technology and the recognizability of a brand like Bancomat that is extremely widespread in Italy, to rapidly increase the use of the new payment service.

"Institutional Services" Segment

In 2018, the Institutional Services segment also confirmed the growth trend in managed volumes: transactions managed rose to 14 billion, up by roughly 6.7% over the previous year. The positive trend of volumes managed by the pan-European platform for the regulation of SEPA payments (STEP2 of EBA Clearing, of the Euro Banking Association) was confirmed; compared with 2017, the SEPA SCT bank transfers grew by 5% and the SEPA SDD collections by 3%. SIA has guaranteed excellent service levels, reaching 100% availability of the service to EBA and its customers for the sixth year running.

The strong interest by many operators in solutions guaranteeing the real-time settlement of retail payments, referred to as "instant payments", was further confirmed in 2018. This type of payment provides significant support to the increasingly widespread use of payment methods on mobile platforms as well as the development of e-commerce. In this area, in November 2017 SIA launched the first pan-European infrastructure supporting new instant payment services on behalf of EBA Clearing. The infrastructure complies with the European Payments Council (EPC) SCT Instant Credit Transfer Scheme and is

in line with international standards for real-time payment messaging (ISO 20022). In 2018, the service managed 10 million transactions, guaranteeing the reachability of nearly all PSPs participating in the SEPA SCT Instant Credit Transfer scheme.

Also in 2018, the offer portfolio of solutions applicable to Central Institutions was complemented with the addition of a product for the processing of Instant Payments integrated natively with the RTGS product.

During 2018, the portfolio of customers using SIA solutions was expanded. In particular, the new RTGS and Instant Payments System were awarded by the Central Bank of Iceland and the new CDS and CMS systems (Collateral Management Systems) by the Egyptian Central bank. In addition, planning activities were started or continued for new customers as follows:

- › RTGS system for the Central Bank of a European country;
- › CSD Equities system for a CSD of an African country.

Lastly, SIA took part in two international tenders for solutions concerning payments issued respectively by a Central Bank in the American area (RTGS) and by a bank in the European area (Instant Payments).

The year 2018 was again characterized by SIA's continuous role as the technological partner of the LSEG group (London Stock Exchange Group), in supporting MTS and Monte Titoli with the development of new business functions and maintaining levels of excellence in the technological services provided (average availability of Monte Titoli services 100% and MTS services close to 100%). With respect to MTS, the first half of 2018 was primarily characterized by activities intended to perfect and maximize technological adaptation to the MiFID II regulations, while in the second half of the year the focus was mainly on the simplification and streamlining of methods for accessing the various markets according to approaches and technologies meant to improve and

facilitate trading processes. In 2018, SIA carried out adaptation/functional and technical activities for Monte Titoli services in compliance with the Target2 Securities platform roadmap, as well as further service developments that were completed successfully with no impacts on operations.

In 2018, the new Market in Financial Instruments Directive II (MiFID II) regulations were applied throughout Europe for the purpose of consolidating the European financial market and offering increasing protection to the final investor. During the year, management and support activities continued for the Surveillance solution for Supervisory Authorities abroad. With regard to the market of financial intermediaries, the European trade development of the TODEAL technology, a leading platform for accessing the main government securities markets in Italy and abroad, and of SIA EAGLE, as an integrated technology for trade compliance of capital market transactions, were consolidated. Particular attention was paid to strengthening and expanding the SIA EAGLE monitoring range in order to also include unstructured information (in addition to the more traditional financial transactions) such as phone calls, emails and chats, which have been highly useful in identifying possible abusive behaviors with greater certainty.

In 2018, SIABookBuilding commercial development activities also continued: this is the new application for the management of the IPO process which allows financial operators worldwide to manage the various types of transactions on a single platform, by simultaneously using the data of leading info vendors, and to access advanced functions for order collection, document management, compliance activity monitoring and report generation. SIABookbuilding was also used in Italy in 2018 for several placements on the AIM market.

At the end of 2018, the offer portfolio on the Financial Ring provided connections to 44 Trading Venues, in line with the previous year. There were also further developments in the new

housing and co-location services in the data centers of Milan, Rome, London, Frankfurt and New York where customers were offered an innovative integrated suite of technology solutions to support high frequency trading, making use of the technological proximity to the main trading platforms.

In the trading sector, SIA has integrated the new liquidity hub services and focused on innovation in the international IPO market and on the Analytics services applied to the development of the Capital Markets business. In the course of 2018 SIA completed the project for implementing the “SIA Collateral Management System” for central banks and CSDs at the Central Bank of Egypt. In the post-trading arena, scouting activities were carried out to support the new contingency service offering for access to “SIA T2S Contingency Service” settlement, taking advantage of the experience acquired with T2S. Activities were also initiated to build a collateral management platform following the assignment of European funds for innovative services.

Lastly, the position of SIA as the Network Service Provider of the European Central Bank for the access to T2S has attracted the interest of important customers, Central Banks and CSDs, which have chosen the SIANet solution to connect to the new European platform for securities transaction settlement. The success of SIA's system has spurred the development of accessory services to the basic network service, reconfirming the interest of the financial market for multi-provider solutions.

Internationally, agreements have been signed with two leading international banks, the first for access to MTS placement services on SIA infrastructure in Italy. The second regards access to Eurex in Frankfurt and the NYSE in New York, through SIA's infrastructure in London. A major French group signed a contract for the provision of the EuroMTS Proximity service through the SIANet network.

Agreements have been drawn up with two important banks in the United Kingdom and the United States for direct access to EBA Clearing's RT1 platform using the SIANet network.

On the whole, the network traffic on the SIANet infrastructure increased by 53% over the entire managed infrastructure, reaching about 120,000 GB in traffic over 1,000 kilometers of network connection with a steady 100% availability.

2018 was also the year of the activation of the new network infrastructure in support of applications with Blockchain technology. This new infrastructure, called SIAchain, offers to a number of communities of users a secure and protected operating environment for the secure management of applications developed with the most modern Blockchain technologies, thus guaranteeing a structured and shared governance environment. The improvement and simplification of the processes, the optimization of the management costs and infrastructure investments, the sharing of technological knowledge and expertise are the main elements that have led to a growing interest in the disruptive phenomenon of blockchain.

Thanks to the private SIAchain infrastructure, which is able to rely on around 570 network nodes in Europe of SIANet - the high speed, low latency fiber optics network that extends over more than 186,000 kilometers - a series of business applications will be launched and made available in which Distributed Ledger Technology (DLT) represents an emerging innovation to meet the needs of specific communities of registered and approved members. SIA also guarantees the organization of these communities in a context of transparency, confidentiality and security.

In this respect, in the course of 2018 SIAchain was selected by ABI Lab as the platform for the production trial of the new “Spunta Banche” (“bank reconciliation”)

interbank procedure which will be activated in 2019 for the entire Italian banking community at the end of a full load performance certification process and the review of ABI self-regulation on the reconciliation process.

SIACHAIN was also selected for a specific stream of a research project financed by the European Union which aims to develop a security framework to control critical infrastructure of the European financial system. Thus, the level of security of a hypothetical Digital Cash application in Instant Payment mode on Blockchain technology will be tested on SIACHAIN to identify the level of security of the infrastructure supporting the application.

In Belgium, SIA has joined the group

of founding members of the IATBA (International Association of Trusted Blockchain Applications), led by the European Commission; IATBA will bring together all parties concerned which are committed to transparently promoting the interoperability, governance, legal certainty and trust in services made possible by Blockchain and Distributed Ledger technologies.

In 2018, technological partnerships were strengthened with the main producers and/or distributors of Blockchain/DLT technologies, and specifically with Consorzio R3 and IBM in their capacities as distributors of Corda Enterprise and distributor of the most robust solution on the market of Hyperledger Fabric, respectively.

PERFORMANCE OF THE GROUP COMPANIES ↗

As described above, in 2018 the Group continued along its path of external growth by acquiring all shares in the companies SIA Greece (formerly First Data Hellas) and SIA Slovakia (formerly First Data Slovakia) on September 28, 2018. The latter holds the controlling interest in the companies SIA Croatia, SIA Czech Republic, SIA Hungary, SIA Romania and SIA Serbia, while SIA Greece directly controls the company DMAN in liquidation.

The contribution of those companies to the Group's consolidated results is shown only for the final quarter of 2018.

Following this business combination, the scope of consolidation includes, aside from the parent company SIA and the companies mentioned above, the foreign subsidiaries Perago FSE, PforCards and SIA Central Europe, the Italian subsidiaries Emmecom, SIAadvisor, P4cards and Consorzio QuenIT in liquidation (the latter a direct subsidiary of P4cards), SIApay and Ubiq. In the third quarter of the year, the shareholding in Ubiq increased from 96.5% to 100%. All direct and indirect subsidiaries, with the exception of Consorzio QuenIT in liquidation (55%), are fully consolidated. SIA's shareholding in SIAadvisor is 51%, but based on an option negotiated with the shareholders, for the acquisition or sale of non-controlling interests within a future, predefined time window, it is consolidated line by line, in compliance with the provisions of IFRS 10. The adequacy of the carrying amount of the controlling interests recognized in the separate financial

statements of the parent company and the goodwill recognized in the separate and consolidated financial statements following the business combinations in accordance with international accounting standard IAS 36, is checked at least yearly, and in any case, any time there is a sign that an asset may have suffered impairment (for the details, please refer to the accounting policies described in the Notes to the Consolidated Financial Statements for the year ended as at December 31, 2018). For all the items subject to impairment testing, the results confirmed the balance sheet figures, except for the amounts recognized in the separate financial statements of SIA S.p.A. for the companies Perago FSE and Ubiq, and the consolidated goodwill relating to Ubiq, for which it was necessary to reduce the recognized value.

Below is a summary presentation of the economic results for each Group company, as set forth in their consolidation reporting packages as at December 31, 2018 approved by their respective directors.

SIA S.p.A.

SIA, in addition to managing the holding activities of the Group, is also the main operating company in terms of both volumes and range of services to the customers. SIA, in the capacity of holding company, provides the companies of the Group

with technological and administrative outsourced services, in addition to logistics services on the basis of contracts negotiated at normal market conditions.

In 2018, SIA recorded an increase in revenues, due to very positive

performance in the Cards segment and a slight downturn in the Payments and Institutional Services segments.

Costs are aligned with the previous period and as a result the company increased its operating margins. During the period, the company benefitted from dividends recognized by a number of Group companies and, in particular, by P4cards (€25 million), which led to a significant increase in net income

compared to the previous year. In 2018, revenues amounted to €411.9 million (€403.4 in 2017), the EBIT amounted to €97.4 million (€88.5 million in 2017) and net income stood at €84.6 million (€63.4 in 2017). At the end of the year, shareholders' equity was €273.9 million, including the profit for the period. For further details, see the separate financial statements of SIA as at December 31, 2018.

Emmecom S.r.l.

The company, with registered office in Turin, is 100% held by SIA S.p.A. and specializes in fixed, mobile and satellite telecommunications. Established in 2000, Emmecom integrates high-quality services from the main phone service providers, developing solutions for selected target customers, offering optimization of spending, certainty of savings (benchmark, reporting,

consulting on fees) and completeness of the service (phone, internet access, value-added services, mobile phones).

In 2018, revenues amounted to €16.5 million (€15.4 in 2017), the EBIT amounted to €2.0 million (€1.6 million in 2017) and net income stood at €1.4 million (€1.0 in 2017). At the end of the year, shareholders' equity was €3.2 million.

Perago FSE Ltd

The company, with registered office in Pretoria (South African Republic) develops systems for Central Banks (including RTGS, CSD, Instant Payments) adopted by several Institutions worldwide for the automatic management of interbank payment transactions and management of government securities.

In 2018, revenues amounted to €4.6 million (6.1 million in 2017), the EBIT was negative at €3.9 million (positive €0.5 million in 2017) and the net loss was €4.0 million (net income of €0.8 million in 2017). The share capital amounted to 30,000

rand (corresponding to €2,000 as at December 31, 2018) and shareholders' equity at the end of the year was a negative €2.3 million. Pursuant to Par. 9, Art. 2427 of the Italian Civil Code, the parent company has stated its willingness to support the development of the company by meeting the related financial requirements. Based on the impairment test carried out at December 31, 2018, the carrying amount of the equity investment was written down by €458 thousand in the Separate Financial Statements of SIA S.p.A.

P4cards S.r.l.

The company, with registered office in Verona, was acquired on December 31, 2016 from UBIS, a company of the UniCredit Group. The operation was finalized with the acquisition of 100% of the shares of the company, to which, at the same time, UBIS transferred the processing of payment cards and the management of POS Terminals

and ATMs in Italy and Germany. P4cards has also agreed to provide UBIS, by outsourcing for a period of ten years, processing services for the transactions carried out with debit, credit and prepaid cards and for the management of the POSs and ATMs of the UniCredit Group.

In 2018, revenues amounted to

€151.3 million (€135.0 in 2017), the EBIT amounted to €41.8 million (€38.8 million in 2017) and net income stood at €30.8 million (€28.3 million in 2017). Shareholders' equity is €83.8 million, including the profit for the period.

Consorzio QuenIT in liquidation

The equity investment in the company, which has its registered office in Verona, is held by P4cards and it has therefore been included in the consolidation perimeter of SIA at December 31, 2016 following the acquisition of P4cards from UBIS. P4cards's shareholding in Consorzio QuenIT in liquidation is 55%; the remaining shares are held by Infogroup Informatica e Servizi Telematici S.C.p.A. and Ingenico Italia S.p.A. The consortium was established to provide the services requested in a specific call for tenders issued by Eni S.p.A. On April 20, 2018, the Meeting of consortium members approved the dissolution and resulting placement under liquidation of the consortium, as the services will be provided to Eni directly by P4cards, making use of the products and services provided by Infogroup and Ingenico. During the period, the consortium recognized revenues of €705 thousand and it closed the period with a result for the year of zero (due to consortium activities) and shareholders' equity of €10 thousand. The carrying amount of the company in P4cards is €5.5 thousand.

PforCards GmbH

The company has its registered office in Vienna and was bought on December 31, 2016 from UBIS Austria, a company of the UniCredit Group, as part of the acquisition from the UniCredit Group of the processing activities related to payment cards and the management of the POS and ATM terminals located in Italy, Germany and Austria. The operation

was finalized with the acquisition of all the shares of the company.

In 2018, revenues amounted to €3.5 million (€3.1 in 2017), the EBIT was negative at €1.1 million (€1.2 million in 2017) and the net loss stood at €1.2 million (net loss of €1.2 million in 2017). Shareholders' equity is €2.7 million.

SIA Central Europe Zrt.

The company, wholly owned by SIA, which bought it in 2007, has its registered office in Budapest (Hungary). It has a share capital of 177 million Hungarian forints (equal to approximately €551,000 as at December 31, 2018) and shareholders' equity, including profit for the year, equal to €6.5 million. SIA Central Europe, a payment system and payment card processing leader in Hungary, mainly provides financial institutions, corporations, and issuers and acquirers of payment cards with management services for ATM and POS terminals, transaction switching, fraud monitoring and other payment system services. In keeping with SIA's three-year Strategic Plan, SIA Central Europe's aim is to consolidate and expand the Group's presence in

Hungary and across its key operating areas (Austria, Poland, Romania, Slovakia, the Czech Republic, Slovenia and Croatia) by offering innovative and competitive technological systems in the payments sector, for financial and corporate institutions, in compliance with European legislative requirements (SEPA, PSD, etc.).

Since 2012, SIA Central Europe has operated as a commercial hub for all services offered by the SIA Group in Hungary and in Central European countries.

In 2018, revenues amounted to €12.4 million (€11.1 million in 2017) and EBIT to €2.5 million (€2.1 million in 2017). The year ended with a net profit of €2.3 million (€1.9 million in 2017).

SIApay S.r.l.

This company, a wholly owned direct subsidiary of SIA, has its registered office in Milan. Established in 2009 and operating since 2010, in 2011 SIApay was authorized by the Bank of Italy and included in the Register of Payment Institutions.

The shareholders' equity as at

December 31, 2018, which includes a share premium reserve of €600,000, was €8.3 million, including profit for the year. In 2018, revenues amounted to €12.8 million (€10.0 million in 2017), EBIT to €0.9 million (€1.2 million in 2017) and net profit to €0.5 million (€0.7 million in 2017).

SIA Slovakia, s.r.o.

This company has its registered office in Bratislava (Slovak Republic) and, along with its direct subsidiaries, provides issuing and acquiring services throughout Central and Eastern Europe. Its main services regard the management of roughly 50 thousand POS devices and around 4 thousand ATMs and card transaction processing, directly serving 50 customers and over 4 thousand merchants across 12 countries.

In the last quarter of 2018, following the acquisition by SIA in September 2018, revenues amounted to €10.3 million, the EBIT amounted to €4.4 million and net income stood at €3.5 million. At the end of the year, shareholders' equity was €21.6 million.

SIA Slovakia's direct subsidiaries are:

- › **SIA Croatia d.o.o.**, which has its registered office in Zagreb, and earned revenues of €570 thousand during the quarter, closing with

shareholders' equity of €230 thousand.

- › **SIA Romania Payment Technologies S.r.l.**, which has its registered office in Bucharest, and earned revenues of €19 thousand during the quarter, closing with shareholders' equity of €355 thousand.
- › **SIA RS d.o.o.** Beograd, which has its registered office in Belgrade, and earned revenues of €550 thousand during the quarter, closing with shareholders' equity of €192 thousand.
- › **SIA Hungary Kft.**, which has its registered office in Budapest, and earned revenues of €442 thousand during the quarter, closing with shareholders' equity of €1,095 thousand.
- › **SIA Czech Republic, s.r.o.**, which has its registered office in Prague, and earned revenues of €47 thousand during the quarter, closing with shareholders' equity of €158 thousand.

New SIA Greece S.A.

This company, which has its registered office in Athens (Greece), provides a complete set of payment and high value-added services throughout the payments value chain. The company, which has around 1,000 employees, manages 280 thousand POSs and 3 thousand ATMs in addition to offering card production and customization services (1.6 million customized cards) and managing back office and call center services (approximately 8.8 million calls

managed). Its services reach 7 different countries in Eastern and Southern Europe. Its direct subsidiary is DMAN in liquidation.

In the last quarter of the year, revenues amounted to €13.3 million, the EBIT basically reached the break-even point and net income stood at €0.3 million. At the end of the year, shareholders' equity was €48.4 million. DMAN in liquidation closed the year with shareholders' equity of €415 thousand.

Ubiq S.r.l.

This company, with registered office in Parma, is wholly owned following the acquisition in 2018 of the remaining shares (3.5%) from the non-controlling shareholders. Ubiq, a start-up founded in 2012 from a spin-off of Parma University, specializes in the design and development of innovative technology solutions for the promotion of branded products, in which it operates with the “Ti Frutta” App: consumers who purchase the products promoted online by the “Ti Frutta” App at any point of sale receive a discount in proportion to the amount spent. This acquisition is part of SIA's strategy to grow as a technologically advanced company in the area of digital payments, also by acquiring innovative companies and distributing added-value services through mobile phones.

In the first half of 2018, the parent company SIA acquired the remaining shares (3.5%) from the non-controlling shareholders for a total of €120

thousand and made a payment of €850 thousand to cover accumulated losses. In 2018, revenue amounted to €0.5 million (0.7 million in 2017), EBIT was a negative €1.5 million (-€2.2 million in 2017) and there was a net loss of €1.2 million (-€1.8 million in 2017). At the end of the year, shareholders' equity was €0.5 million. Pursuant to Par. 9, Art. 2427 of the Italian Civil Code, the parent company has stated its willingness to support the development of the company by meeting the related financial requirements. As at December 31, 2018, the impairment test was performed including the company within the Loyalty and Big Data business line, identified as a Cash Generating Unit (CGU). The test resulted in the recognition of an impairment loss of €2,828 thousand in the separate financial statements of SIA and of €1,402 thousand in the consolidated financial statements.

SIAadvisor S.r.l.

The company, with registered office in Rome, was acquired on January 13, 2016, with the acquisition of 51% of the share capital. On December 1, 2018, it changed its name from LM Enterprise S.r.l. to SIAadvisor S.r.l. The company is, however, fully consolidated, since it is believed that the outstanding derivative instruments (to be exercised until December 31, 2021) give SIA immediate access to SIAadvisor's profits. Established in 2011, the Company specializes in providing consulting on Marketing & Sales, IT/Operations and Organization.

Due to its close collaboration with the company, it is possible to meet the demand by SIA customers for support, implementation and development of their business strategy, providing specialist skills on innovative issues and creating potential market synergies.

In 2018, revenues amounted to €4.1 million (€2.7 million in 2017), EBIT to €1.0 million (€0.8 million in 2017) and net income to €0.7 million (€0.5 million in 2017). Shareholders' equity at the end of the year was €2.3 million.

Associated companies

In the reporting period, also following the parent company's reduction of its shareholding, it was deemed that the Group is no longer capable of exercising significant influence over

the company Trustlink Ltd, which was therefore reclassified to non-current financial assets. The only company over which the Group exercises significant influence is:

ATS S.p.A.

In December 2000, SIA acquired a 30% stake in ATS S.p.A., which has a share capital of €120 thousand. The company is a software developer, primarily for the banking and financial sector, and has been SIA's qualified partner for many years now. Its data for 2018 were not yet available at the

date of approval of this document. The company closed the last three years with shareholders' equity of around €2.5 million and net income between €50 thousand and €80 thousand. For 2018, no significant changes are expected compared to previous years.

TECHNOLOGY AND INNOVATION

To effectively oversee activities and communications with customers, after the launch of the Production Control unit in 2017, with the mission of centralizing all service information from and to customers in the Cards area and making it multi-channel, in 2018 its purview was expanded to include payment services and customers.

In 2018, the P4cards services of Fraud Management, Acquiring Authorization, POS Terminal Manager, ATM Terminal Manager and Fuel Authorization were activated on the target platform in SIA. The launch of these services coincided with the introduction of new latest generation open converged platforms, selected for their high performance and reliability.

In 2018, the geographical Active/Active architecture also continued to be extended to open platforms, and after the RT1 EBA Instant Payment platform, Security Machine and Digital Couponing on Big Data services were activated, which were also able to fully benefit from the new geographical infrastructure.

This allows the Group to implement a selective Disaster Recovery policy by Technological Platform, Service or Customer as well as to reduce recovery time in the case of physical disaster at one of the two operations sites for the selected open platforms.

Lastly, the new open Issuing platform was activated in late 2018 with the issue of the first cards.

In 2018, migration to the new LAN was completed, allowing for high speed access (up to 100 Gbs) and supporting

Active/Active solutions between the Milan operations sites.

The SIAchain 1.0 infrastructure was designed and activated based on the Corda blockchain solution used for the business use cases, including ABI Lab's Bank Reconciliation.

During 2018, migration to the SIA corporate network of the P4cards Romania and SIA Central Europe Budapest offices was completed. Following the activation in 2017 of the Instant Messaging network infrastructure (FEMS XS) which guaranteed SIANet customers access to EBA's Instant Payments service, in 2018 the solution was further developed to ensure compatibility with the Eurosystem's Instant Payments solution (TIPS), obtaining the relative certification, and also interconnecting the two EBA and Eurosystem Instant Payment systems.

In the course of 2018, Italian system banks also completed the activation of the Check Image Truncation application based on the SIANet network solution, enabling banks to transmit only images of checks to replace the previous service which required sending paper checks in the mail.

Cybersecurity

In response to increasing cyber threats in the financial sector, in 2018 initiatives continued to strengthen and consolidate security controls deployed with previous years' programs, also to apply them in compliance with the regulatory requirements that have arisen in the meantime.

One of the most significant is the new European regulation on the protection of personal data, which made it necessary to adapt technical measures and operating processes in line with the relative provisions while also keeping in mind customer needs.

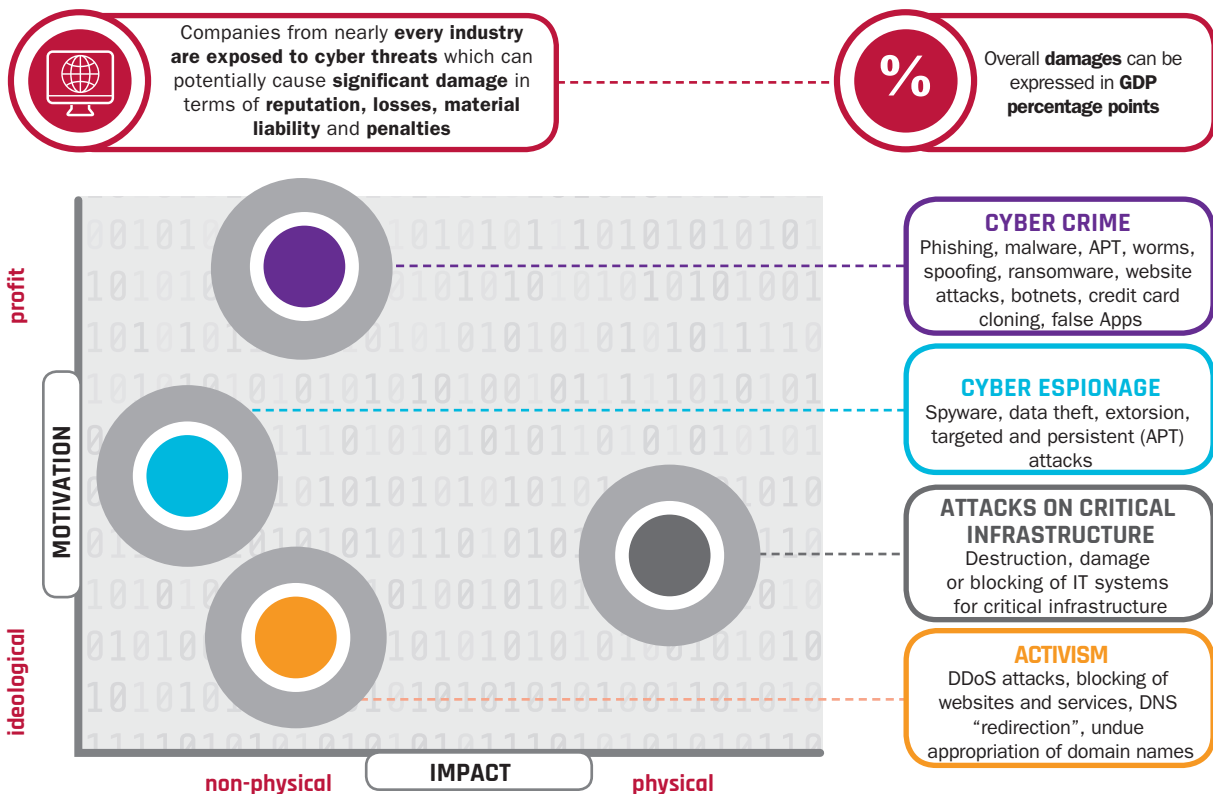
Other important factors this year included: the relevance in terms of security of the main business initiatives; active participation in customer relationships on cyber matters; the numerous new threat scenarios and important regulatory updates (e.g., Guidance on cyber resilience for financial market infrastructures). Within the scope of a financial ecosystem, external collaborations continued with the active

participation in CERT Finanziario Italiano (cooperative initiative between banking and financial operators for the cyber resilience of the financial system) and participation in exercises at European level.

Lastly, security controls were strengthened considerably thanks to numerous technological implementations. From the technological perspective, security controls were reinforced through the implementation of initiatives on a range of fronts: *Identity and Access Governance, Privileged Access Management, Technical Compliance Monitoring, Information Sharing, Behavioral Analysis, Security Testing and Remediation.*

Finally, to boost the effectiveness of security initiatives, Security Awareness Computer-Based Training services were activated, focusing on improving the skills of company employees by also addressing aspects from the personal sphere (such as the use of social media), with a view to transferring best practices for the protection of company data.

The variable nature of cyber risk



RISK MANAGEMENT

The SIA Group acknowledges its own exposure to risks, which are heterogeneous and changeable over time, as well as the significant effects that these risks could have on its own operations, those of its customers, its payment system, the financial community and citizens in general.

The Group works to address the risks that could have negative impacts on the services provided, the products sold to customers and the events that could negatively affect the achievement of company results.

The SIA Group intends to combat and reduce to a minimum its operational, financial, compliance and reputational risks. It acts on customer business, cybersecurity, fraud management and business continuity processes. It pays attention to suppliers/partners and the security of people.

This objective is adopted by the group companies according to a principle of proportionality. Companies consider

their specific operating characteristics, especially for financial risks and for those linked to customers and suppliers. SIA verifies compliance with that objective.

In its capacity as an eligible infrastructure for payment systems and financial markets, SIA is monitored by the Bank of Italy and the European Central Bank and has an Internal Control and Risk Management System, with which it prevents and contains the threats and vulnerabilities that can arise, thereby compromising its ability to extend its services. At least once every year, the Board of Directors is updated on the Risk Management System and on the SIA Group's risk target.

Risk management process

SIA senior management, aware of the type, nature and size of the risk to which the company is exposed, supports this process and defines the risk targets.

Developed on the basis of the international standard ISO 31000 and with account taken of the relevant instructions issued by the Bank of Italy, the SIA risk management process:

- › was updated in accordance with the new version of the ISO 31000:2018 standard
- › aims to pursue the objectives and protect the values of the company
- › is an integral part of the organizational systems and company processes, the initiatives currently being defined and the services provided
- › addresses conditions of uncertainty and threats and is a component of the corporate decision-making processes
- › is pursued systematically, in a structured, swift and fully documented manner

- › considers the human factors, perceptions and cultural aspects that could facilitate notifications regarding risks and impact assessments
- › is periodically reviewed to ensure that it corresponds with the corporate objectives overall.

From the organizational perspective, SIA is organized with three lines of defense which call for:

- › company organizational structures which identify, govern and control the risks within their respective areas of competence
- › the Risk Governance department, which is responsible for second-level risk control and the governance of compliance, business continuity and privacy systems. This Department reports to the Chief Financial Officer, part of the CEO's staff
- › the Internal Audit Department, which

ensures third-level control over corporate risks and operates independently, reporting to the Chairman's Office.

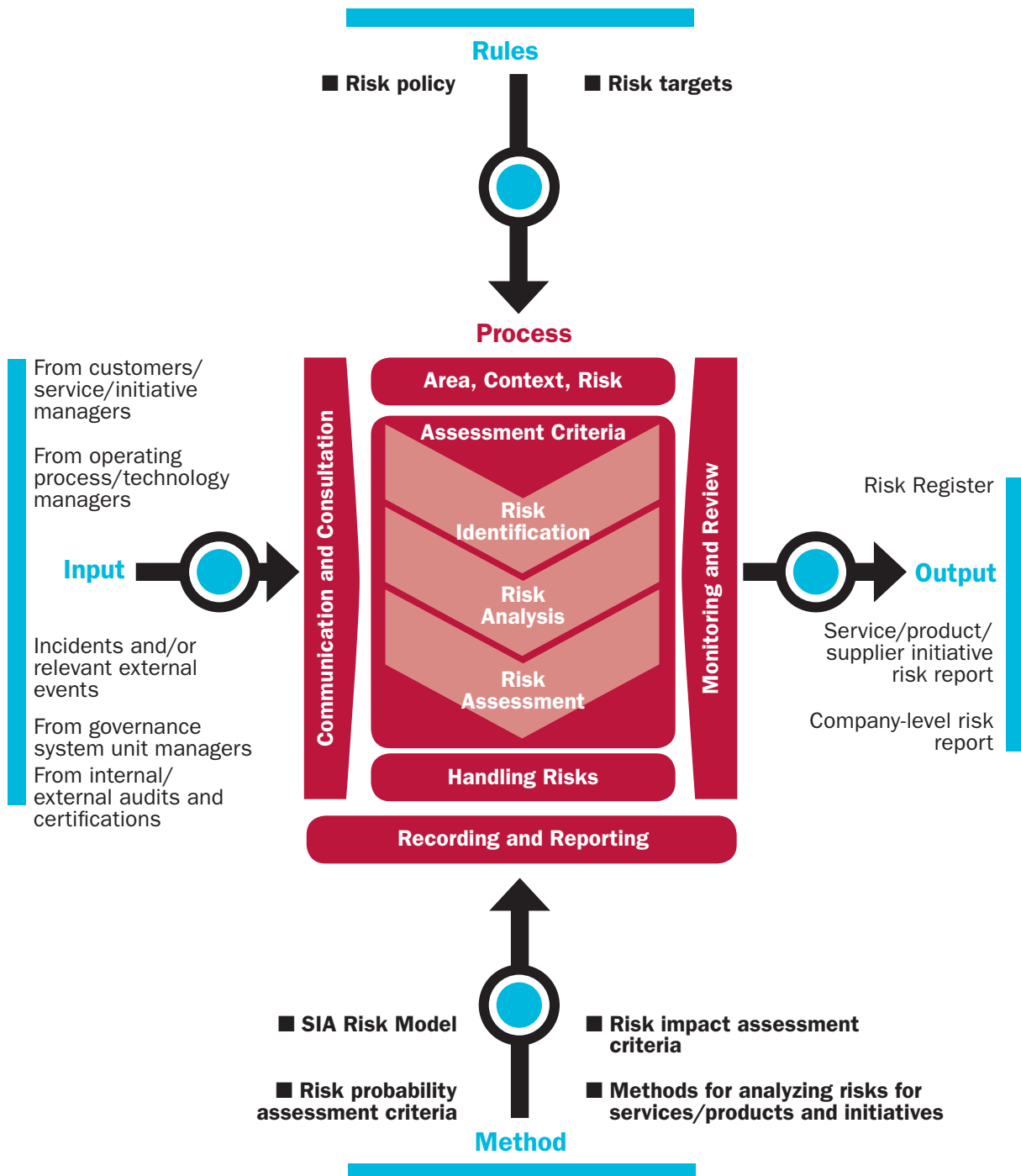
SIA also relies on:

- > a "Risk Committee", chaired by the Chief Executive Officer with the main persons that report directly to the CEO and the Directors as participants,

which assists the Board of Directors in the risk governance process

- > a "Risk Team" composed of "risk contacts" who operate in their particular areas of competence, the purpose of which is to supervise and monitor identification and analyses of risks and the plans identified for the handling of such risks.

The risk management process in the SIA Group



Main activities in 2018

The main activities in 2018 at Group level were:

- › updating the risk target and risk policy;
- › monitoring the risks associated with the most significant business initiatives;
- › updating the service and product risk profile;
- › monitoring IT, technological and

security risks;

- › evaluating the contractual risk that the SIA Group faces vis a vis its own customers and suppliers;
- › reinforcing the risk culture with the appropriate training solutions.

Information on the main risks is provided below.

Operating risk of new initiatives

The SIA Group is strongly committed to developing new initiatives and technological solutions, to respond promptly to the demands of customers and anticipate their developments.

The SIA Group manages the risks arising from new initiatives by assessing

the impact of the new solutions from their very first stages (by-design).

Dedicated tools are used to identify and assess risks, including special DPIAs (Data Protection Impact Assessments) introduced in 2018 for specific initiatives that entail personal data processing risks.

Operating risk in the services provided

SIA continues to monitor the risks associated with its activated services. It uses a risk analysis checklist for the services provided, developed based on discussions within risk culture programs. This instrument is applied to evaluate the services with the greatest risk, those potentially causing systemic risks and those subject to compliance restrictions.

The Group Companies, particularly SIApay, P4cards, PforCards and Perago FSE, have also carried out significant actions to standardize the methods used to evaluate and deal with service risks.

It should also be noted that the ISO 9001 Quality Controls conducted on services were also risk-oriented.

Technological risks

SIA has monitored the risks inherent in new technologies, adopted within the various segments in SIA, including the new open technology processing platforms for issuing and acquiring, mobile payment systems for contact list payments via smart phones, instant payments and services based on Business Analytics.

The control of the changes and the transfer thereof to the production environment are carefully monitored to avoid effects on the services provided. The test procedures and the test

environments are monitored to minimize implementation risk.

The changes in the technology environment and the corresponding investments are carefully planned and managed.

SIA monitors the services and the technologies acquired from third parties, selecting suppliers according to rigorous criteria and asking that they comply with its operating procedures, as well as monitoring the levels of the services acquired.

Operating risks for suppliers and partners

SIA has a supplier risk management process and criteria to identify suppliers to be subjected to analysis and risk assessments.

Risk assessments are performed on suppliers identified by SIA and the subsidiaries, followed by on-site visits in certain cases.

Compliance risks

The SIA Group is subject to international and local standards in the various segments of its operations.

SIA is subject to the surveillance of the European Central Bank, pursuant to the European Central Bank Regulation No. 795/2014, July 3, 2014, which sets the requirements for payment systems of systemic relevance.

SIA must also comply with Art. 146 of the Consolidated Banking Law, which regulates the surveillance of the payment systems and focuses on operators of payment systems or of instrumental, technological or network infrastructures.

On the basis of this article, SIA, as the operator of trading and/or clearing systems with registered office and/or headquarters in Italy, is subject to the measure containing provisions on retail payment system surveillance, issued by the Director of the Bank of Italy on September 18, 2012. This measure defines the obligations of operators of retail Payment Systems with regard to organization, risks, Supervisory

Authority disclosures and connections with other payment systems.

With regard to the Cards segment, as a card processor, SIA must comply with the regulations of international and domestic circuits.

SIApay, as a Payment Institution, is subject to the provisions of Italian Legislative Decree 11/2010 and thus to the supervision of the Bank of Italy.

P4cards and SIA Central Europe are required to comply with the regulations applicable to international and domestic circuits.

As a telephone operator, Emmecom is subject to specific regulations. The SIA Compliance department, which is part of the Risk Governance structure, ensures compliance with these legal provisions and, in general, promotes awareness of the law, regulations, provisions and operating standards within the industry.

Compliance with regulations within SIA is also ensured by appropriate certifications obtained from qualified operators.

Operational security and cybersecurity risks

The financial sector is characterized by the interdependence of its information, information systems and computer networks and it is increasingly exposed to cyber type threats due to the relevance of the data handled and the critical character of the sector for the economy. The onset of a threat to the data processed may have a significant impact on SIA's services and customers, and therefore affect the profits and reputation of the company.

SIA intends to meet customer and institutional expectations with regard to security and the protection of critical infrastructure and, thus, to provide the

best response to cybersecurity threats in line with the directives for Financial Market Infrastructure (FMI) defined to improve resilience in the face of cyber threats.

During the year in which the new European regulation on privacy entered into force, careful attention was paid to adjusting technical measures and operating processes in line with the relative provisions and taking into account customer requirements.

As mentioned previously in the chapter "Technology and security of services", SIA has set up a well-

structured series of operating controls and security countermeasures at the organizational, logical and physical level, the application of which is aligned with business policies and at the same time suitable for the risk assessments regarding privacy, integrity and the availability of information.

The initiatives launched were organized along the following lines:

- › ensuring prevention of cyber attacks according to a “defense in depth” approach through the distribution of security measures across various layers so as to allow for a protection measure to be covered by a subsequent line of defense;

- › increasing the efficiency and speed of identifying and responding to security threats through the analysis and use of information obtained from technical probes and external information sharing sources;
- › harmonizing coverage within the group with the alignment of protection procedures and measures.

The initiatives of mitigation of security and cybersecurity risks were developed in the context of an Information Security Management System (ISMS), pursuant to the ISO/IEC 27001 standard, and are certified by qualified third parties.

Business continuity risks

Business continuity risks are inherent in the type of services that SIA provides to its customers. In order to combat those risks, SIA has always used a Business Continuity Management System, consisting of internal rules, organizational processes, redundant and resilient infrastructure and structured logistical solutions to react to events that could threaten its capacity to provide the services.

SIA's Business Continuity Management System works to guarantee the restoration of services in the case of operating crises or critical issues with large-scale impacts, in compliance with the contracts signed with customers, and is compliant with the provisions issued by Control Authorities/Bodies at the level of the European (ECB) and Italian (Bank of Italy) financial system with respect to business continuity, as SIA provides services for retail payment systems and for financial markets considered essential and of systemic importance for the financial systems.

Dedicated structures ensure the adequacy of the system through an ongoing assessment of business continuity requirements. They carry out risk assessment and Business Impact Analysis activities, support the business

and operating structures to ensure the compliance of technology, organization and documentation solutions, prepare organizational and technical tests, and provide classroom training.

SIA's Business Continuity Management System was developed in line with the best practices specified by the ISO22301 standard and is certified by qualified third parties.

Among the relevant regulations on continuity and resilience issued by the financial community:

- › the “Guidelines on business continuity for financial market infrastructures” with registered office and/or headquarters in Italy and the “CODISE Application Guide,” issued by the Bank of Italy in May 2014; these provisions strengthen the systemic vision of the impact of operating risks, including those concerning cybersecurity;
- › the “Principles for financial market infrastructures” – document of the Technical Committee of the International Organization of Securities Commissions (IOSCO);
- › the “Guidance on Cyber resilience in Financial Market Infrastructure (FMI)”, document of the Committee on Payments and Market Infrastructures (CPMI).

Financial risks

Pursuant to Art. 2428, paragraph 2, point 6-bis of the Italian Civil Code, and in accordance with the provisions of IFRS 7, qualitative information on the financial risks that the Group is exposed to is provided below. The quantitative information on financial risk is instead provided in the section of the Notes “Policy for the management of financial risks”.

SIA is exposed to the types of financial risk described below.

Exchange rate risk. The majority of the Group companies operate mainly in the euro area, and therefore it is not significantly exposed to exchange rate risks. The parent company SIA monitors the strategic plans, the revenue and cost mix and the customers of the companies that operate with currencies other than the euro (in particular Perago FSE and SIA Central Europe), also with reference to exchange rate trends, to prevent unforeseen fluctuations from impacting the results and the carrying amounts of the equity investments which, if they occurred, could result in losses being identified during impairment testing.

Credit risk. The Group companies operate primarily with well-known customers of high standing, many of whom from the financial sector. Before acquiring a new customer, if there is any doubt on the actual standing of the counterparty, a special assessment of its financial solidity is carried out. With reference to credit collection, procedures have been established to monitor expected cash flows and to carry out any necessary recovery action; they are mainly aimed at facilitating the process of invoice validation at the sales counterparties to speed up collection. The Group also signed an agreement with an external legal firm, in regard to some problem receivables. However, the risk of losses on receivables is not believed to be very significant, also on the basis of past experience.

Liquidity risk. The company business model and the operating management implemented have shown, over the

years, an ability to generate positive cash flows, even during economic crises, both cyclical and structural.

Also in 2018, the company generated consistently positive operating cash flows, as shown by the statement of cash flows. The Net Financial Position (i.e., the difference between total financial liabilities and liquid assets) was positive as a result of the loan obtained from a bank pool to fund the strategic acquisitions for external growth concluded in this and the previous year. In the light of the results of the 2019-2021 Strategic Plan and the simulations carried out to assess the sustainability of the debt, no liquidity risks has been identified so far, also taking into account the €100 million revolving credit line agreed with some of the lending banks to fund potential temporary cash imbalances, as well as the credit lines already obtained from the main banks with which the company works. Most of the liquidity lies with SIA and P4cards, which follow extremely prudent criteria in terms of investment categories and duration.

Interest rate risk. The company invests the liquid assets available in current bank accounts and bank deposits, with fixed or variable rate returns. Interest rate fluctuations may influence returns on investments, impacting financial income, but not in a substantial or significant manner in terms of amount. The only significant financial debts of the Group, aside from the loan mentioned in the previous section, are related to the financial leases, normally at variable interest rates. As regards the bank loan provided to the parent company SIA, to avoid possible negative effects arising from future interest rate fluctuations, in December 2018 a hedging transaction was negotiated with the same lending banks through “IRS” (Interest Rate Swap) derivatives, classifiable as an accounting hedge pursuant to IAS 39, which swaps the floating rate on the loan with a fixed market rate set up when the contract

was entered into. Please refer to the relevant section of the Notes, “Policy

for the management of financial risks,” for further quantitative information.

Health, safety and environment risk

SIA conducts regular and systematic prevention and control actions to ensure health in the workplace, also according to what is set forth in legislation on the matter.

Specifically:

- › it keeps the powers, delegations and appointments with respect to occupational health and safety updated;
- › it updates the Risk Assessment Document (DVR);
- › it ensures that the Occupational Health and Safety Management System is implemented;
- › it carries out the health surveillance program;
- › it updates work-related stress risk assessments;
- › it handles the compulsory training plan pursuant to Italian Legislative Decree 81/08;

- › it continuously monitors accident and occupational illness trends;
- › it ensures the effectiveness of the emergency response team (NIE) and conducts evacuation drills;

With regard to the risks connected to the occurrence of events that could impact the environment or the health of residents in the areas influenced by its activities, the SIA Group did not cause any damage to the environment for which it was declared at fault, nor was it subject to sanctions or penalties for environmental crimes or damage.

It should also be noted that the SIA Group also pays particular attention to the aspect that governs administrative, safety and environmental responsibility with respect to the risk of committing offences, as defined by Italian Legislative Decree 231/01.

Reputational risks

Service interruption, or a lower quality of the services provided, can affect the reputation of the company and of its customers.

Therefore, the SIA structure in charge of external relations and

communications monitors on an ongoing basis the presence, visibility and image of SIA on the main information and communication channels, such as traditional media, press agencies, the web, and social media.

Risk reporting

With regard to risk reporting activities, during the year:

- › there were systematic contacts with the companies of the Group on risk management;
- › continuous contacts continued between risk management, the business and technological, operating

- and staff structures with meetings for in-depth discussion, dedicated risk teams and Risk Committee meetings;
- › the discussion with the Internal Audit Department (third-level control) was launched, with systematic information flows and regular meetings;

CONTROL FUNCTIONS

The design of the controls in SIA is articulated on multiple levels and based on line controls, aimed at ensuring the correct execution of transactions. These controls pertain to the operating structures and are incorporated in the design of the processes and the internal procedures.

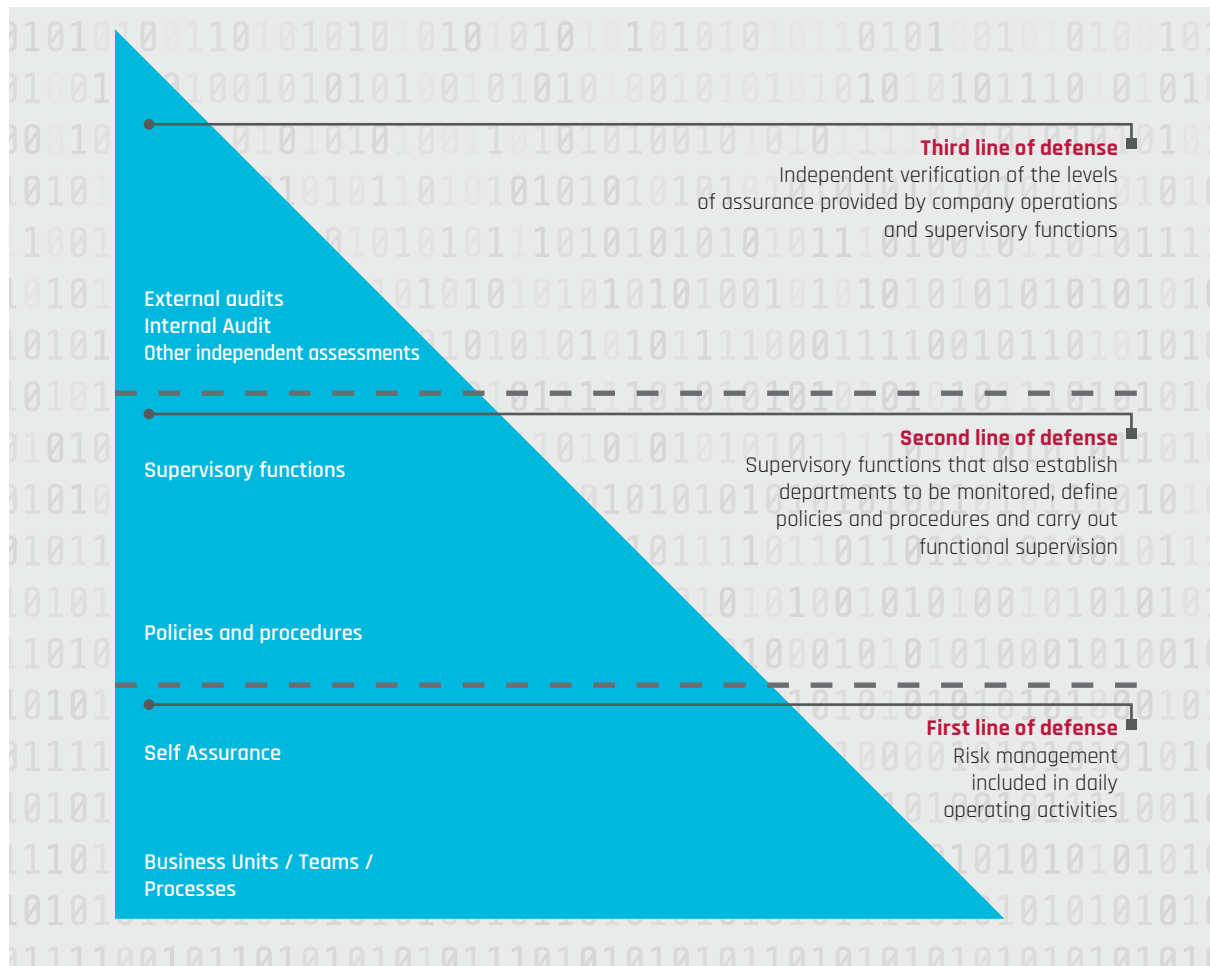
Special functions carry out the “second-level” controls, aimed at monitoring and managing the risk, in particular operating risk, which includes compliance risk (see special section of this Report).

A role of special relevance in SIA’s Internal Controls and Risk Management System is given to the Compliance function, which operates within the Risk Governance structure, to ensure the respect of the legal and

regulatory provisions and, more in general, to promote the knowledge of laws, regulations, legal provisions and industry standards.

The third-level controls are carried out within SIA by the Internal Audit Department, which provides objective and independent “assurance” and consulting services, aimed at adding value and improving the operation of the organization.

Internal control system - Three lines of defense



In particular, Internal Auditing helps the company to reach its objectives through a professional and systematic approach, aimed at assessing and improving the effectiveness of the control, risk management and governance processes of the company.

The Control System is completed with the bodies in top positions: the Board of Statutory Auditors, which represents the apex of the System of Supervision, the Board of Directors, which is the body with strategic oversight, and the Supervisory Body pursuant to Italian Legislative Decree No. 231/01 (its functions carried out within SIA by the Board of Statutory Auditors), called to monitor the effectiveness of the organization models adopted to prevent the risks of committing an offense.

SIA's Internal Audit Department, which reports directly to the Chairman, informs the Board of Directors about the Internal Control and Risk Management System evaluated while carrying out the Audit Plan and, at the same time, informs the Chairman of the Board of Directors, the Board of Statutory Auditors and the 231 Supervisory Body about the results of each audit. Within the scope of relations with other control entities and functions, Internal Audit performs systematic activities of coordination with the Risk Governance Department

and the Independent Auditing Firm, as well as with the auditing departments of the subsidiaries, in compliance with the auditing guidelines approved by SIA.

In addition, on request, it provides support for specific assessments to the Board of Statutory Auditors and the 231 Supervisory Body. The Internal Audit Department is the point of contact between the Supervisory Authorities and the company with respect to internal control matters, and monitors the information flows between SIA and the Bank of Italy on retail payments and operational continuity.

The activities scheduled for 2018 in the 2018-2020 Audit Plan approved by the Board of Directors on March 8, 2018 were completed as planned. In the course of the year, a leading independent operator also conducted a Quality Assurance Review of SIA's Internal Audit function, five years on from the previous review, as recommended by international professional standards. In 2018, the Internal Audit Department also provided support in audit activities performed by customers and other external parties and provided contractual and organizational opinions.

Lastly, Internal Audit monitored activities carried out by the second level control function and initiated the appropriate follow-up initiatives.

HUMAN RESOURCES ORGANIZATION ↗

The Group has 3,465 employees, with 3,403 FTEs (full time equivalents), marking a 69% increase over the previous year. This increase includes the acquisition from First Data of card processing and production, back office and call center services in Greece, Slovakia, Croatia, the Czech Republic, Hungary, Romania, Serbia and Croatia, finalized on October 1, 2018. Not including this operation, the growth rate was 4%.

The average age of employees is 42 years; women represent 43% of the workforce.

In 2018 there was turnover in the SIA Group's leadership: following the resignation of the former CEO Massimo Arrighetti on June 14, Nicola Cordone took over first as Deputy CEO and then, based on the Board resolution of November 29, as CEO.

In May, the process of transferring all activities linked to company product and service application development to the Business Divisions was completed. In the same month, within the Risk Governance Department, the Data Protection Officer (DPO) was appointed in implementation of the European GDPR directive on privacy.

In terms of organizational changes, in July the organizational structure of the Human Resources & Organization Department was changed and in October the Service Line Payments Department was created with a view to increasing the focus on payment product and service design and development activities.

During the year, the usual attention was paid to work-life balance and, with regard to topics such as flexibility and digital skills, "agile working" was introduced for more than 150 people at the new Milan Lorenteggio office.

The year 2018 saw many meetings with the trade unions, with the closure of the Supplementary Agreement of P4cards and the Labor Agreement of P4cards Romania.

There were also frequent technical and negotiation meetings held by work groups relating to activities in the Call Center and Smart Working at the new Milan Lorenteggio building, which are still active to date.

In terms of instrument management, the digitalization of administrative processes and integration with the payroll provider continue in order to reduce and simplify payroll activities. In the last part of the year, a project was launched to migrate personnel administration tools to the Zeta Service provider, which integrates all of the group's Italian companies within a single platform (SIA, SIApay, P4cards, Emmecom and SIAadvisor).

The Talentia application was extended to all of the Group's HR functions, to centralize and unify the management of the main core HR processes (administration, selection, training, compensation and job rotation), also including SIA Greece, SIA Slovakia and its subsidiaries, which were involved in a significant migration from the HR applications previously managed by First Data.

With respect to company document review initiatives, in 2018 an intense plan was activated for the renewal of the governance, business and commercial process system, focused on three main pillars: updating and general translation of the existing system, the creation of policies and procedures valid for the entire SIA Group and the introduction of new directives on various topics such as privacy and the processing of

legal data, communications and social media, asset management, capacity management, calls for tender, smart working and background checks. In particular, the capacity management process aims to allow for effective planning and management of company

resources in accordance with the Business Plan, the budget/forecast and the Procurement Plan.

The work groups responsible for preparing an integrated system of processes for the SIA Group will continue throughout 2019.

TREASURY SHARES ↗

The company did not make purchases and/or sales of treasury shares and therefore no treasury shares were held in its portfolio at the end of the year.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR ↗

Aside from the approval of the Group's Strategic Plan for the 2019-2021 three-year period (described in the dedicated section above), the significant events subsequent to the end of the financial year, which did not entail any adjustments to the financial statement balances, included:

- › On February 7, 2019, the Municipality of Bari announced that it had launched a project in collaboration with SIA based on blockchain technology, which aims to digitalize the surety policy management process. This is the first trial in Italy involving the use of Distributed Ledger Technology (DLT) in the public administration in the area of sureties, which will enable the Municipality of Bari to dematerialize the issuing process by banks, financial intermediaries and insurance companies and uniquely and irrevocably certify those guarantees. This innovative project will contribute, inter alia, to reducing the time required to manage the various phases, eliminate human error and also prevent fraud on the part of unqualified individuals, linked to the submission of false documents.
 - › On February 20, 2019, Payments Canada announced that it had selected SIA to create the new national system for payments of significant amounts, named Lynx. In April 2017, Payments Canada had announced the short list of companies invited to participate in the call for tenders for Lynx and, at the end of the process, it selected SIA (the decision is subject to negotiation of the final agreement and regulatory authorizations).
- In accordance with IAS 10, the date on which the financial statements were authorized for publication by the Board of Directors was March 13, 2019.

BUSINESS OUTLOOK

2019 appears to be an especially critical year for the Group's reference sector. The digitalization of the services, which has been going on for some years, is no longer a development option but a requirement to ensure the sustainability of the business.

Despite this, the competitive pressure by new entrants and the financial crisis have made customers very selective in their investments. The payment systems are no longer part of the core business of the customers, but are in any case a key component of the digitalization of customer relations. In this context, even large groups are moving to outsource the management of their payment systems, transferring the corresponding activities or companies. The investments in innovation are therefore carried out by third parties, which must ensure a high level of innovation as well as a competitive price.

The markets in which the Group operates continue to be characterized by consolidation at the international level. In this context, SIA plans to play an important role in the consolidation process, by promoting international partnerships aimed at establishing a network of excellence.

Against this background, SIA has an important role as an operator that can respond to banks' requirements with its own technology infrastructures, offering a high level of operating efficiency. SIA confirms its capacity of innovation and continues to excel at creating innovative systems to allow customers to enhance their services with distinctive products, improving their relationships with end users.

With respect to the results expected for 2019, the Group will continue to pursue its profitability targets, trying to achieve greater synergies between the companies operating on the market and a greater internationalization of its revenues, increasing sales abroad thanks to the geographical presence of the companies of the Group.

With regard to internal operations, the Group will continue to focus on improving efficiency in terms of both costs and operations.

PROPOSED ALLOCATION OF PROFIT (LOSS) FOR THE YEAR ↗

After presenting the separate financial statements of SIA S.p.A. for the year ended December 31, 2018, we submit to shareholders the proposal for the allocation of the net income reported by SIA S.p.A., equal to €84,641,251.

We remind shareholders that the company aims at increasing and stabilizing its profitability over time. On the basis of the prospects described in the 2019 Budget and in the three-year 2019-2021 Strategic Plan, as well as the economic and financial performance, which shows the current and prospective strength of the company, and taking into account, last but not least, the financial debt deriving from the M&A activities carried out in 2018, we propose to distribute an ordinary 2018 dividend

of €0.35 to each of the 171,343,227 shares, for a total of €59,970,129.45.

After distribution of the dividend, Shareholders' Equity would be equal to €213,969,365.

We propose that no allocation be made to the legal reserve, since the legal limits, as set forth in Art. 2430 of the Italian Civil Code, have already been achieved.

We propose that net income be allocated as follows:

To legal reserve as stated by the law	0
Dividend of € 0.35 per share	59,970,129
Retained earnings	24,671,122
	84,641,251

If the distribution of the dividend is resolved as above, the Shareholders'

Equity of SIA S.p.A. will be as follows:

Share capital	22,274,620
Legal reserve	4,454,924
Share premium reserve	5,316,654
Other reserves	79,408,534
Valuation reserve	(-5,452,804)
Retained earnings	107,967,437
	213,969,365

SIA S.p.A.

The Chairman of the Board of Directors
Mr. Giuliano Asperti

CONSOLIDATED FINANCIAL STATEMENTS OF THE SIA GROUP AS AT DECEMBER 31, 2018





CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Balance Sheet Assets

TOTAL ASSETS (thousands of euro)					
	Note	31/12/2018	31/12/2017	Change	%
Plant and machinery	1	61,645	51,239	10,406	20.3%
Industrial and commercial equipment	1	1,464	2,439	(975)	-40.0%
Land and buildings	1	23,978	1	23,977	
Other assets	1	1,616	1,417	199	14.0%
Construction in progress and advances	1	4,003	3,982	21	0.5%
Tangible assets		92,706	59,078	33,628	56.9%
Goodwill	2	629,269	312,483	316,786	101.4%
Other intangible assets	2	229,908	255,964	(26,056)	-10.2%
Intangible assets in progress and advances	2	27,764	8,370	19,394	
Intangible assets		886,941	576,817	310,124	53.8%
Investments	3	720	758	(38)	-5.0%
Non current financial assets	4	50	12	38	
Non current trade receivables	5	6	6	-	-
Other non current assets	6	4,102	788	3,314	
Deferred tax assets	7	10,646	6,322	4,324	68.4%
Total non current assets		995,171	643,781	351,390	54.6%
Inventories	8	4,375	5,031	(656)	-13.0%
Current financial receivables	9	1,703	-	1,703	
Current financial assets	10	122	488	(366)	-75.0%
Total current tax assets	11	39,375	48,728	(9,353)	-19.2%
Current trade receivables	12	188,757	158,295	30,462	19.2%
Other current assets	13	37,687	38,490	(803)	-2.1%
Cash and cash equivalents	14	94,652	61,349	33,303	54.3%
Total current assets		366,671	312,381	54,290	17.4%
TOTAL ASSETS		1,361,842	956,162	405,680	42.4%

Consolidated Balance Sheet Liabilities and Shareholders' Equity

TOTAL LIABILITIES AND EQUITY (thousands of euro)					
	Note	31/12/2018	31/12/2017	Change	%
Capital stock	15	22,275	22,275	-	-
Share premium reserve	15	5,317	5,317	-	-
Reserves	15	187,921	167,824	20,097	12.0%
Valuation reserve	15	(6,198)	(3,573)	(2,625)	73.5%
Profit/(loss) for the period attributable to the Group	15	79,536	80,083	(547)	-0.7%
GROUP SHAREHOLDERS' EQUITY		288,851	271,926	16,925	6.2%
Profit/(loss) attributable to non-controlling interests		-	-	-	-
Non-controlling interests reserves	15	5	5	-	-
Non-controlling interests		5	5	-	-
TOTAL NET EQUITY		288,856	271,931	16,925	6.2%
Non current financial payables	16	709,178	364,535	344,643	94.5%
Non current financial liabilities	17	5,231	934	4,297	
Employees benefits	18	23,145	20,785	2,360	11.4%
Deferred tax liabilities	19	48,416	54,049	(5,633)	-10.4%
Provisions for risks	20	1,823	4,187	(2,364)	-56.5%
Other non current liabilities	21	9,928	6	9,922	
Total non current liabilities		797,721	444,496	353,225	79.5%
Current financial payables	22	105,997	73,946	32,051	43.3%
Current financial liabilities	23	-	2,117	(2,117)	-100.0%
Current tax liabilities	24	4,922	1,298	3,624	
Trade payables - current	25	85,397	81,841	3,556	4.3%
Other current liabilities	26	78,949	80,533	(1,584)	-2.0%
Total current liabilities		275,265	239,735	35,530	14.8%
TOTAL LIABILITIES		1,072,986	684,231	388,755	56.8%
TOTAL LIABILITIES AND EQUITY		1,361,842	956,162	405,680	42.4%

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

INCOME STATEMENT (thousands of euro)					
	Note	31/12/2018	31/12/2017	Change	%
Revenues from sales and services	27	614,802	567,213	47,589	8.4%
Other revenue and income	28	3,191	2,469	722	29.2%
Changes in inventories third parties	29	(1,886)	352	(2,238)	
Costs for raw materials, supplies, consumables and goods	30	(13,750)	(12,195)	(1,555)	12.8%
Service costs	31	(193,087)	(181,176)	(11,911)	6.6%
Payroll costs	32	(182,501)	(175,092)	(7,409)	4.2%
Other operating expenses	33	(25,382)	(21,746)	(3,636)	16.7%
EBITDA		201,387	179,825	21,562	12.0%
Depreciations	34	(73,101)	(64,264)	(8,837)	13.8%
Adjustments to tangible and intangible assets	34	(3,962)	(461)	(3,501)	
Impairment of trade receivables	35	(1,220)	(6,370)	5,150	-80.8%
Provision for risks	36	(823)	(200)	(623)	
Operating Income		122,281	108,530	13,751	12.7%
Profit/loss on financial assets and liabilities management	37	(396)	960	(1,356)	
Management/negotiation of financial assets and liabilities	37	(396)	960	(1,356)	
Financial income	38	347	284	63	22.2%
Interest expenses	39	(11,385)	(9,042)	(2,343)	25.9%
Bank charges	39	(592)	(669)	77	-11.5%
Financial expenses		(11,977)	(9,711)	(2,266)	23.3%
Profit/(loss) before income taxes		110,255	100,063	10,192	10.2%
Current taxes	40	(37,854)	(30,726)	(7,128)	23.2%
Prepaid/deferred tax	40	7,801	4,400	3,401	77.3%
Taxes from previous years	40	(666)	6,346	(7,012)	
Income taxes		(30,719)	(19,980)	(10,739)	53.7%
Net profit from continuing operations		79,536	80,083	(547)	-0.7%
Net profit from assets held for sale or discontinued operations		-	-	-	-
Profit/(loss) for the period		79,536	80,083	(547)	-0.7%
Profit/(loss) attributable to non-controlling interests		-	-	-	-
Profit/(loss) for the period attributable to the Group		79,536	80,083	(547)	-0.7%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME (thousands of euro)					
	Note	31/12/2018	31/12/2017	Change	%
Profit/(loss) for the period		79,536	80,083	(547)	-0.7%
Defined-benefit schemes	15	(639)	887	(1,526)	
Other items of comprehensive income, net of taxes without reversal to P&L		(639)	887	(1,526)	
Exchange rates differences	15	(236)	(29)	(207)	
Cash flow hedges	15	(1,750)	(617)	(1,133)	
Other items of comprehensive income, net of taxes with reversal to P&L		(1,986)	(646)	(1,340)	
Total other items of comprehensive income, net of tax		(2,625)	241	(2,866)	
Total net comprehensive income		76,911	80,324	(3,413)	-4.2%
Net comprehensive income attributable to non-controlling interests		-	-	-	-
Group net comprehensive income		76,911	80,324	(3,413)	-4.2%

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY ↗

CHANGES IN SHAREHOLDERS' EQUITY IN 2017 (thousands of euro)								
	Share capital	Share premium reserves	Reserves	Valuation reserves	Group net profit/(loss)	Shareholders' equity	Non-controlling interests	Total shareholders' equity
Opening balances	22,275	5,317	140,351	(2,323)	70,354	235,974	5	235,979
Change in opening balances			1,596	(1,491)		105	-	105
Actuarial gain/(losses)			1,491	(1,491)		-	-	-
Others			105			-	-	-
Opening balances as of 01/01/2017	22,275	5,317	141,947	(3,814)	70,354	236,079	5	236,084
Allocation of profit			70,354		(70,354)	-	-	-
Distribution of dividends			(44,549)			(44,549)	-	(44,549)
Changes of the period			72	241	80,083	80,396	-	80,396
Exchange rate differences				(29)		(29)	-	(29)
Cash flow hedging				(617)		(617)	-	(617)
Actuarial gain/(losses)				887		887	-	887
Capital increases			70			70	-	70
Rounding			2			2	-	2
Result for the period					80,083	80,083	-	80,083
Closing balances as of 31/12/2017	22,275	5,317	167,824	(3,573)	80,083	271,926	5	271,931

On April 18, 2017, the Shareholders' Meeting of SIA S.p.A. approved the allocation of the profit from 2016 to a dividend of €44,549,239 and retained earnings for €25,264,686. In terms of changes in opening balances, the valuation reserve of the company P4cards was included in other reserves as at December 31, 2016.

CHANGES IN SHAREHOLDERS' EQUITY IN 2018 (thousands of euro)								
	Share capital	Share premium reserves	Reserves	Valuation reserves	Group net profit/(loss)	Shareholders' equity	Non-controlling interests	Total shareholders' equity
Opening balances	22,275	5,317	167,824	(3,573)	80,083	271,926	5	271,931
Change in opening balances			(16)			(16)	-	(16)
Opening balances as of 01/01/2018	22,275	5,317	167,808	(3,573)	80,083	271,910	5	271,915
Allocation of profit			80,083		(80,083)	-	-	-
Distribution of dividends			(59,970)			(59,970)	-	(59,970)
Changes of the period				(2,625)	79,536	76,911	-	76,911
Exchange rate differences				(236)		(236)	-	(236)
Cash flow hedging				(1,750)		(1,750)	-	(1,750)
Actuarial gain/(losses)				(639)		(639)	-	(639)
Result for the period					79,536	79,536	-	79,536
Closing balances as of 31/12/2018	22,275	5,317	187,921	(6,198)	79,536	288,851	5	288,856

On April 17, 2018, the Shareholders' Meeting of SIA S.p.A. approved the allocation of the profit from 2017 to a dividend of €59,970,129 and retained earnings for €3,474,758.

CONSOLIDATED CASH FLOW STATEMENT - INDIRECT METHOD ↗

CASH FLOW STATEMENT (thousands of euro)		
	31/12/2018	31/12/2017
Profit/(loss) before taxes	110,255	100,063
Income taxes	(30,719)	(19,980)
Depreciation and write-off of fixed assets	23,024	19,913
Depreciation and write-off of fixed assets	54,039	44,812
Provisions for employees	5,665	7,450
Provision for risks	823	200
Change in trade receivables	(30,462)	(6,695)
Change in trade payables	3,556	30,483
Change in inventories	656	(1,553)
Change in provisions for employees	(3,305)	(11,440)
Change in current and deferred tax assets and liabilities	3,020	6,508
Change in provisions for risks	(3,187)	540
Changes in other assets and liabilities	5,827	6,123
Cash flow generated/absorbed by operating activities	139,192	176,424
Net investments in tangible assets	(17,672)	(33,492)
Net investments in intangible assets	(34,381)	(34,199)
Change in tangible assets as a result of business combinations	(38,980)	-
Change in intangible assets as a result of business combinations	(12,996)	-
<i>Cash flow generated/absorbed by operating investment activities</i>	<i>(104,029)</i>	<i>(67,691)</i>
Change in intangible assets as a result of purchase price allocation	-	(51,865)
Change in goodwill	(316,786)	-
Change in investments	38	-
Cash flow generated/absorbed by investment activities	(420,777)	(119,556)
Change in reserves	(2,640)	418
Distribution of dividends	(59,971)	(44,549)
Change in financial receivables	(1,703)	-
Change in financial payables	376,694	(24,887)
Change in financial liabilities	2,180	(102)
Change in financial assets	328	19
Cash flow generated/absorbed by funding activities	314,888	(69,101)
Change in cash and cash equivalents	33,303	(12,233)
Cash and cash equivalents at the beginning of the period	61,349	73,582
Change in cash and cash equivalents	33,303	(12,233)
Cash and cash equivalents at the end of the period	94,652	61,349

Statement of compliance with international accounting standards

The Consolidated Financial Statements as at December 31, 2018 of the SIA Group include the Consolidated Management Report and the Consolidated Financial Statements and were drafted in compliance with the International Financial Reporting Standards (“IFRS”) endorsed by the European Commission and in force as of the date of approval of this document. “IFRS” refers to all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

The international accounting standards were also applied by making reference to the “Systematic Framework for the Preparation and Presentation

of Financial Statements” and no exemptions to IAS/IFRS were applied.

In particular, the Consolidated Financial Statements include the statement of financial position, the statement of profit and loss, the statement of comprehensive income, the statement of changes in shareholders’ equity, the cash flow statement and the Notes and the relative comparative information, and are accompanied by the Consolidated Management Report.

The SIA Group’s Consolidated Financial Statements were audited by the Independent Auditing Firm PricewaterhouseCoopers S.p.A., in execution of the shareholders’ resolution of April 15, 2016, which assigned the engagement until the approval of the Financial Statements as at December 31, 2018.

General accounting principles

The Consolidated Financial Statements of the SIA Group consist of the compulsory accounting statements set forth in IAS 1, i.e., the statement of financial position, the statement of profit and loss, the statement of comprehensive income, the statement of changes in shareholders’ equity and the cash flow statement, as well as the Notes and are accompanied by the Consolidated Management Report.

The Group has presented the statement of profit and loss by nature of expense, while in the statement of financial position the assets and liabilities are broken down between current and non-current.

An asset is classified as current when:

- › it is expected that the asset will be realized, or is held for sale or use, in the normal course of the operating cycle;

- › it is held with the primary intent of trading it;
- › it is expected to be realized within twelve months of year-end close;
- › it consists of cash and cash equivalents (unless it is prohibited to trade it or use it to extinguish a liability for at least twelve months after year-end close).

All other assets are classified as non-current. In particular, IAS 1 includes tangible assets, intangible assets and financial assets that are long-term in nature under non-current assets. A liability is classified as current when:

- › it is expected to be extinguished in the normal operating cycle;
- › it is held with the primary intent of trading it;
- › it will be extinguished within twelve months of year-end close;
- › there is no unconditional right to defer its settlement for at least twelve

months after year-end close. The clauses of a liability which could, as decided by the counterparty, give rise to its extinction through the issue of equity instruments, do not impact its classification.

All other liabilities are classified by the company as non-current. The operating cycle is the time between the acquisition of assets for the production process and their realization in cash and cash equivalents. When the normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

The cash flow statement is drafted according to the indirect method.

The reporting currency is the euro and the information reported in these Financial Statements, if not specified otherwise, is expressed in euro. The financial position, cash flows, profit and loss, notes and explanatory tables are in thousands of euro.

The Financial Statements were drafted clearly and provide a true and fair view of the financial position, profit and loss for the year, change in shareholders' equity and cash flows. If the information required by the international accounting standards is insufficient to provide a true and fair, relevant, reliable, comparable and comprehensible view, the Notes provide the necessary additional information.

The Consolidated Financial Statements were drafted on a going concern basis, according to the accrual basis of accounting, in compliance with the principle of relevance and significance of information, with the prevalence of substance over form, and with a view to favoring consistency with future presentations.

The assets and liabilities and costs and revenues are not offset unless this is permitted or required by the international accounting standards. If an asset or liability element falls under multiple items of the balance sheet, the Notes specify, if this is necessary to understand the Financial Statements, that it relates to items other than that in which it is recognized.

Items of a different nature or purpose were presented separately provided they were not deemed irrelevant.

In application of IFRS, the preparation of the Financial Statements requires making use of significant estimates based on forecasts and assumptions with capital, financial and economic effects on the financial statement values and the relative disclosures.

The Financial Statement items for which the use of estimates and assumptions is most significant regard the quantification of provisions for risks, the definition of the share of depreciation of tangible assets and the amortization of intangible assets with a finite useful life, the measurement of intangible assets with an indefinite useful life, goodwill and equity investments, the measurement of receivables and the relative bad debt provision, the measurement of employee benefits and the quantification of deferred taxation. The estimates and assumptions are reviewed periodically and the effects of every change are reflected in the income statement if it concerns only that period. If the revision concerns both current and future periods, the change is recognized in the period in which the revision is made and in the relative future periods.

Consolidation criteria and methodology

The scope of consolidation changed during the period as a result of the acquisition as of September 28, 2018 of controlling interests in the companies SIA Greece (formerly First Data Hellas) and SIA Slovakia (formerly First Data Slovakia). The latter holds the controlling interest in the companies SIA Croatia, SIA Czech Republic, SIA Hungary, SIA Romania and SIA Serbia, while SIA Greece directly controls the company DMAN in liquidation. The contribution of those companies to the Group's consolidated results is shown only for the final quarter of 2018. Following this extraordinary operation, the scope of consolidation includes, aside from the parent company SIA and the companies mentioned above, the foreign subsidiaries Perago FSE, PforCards and SIA Central Europe,

the Italian subsidiaries Emmecom, SIAadvisor, P4cards and Consorzio QuenIT in liquidation (the latter a direct subsidiary of P4cards), SIApay and Ubiq.

In the third quarter of the year, the shareholding in Ubiq increased from 96.5% to 100%.

All direct and indirect subsidiaries, with the exception of Consorzio QuenIT in liquidation (55%), are fully consolidated. SIA's shareholding in SIAadvisor is 51%, but based on an option negotiated with the shareholders, for the acquisition or sale of non-controlling interests within a future, predefined time window, it is consolidated line by line, in compliance with the provisions of IFRS 10. The table below provides a summary of the main information concerning the scope of consolidation as at December 31, 2018, unless specified otherwise:

(thousands of euro)

	Share capital	EQUITY	Result for the period	Last year result	Ownership interest
Subsidiaries					
Perago FSE (*)	2	(2,265)	(3,963)	782	100%
SIApay	600	8,312	529	715	100%
SIA Central Europe	551	6,489	2,279	1,857	100%
Emmecom	40	3,170	1,441	962	100%
Ubiq	173	486	(1,164)	(1,783)	100%
SIAadvisor	10	2,326	715	530	51%
P4cards	49,240	83,835	30,786	28,269	100%
PforCards	35	2,740	(1,180)	(1,177)	100%
Consorzio QuenIT in liquidation	10	10	-	-	55%
SIA Slovakia	4,906	21,593	3,458	-	100%
SIA Greece	43,852	48,411	267	-	100%
SIA Croatia	3	230	29	-	100%
SIA Romania	92	355	1	-	100%
SIA Serbia	-	192	(13)	-	100%
SIA Hungary	886	1,095	8	-	100%
SIA Czech Republic	139	158	13	-	100%
DMAN in liquidation	1,308	415	(1)	-	100%
Associates					
ATS (**)	120	2,527	82	25	30%

(*) Pursuant to Par. 9, Art. 2427 of the Italian Civil Code, the parent company has stated its willingness to support the development of the company by meeting the related financial requirements.

(**) The data refer to the year 2017.

As regards consolidation methodologies, equity investments in subsidiaries

are consolidated line by line, while interests over which the Group

exercises significant influence are measured at equity. The adequacy of the goodwill and equity investment carrying amounts in accordance with international accounting standard IAS 36 is checked at least yearly, and in any

case, any time there is a sign that an asset may have suffered impairment. If there are trigger events, IAS 36 also requires impairment tests to be carried out for other intangible assets besides goodwill.

Line-by-line method

Equity investments in subsidiaries are consolidated line-by-line. In line with the provisions of IFRS 10, the concept of control goes beyond the majority interest in the share capital of the investee and is considered to exist when an entity is exposed to variable returns, or has rights to such returns, deriving from its relationship with the subsidiary and at the same time has the ability to impact such returns by exercising its power over that entity.

Full consolidation entails the “line-by-line” aggregation of the balance sheet and income statement items found in the subsidiaries’ financial statements. To that end, the following adjustments are made:

- (a) the carrying amount of the equity investments held by the parent company and the corresponding part of shareholders’ equity are eliminated;
- (b) the portion of shareholders’ equity and profit or loss for the year pertaining to non-controlling interests is shown separately.

The results of the adjustments mentioned above are shown, if positive, - after any allocation to the subsidiary’s asset or liability items - as goodwill in the item “Intangible assets” at

Equity Method

Equity investments in companies over which the Group exercises significant influence or has joint control, as defined by IAS 28, are measured at equity. According to this method, the equity investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor’s share of the profits or losses of the investee after the acquisition date. The share pertaining

to the investor of the investee’s profit (loss) for the period is recognized in the investor’s income statement. The dividends received from an investee reduce the carrying amount of the equity investment; adjustments in the carrying amount may also be necessary if the investor’s share in the investee is modified following changes in the investee’s shareholders’ equity not recognized in the income statement.

Intra-group balances and transactions, including revenues, costs and dividends, are eliminated in full.

The economic results of a subsidiary acquired in the course of the year are included in the Consolidated Financial Statements as of the date of acquisition of control. Likewise, the economic results of a subsidiary sold are included in the Consolidated Financial Statements until the date on which control is no longer held.

The financial statements used in preparing the Consolidated Financial Statements are prepared as of the same date.

The Consolidated Financial Statements were drafted using uniform accounting standards for similar operations and events.

If a subsidiary uses accounting standards other than those adopted in the Consolidated Financial Statements for similar operations and events in similar circumstances, adjustments are made to the financial statements for the consolidation of the income statement and balance sheet balances.

These modifications include changes deriving from the revaluation of property, plant and equipment and differences from the translation of items in foreign currency. The share of those changes is recognized directly in its shareholders' equity.

The consolidating company stops using the equity method on the date on which it stops exercising significant influence or joint control over the investee and accounts for that equity investment under "Current financial assets" or "Non-current financial assets", according to the logic set forth above, starting from that date, provided the associate or jointly controlled company does not become a subsidiary.

The balance sheets and income statements of the Group companies operating in areas outside the Eurozone are translated into euro by applying the current exchange rates at the date of year-end close to the balance sheet asset and liability items and the average exchange rates for the year to the income statement items.

Exchange differences from the translation of the financial statements of these companies, deriving from the application of other exchange rates for assets and liabilities and for the income statement, are recognized in the shareholders' equity item "Valuation reserves". All exchange differences are reversed to the income statement in the year in which the equity investment is disposed of.

Accounting standards and valuation criteria

The criteria adopted with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as the revenue recognition criteria, are described below. The accounting standards applied are the same as those applied for the financial statements as at December 31, 2017

with the exception of IFRS 9 and IFRS 15, which have been applied since January 1, 2018. The impacts of the application of IFRS 9 and IFRS 15 are described in the "IFRS accounting standards, amendments and interpretations applied as of January 1, 2018" section below and in the sections of the Notes relating to the items concerned.

Financial assets and financial receivables

Financial assets at fair value through profit or loss

This category includes financial assets other than those classified under "Financial assets at fair value through other comprehensive income" or "Financial assets at amortized cost". In particular, the item includes:

- › financial assets held for trading, essentially represented by debt and equity instruments and the positive value of derivative contracts held for trading;
- › financial assets that must be measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income.

This item also includes derivative contracts not classifiable as hedges, which are recognized as assets if the fair value is positive and as liabilities if the fair value is negative.

Financial assets are initially recognized at the settlement date for debt and equity instruments and at the subscription date for derivative contracts. On initial recognition, financial assets at fair value through profit or loss are recognized at fair value without considering transaction costs or proceeds directly attributable to the instrument.

At subsequent reporting dates, they are measured at fair value and valuation effects are recognized in the income statement. Financial assets are derecognized only if the disposal entails the substantial transfer of all risks and rewards connected to such assets. On

the other hand, if a significant portion of the risks and rewards relating to the transferred financial assets is retained, they continue to be recognized in the financial statements even though the ownership of the assets themselves has actually been legally transferred.

Financial assets at fair value through other comprehensive income (FVOCI)

This category includes equity investments not qualified as investments in subsidiaries, associates and companies subject to joint control, which are not held for trading, for which the option for designation at fair value through other comprehensive income has been exercised. On initial recognition, the assets are recognized at fair value, inclusive of transaction costs or proceeds directly attributable to the instrument. Subsequent to initial recognition, non-controlling equity investments are measured at fair value and the amounts recognized as an offsetting entry of shareholders' equity (Statement of comprehensive income) should not be subsequently transferred to the income statement, even in the case of disposal. The only component referring to the equity instruments in question subject to recognition in the income statement is represented by the relative dividends.

For the equity instruments included in this category which are not listed in an active market, the cost approach is used as an estimate of fair value only on a residual basis and in limited circumstances, i.e., when all measurement methods previously referred to do not apply, or if there is a broad range of possible fair value measurements, within which cost represents the most significant estimate. Financial assets are derecognized only if the disposal entails the substantial transfer of all risks and rewards connected to such assets. On the other hand, if a significant portion of the risks and rewards relating to the transferred financial assets is retained, they continue to be recognized in the financial statements even though the ownership of the assets themselves has actually been legally transferred.

Financial receivables and financial assets at amortized cost

This category includes financial assets (particularly loans and debt instruments) which satisfy both of the following conditions:

- › the financial asset is held according to a hold-to-collect business model, and
- › the contractual terms of the financial asset call for cash flows at specific dates represented solely by payments of principal and interest on the principal amount outstanding ("SPPI test" passed).

On initial recognition, the assets are recognized at fair value, inclusive of transaction costs or proceeds

directly attributable to the instrument. Subsequent to initial recognition, the financial assets in question are measured at amortized cost, using the effective interest rate method. The amortized cost method is not used for assets - valued at historical cost - whose short duration makes the effect of discounting negligible, for those without a defined maturity and for revocable loans.

Financial assets are derecognized only if the disposal entails the substantial transfer of all risks and rewards connected to such assets. On the other hand, if a significant portion

of the risks and rewards relating to the transferred financial assets is retained, they continue to be recognized in the

financial statements even though the ownership of the assets themselves has actually been legally transferred.

Hedging

The SIA Group relies on the possibility, set forth during the introduction of IFRS 9, to continue to apply the provisions of IAS 39 on hedge accounting for all types of hedges. Hedging transactions aim to neutralize the economic effects on a specific element or group of elements (the hedged item) with reference to a given risk, through opposite economic effects on a different element or group of elements (hedging instrument). IAS 39 provides the possibility of designating the following three hedging relationships:

- › fair value hedge (FVH);
- › cash flow hedge (CFH);
- › net investment hedge (NIH).

A derivative financial instrument is classified as a hedge if the relationship between the hedging instrument and the hedged item is formally documented, including the risk management objectives, the hedging strategy and the methods that will be used to verify its prospective and retrospective effectiveness.

The type of relationship is designated at the start of the relationship and is evaluated on the basis of a continuity

approach; thus, on a prospective basis it must remain highly effective for all reference periods for which it was designated. Hedge effectiveness is assessed at each annual or interim reporting date. A hedge is deemed highly effective if at the start of the hedge and in subsequent periods it is expected to be highly effective and if its retrospective results (the relationship between changes in value of the hedged item and those of the hedging derivative) are included within a defined interval (80% - 125%).

If the assessments do not confirm the effectiveness of the hedge, as of that moment the contract is no longer accounted for as a hedging transaction and the hedging derivative contract is reclassified to trading instruments. The hedging relationship is also terminated when

- › the derivative expires, is sold, rescinded or exercised;
- › the hedged item is sold, expires or is reimbursed;
- › it is no longer highly likely that the hedged future transaction will be carried out.

Tangible assets

The categories of assets included in tangible assets, irrespective of how they are held, are shown in the table below, which also specifies the depreciation criteria applied:

CATEGORY	SUB-CLASSES	AMORTISATION RATE
Land and buildings	Land for functional use	-
	Land held as an investment	-
	Civil/industrial use buildings for functional use	3%
	Civil/industrial use buildings held as an investment	3%
Plants and machinery	Electric installations	10%
	Data centre installations	15%
	Air conditioning installations	15%
	Alarm and security installations	30%
	Fire prevention installations	15%
	Telephone and communication installations	25%
	Hardware	25%
	Equipment	15%
Equipment	Manufacturing equipment	12%
	Electrical machinery	12%
	Commercial equipment	12%
	Various equipment	12%
Other assets	Office equipment	
	Office machines	12%
	Furniture	12%
	Furnishings	12%
	Vehicles	25%

Costs for renovating unowned properties (“leasehold improvements”) are capitalized considering the fact that for the term of the rental agreement the using company has control over the assets and can obtain future economic benefits from them. These renovation costs are classified under “Other non-current assets” and the relative depreciation (determined on the basis of a period not exceeding the term of the rental agreement) in the item “Other operating expenses”. This category does not include assets that can be clearly identified and separated.

Property, plant and equipment are accounted for under tangible assets only when the following conditions are all satisfied:

- › it is likely that the future economic benefits of the asset will be enjoyed by the company;
- › the cost can be reliably determined.

Tangible assets are initially measured at cost, defined as the monetary or

equivalent amount paid or the fair value of other consideration provided to acquire an asset at the moment of acquisition or replacement. After initial recognition, tangible assets are measured with the cost method, net of depreciation previously accounted for and any accumulated impairment, on the basis of which the cost of the tangible asset generally remains unchanged until it is derecognized.

Tangible assets are depreciated on a straight-line basis throughout their useful lives, and depreciation is recognized on an accrual basis. As an operating practice, depreciation is calculated starting from the first day of the month in which the asset is available for use.

At the end of every year, the company checks if there have been significant changes in the expected characteristics of the economic benefits arising from capitalized assets and, in that case, modifies the depreciation method, which is considered a change in estimate according to the provisions of IAS 8.

Furthermore, at the end of each year, the company checks whether tangible assets measured according to the cost method have suffered from impairment and any loss identified is recognized in

the income statement. The value of the tangible asset is cancelled in full when it is disposed of or when the company does not expect to obtain any economic benefit from its disposal.

Assets acquired through a finance lease

A finance lease is a lease that substantially transfers all risks and rewards arising from ownership of the asset and whose ownership right may also not be transferred at the end of the agreement, while a lease is classified as operating if it does not substantially transfer all risks and rewards arising from ownership.

In compliance with IAS 17, finance lease transactions are recognized as assets and liabilities in the balance sheet at values equal to the fair value of the leased asset or, if lower, at the present value of the minimum lease payments due, each determined at the start of the lease.

The amount recognized as an asset also includes any initial direct costs of the lessee, consistent with regulatory instructions, namely commissions, fees and legal expenses, or those costs that are certain and immediately determinable at the moment of initial recognition of the lease.

If there is no explicit contractual provision on the lease's implicit interest rate, the marginal rate of financing of the lessee is determined through a quote, from another counterparty, for the lease of the same asset for the same term. If this is unfeasible, for example because the leased asset has a number of customizations, the marginal rate of financing is determined on the basis of the rate of financing for a loan with a

similar term and guarantees necessary to acquire the asset.

To allocate the financial cost during the term of the lease, the interest component is allocated on a straight-line basis throughout the term of the lease. The depreciation method used for leased depreciable assets is consistent with that adopted for owned depreciable assets, and the depreciation to be recognized is calculated in accordance with IAS 16 and IAS 38, depending on the nature of the leased asset.

The sum of an asset's depreciation and the financial cost for the year is rarely equivalent to the lease payments due for the year, and thus it is not accurate to merely recognize the lease payments in the income statement as a cost. Therefore, it is unlikely that the asset and the relative liability will have the same value after the lease begins.

Consistent with the provisions already referred to with reference to tangible and intangible assets, leased assets are periodically tested for impairment in accordance with IAS 36.

Finance leases that expire and are renewed for a limited period of time are accounted for in accordance with the methods set forth for operating leases, therefore by recognizing the payments for an operating lease as a cost on a straight-line basis throughout the term of the lease

Intangible assets

An intangible asset is an asset which simultaneously satisfies the following conditions:

- › it is identifiable;
- › it is non-monetary;
- › it has no physical consistency;
- › it is under the control of the company drafting the Financial Statements;
- › it is expected to generate future economic benefits for the company.

If an asset does not satisfy the above requirements to be defined as an intangible asset, the expense incurred to acquire the asset or to generate it internally is accounted for as a cost when it is incurred. However, if the asset in question is acquired in the course of a business combination, it is part of the goodwill recognized when the acquisition takes place.

Intangible assets are initially recognized at cost.

The cost of intangible assets acquired externally includes the purchase price and any directly attributable cost. The main types of intangible assets acquired separately include software acquired from third parties or under user licenses. On the other hand, costs for assets acquired under a lease with a short useful life that entail the depletion of economic benefits within no more than the term of the contract are recognized in the income statement. Intangible assets acquired through business combinations are initially recognized at cost, corresponding to the fair value at the acquisition date. An intangible asset is recognized separately from goodwill if the fair value can be determined reliably, irrespective of whether the asset was recognized by the acquired company prior to the business combination: in particular, there is a presumption of reliable measurability of the fair value unless the asset derives from legal or contractual rights and is not separable, or is separable but there is no evidence of similar transactions in the past. Goodwill generated internally is not recognized as an asset, like intangible assets deriving from research (or from the research phase of an internal project).

An intangible asset deriving from development or the development phase of an internal project is recognized if it can be demonstrated that the following conditions are met:

- › the technical feasibility of completing the intangible asset so as to be available for use or for sale;
- › the intention to complete the intangible asset to use it or sell it;
- › the capacity to use or sell the intangible asset;
- › the method in which the intangible asset is capable of generating future economic benefits and in particular the existence of a market for the product of the intangible asset or for the intangible asset itself or, if it will be used for internal purposes, its utility;
- › the availability of adequate technical, financial and other resources to complete the development and for the use or sale of the asset;
- › the capacity to reliably evaluate the cost attributable to the intangible asset during its development.

The main types of internally generated intangible assets are represented by software projects. The following are considered directly attributable and capitalizable costs, incurred to put the asset in normal operating conditions:

- › costs for materials and services used or consumed to generate the intangible asset;
- › taxes to register a legal right;
- › the amortization of patents and licenses used to create the intangible asset;
- › financial charges;
- › the cost of personnel assigned and planned for the development of the project;
- › the fees paid to outside consultants for services received directly on the project already started and identified.

Intangible assets are measured using the cost method in accordance with one of the two different criteria set forth in IAS 38 (cost model and revaluation model).

With the cost model, after initial recognition an intangible asset must be recognized in the Financial Statements at cost net of accumulated amortization and any accumulated impairment losses.

At each reporting date, an assessment is conducted to identify any indicators of impairment. In the presence of such an indicator, in compliance with IAS 36, the asset's recoverable amount is determined and

compared with the carrying amount in an impairment test.

For intangible assets with a finite useful life, amortization is calculated starting from the first day of the month in which the asset is available for use, on a straight-line basis.

The table below shows the amortization rates adopted by the SIA Group for the main classes of intangible assets:

Category	Sub-classes	Amortisation rate
Separately acquired intangible assets	Patents and other industrial rights	33%
	Trademarks	33%
	Software licenses	33%
Internally generated intangible assets	Internally developed software projects	33%
Intangible assets acquired through business combinations	Other	10%

Intangible assets that are infrastructural in nature and are particularly strategically significant, or linked to contracts with a duration exceeding three years, are examined on a case-by-case basis to evaluate their proper technical/economic useful life, which in exceptional cases may be greater than three years.

Intangible assets with an indefinite useful life and those which are not yet available for use are not amortized but, in accordance with IAS 36, they are tested for impairment.

The impairment test is conducted at least once per year, and in any event any time there is an indication that an intangible asset may have suffered from impairment. Within the Group, the only intangible asset with an indefinite useful life is the goodwill arising following

business combinations.

The intangible assets acquired through business combinations are monitored annually to identify any impairment or review the amortization rates.

Intangible assets are derecognized when they are disposed of or when no future economic benefit is expected to derive from their disposal. The gain or loss generated from the derecognition of an intangible asset is recognized in the income statement under "Profit (loss) on disposal of assets" when the asset is derecognized.

In determining the disposal date, the provisions set forth in IFRS 15 for the recognition of revenues from the sale of assets and in IAS 17 for disposals carried out through sale and lease back transactions apply.

Equity investments

Equity instruments qualified as equity investments have as their common denominator the acquisition of a more or less significant part of the governance power of the investee company and are broken down into:

- › subsidiaries;
- › companies subject to joint control;
- › associates.

Investments in subsidiaries, associates and joint ventures are recognized at the date of acquisition of the shareholding, which is assumed to coincide with the date on which the control, significant influence or joint control, respectively, is acquired. In addition, this is the reference date in business com-

binations for the measurement of the fair value of the assets and liabilities acquired and, thus, goodwill.

Investments in subsidiaries, joint ventures and associates are initially recognized at cost. In accordance with the cost method, every time the accounts are closed an assessment is conducted to verify whether an asset has suffered from a loss in value, resulting in the need to adjust the carrying amount of the equity investment (impairment). Equity investments are derecognized when the contractual rights to the cash flows deriving from the assets expire or when the equity investment is sold, substantially transferring all of its risks and rewards.

Business combinations and impairment testing

A business combination is a operation or other event whereby an acquirer obtains control over one or more business activities. Based on IFRS 3, all business combinations are accounted for by applying the acquisition method, which considers a business combination from the perspective of the acquirer and, as a result, presumes that an acquirer must be identified in every business combination. The acquisition date is the date on which the acquirer obtains control over the other businesses or business activities subject to the combination. On the acquisition date, Financial Statements of the acquired company must be available for the consolidation of the results and the measurement of the fair value of the assets and liabilities acquired, including goodwill, to be completed within up to 12 months. If reliable financial statements are unavailable at that date, the Group assumes as the acquisition date - for these purposes - the first day of the quarter immediately subsequent to the actual acquisition date or, if closer, the last day of the quarter prior to that date.

The assets acquired and liabilities assumed are measured by the acquiring company at their fair value at the

acquisition date, on the basis of the definition provided by IFRS 13.

Goodwill is a business asset that represents the sum of future benefits deriving from all assets acquired as part of the business combination which are not individually identifiable and measurable separately one from the other. At the acquisition date, it is measured as the difference between the fair value of the identifiable net assets of the business acquired and the sum of the following components:

- › the consideration transferred, generally measured at fair value;
- › the amount relating to non-controlling interests;
- › the fair value at the acquisition date of the interests already held by the acquirer prior to the business combination.

If the fair value of the identifiable net assets exceeds the aggregate consisting of the consideration transferred, the non-controlling interests and the fair value of all interests already held previously, the difference is recognized immediately as a gain in the income statement, as this is considered negative goodwill.

The adequacy of the goodwill carrying amount recognized following business combinations, in accordance

with international accounting standard IAS 36, is checked at least yearly, and in any case, any time there is a sign that an asset may have suffered impairment.

Goodwill is always tested for impairment within a cash-generating unit (CGU) or a group of CGUs, as goodwill does not generate cash flows independently from other assets. For goodwill in the consolidated financial statements of the SIA Group arising from the recognition of equity investments at a value higher than the applicable shareholders' equity, the impairment test is performed by estimating the recoverable amount of the legal entity to which the goodwill has been allocated. In other words, for the impairment test, the cash-generating unit with which goodwill is associated is the legal entity from which it was generated. For the remaining goodwill not associable with a single legal entity and/or arising from business combinations (such as mergers by incorporation), the impairment test is carried out by identifying the cash-generating units representing the business with which the above-mentioned goodwill should be associated. If the high degree of integration of activities makes it difficult to identify the level at which to perform the test, a single CGU is identified representing the entire entity as a whole, deeming that the goodwill recognized in the Financial Statements must be tested on the basis of the value drivers referring to the entity as a whole.

The impairment test on equity investments in subsidiaries is carried out on the individual legal entities, consistent with IAS 36, as it is deemed that they have autonomous cash-flow generation capabilities. If the high degree of integration of the activities does not make it possible to perform the test at individual legal entity level, the impairment test is carried out at the level of the CGU identified in the consolidated financial statements, as only at that level is it possible to determine the recoverable amount of the same CGU.

An asset has suffered from impairment when its carrying amount exceeds its recoverable amount. To determine the recoverable amount, reference is made to the higher of value in use and the net realizable value, or the sale price net of selling costs.

To perform the impairment test on goodwill and equity investments, forecast data approved by the parent company's Board of Directors and by the competent corporate bodies of the subsidiaries are used. The discounting rate used is the rate gross of taxes that reflects current market valuations of the time value of money and the specific risks of the asset for which estimates of future cash flows have not been adjusted. That rate is estimated based on the implicit rate used for similar assets in deals currently present in the market or the weighted average cost of capital of a listed company which has a single asset (or portfolio of assets) similar to the asset considered in terms of service and risks. When the rate of a specific asset cannot be identified directly in the market, the business makes use of other techniques to estimate its discounting rate (taking into consideration, for example, the following rates: the weighted average cost of capital for the entity determined by making use of valuation techniques such as the Capital Asset Pricing Model (CAPM); the marginal rate of financing of the business; other financing rates identifiable in the market).

Impairment is recognized if the recoverable amount of the unit (group of units) is lower than the carrying amount of the unit (group of units). Impairment is allocated first and foremost as a reduction from the carrying amount of any goodwill allocated to the CGU or group of CGUs and then to the other assets of the unit (group of units) in proportion with the carrying amount of each asset making up the unit (group of units).

Sensitivity analyses are also carried out to capture additional elements supporting the reasonableness of the results obtained from the estimates of values which, by their very nature, contain ineliminable degrees of

uncertainty, in order to verify the sensitivity of the results obtained in the impairment test to changes in certain estimation parameters and other underlying assumptions. As set forth in IAS 36, an impairment loss recognized on goodwill cannot be eliminated in later years.

If the reasons for the impairment loss on an equity investment no longer apply following an event taking place

subsequent to the recognition of impairment, a write-back is recognized in the income statement.

In addition, dedicated sensitivity analyses are performed as part of the impairment testing.

Please refer to the applicable sections in the Notes to the financial statements for more details on the measurement criteria, the rules applied and the results for the individual items.

Inventories

Inventories are assets:

- › held for sale in the normal course of business;
- › used in production processes for sale;
- › in the form of materials or supplies of assets to be used in the production process or the provision of services.

In the specific case of the company, inventories of finished goods and goods for resale essentially refer to terminals and microprocessor cards acquired from third parties and intended for sale to meet obligations arising from contracts with customers.

Inventories are recognized and measured at the lower of cost and net realizable value.

In compliance with IAS 2, to determine the cost of inventories, the weighted average cost formula is used on an annual basis, unless there are

anomalous price fluctuations such as to have a distortive effect.

The net realizable value of inventories is determined by making reference to the estimated sale price in the normal course of business net of estimated completion costs as well as those estimated costs necessary to make the sale, inferable from contracts already concluded for the provision of services or from the most recent prices for analogous transactions already carried out recently, provided they are documented.

When the net realizable value is lower than cost, the excess is immediately written down in the income statement. The write-down should be made on the basis of an assessment carried out item by item, and therefore it is not deemed appropriate to write down inventories on the basis of their classification or because they are part of a particular operating segment.

Trade receivables

Trade receivables from the provision of services are recognized according to the terms set forth in the contract with the customer on the basis of the provisions of IFRS 15 and classified based on the nature of the debtor and/or the due date of the receivable (this definition also includes invoices to be issued for services already provided). In addition, as trade receivables are generally short-term and do not require the payment of interest, the amortized cost is not calculated and they are accounted for on the basis of the nominal value reported on the invoices

issued or in the contracts entered into with customers: this also applies for trade receivables with a contractual duration of more than 12 months, unless the effect is particularly significant.

This is due to the fact that the amount of short-term receivables is very similar applying the historical cost method or the amortized cost method, and the impact of discounting would therefore be negligible. Trade receivables are tested for impairment on the basis of the provisions of IFRS 9 at least every six months. IFRS 9 paragraph 5.5.15 allows for a simplified approach to be

used to determine lifetime expected credit losses on trade receivables using for example a “provision matrix” (IFRS 9, par. B5.5.35) which specifies write-down percentages on the basis of days overdue. The Group’s policy for measuring trade receivables requires dividing customers into overdue time bands to apply the appropriate percentage of write-downs on the basis of historical experience, to be applied to the various categories of customers taking into account expected

losses. If there is information on the creditworthiness of counterparties significantly impacting the possibility of recovering the receivable, the Group performs specific assessments of open positions. Receivables are derecognized when the contractual rights to their cash flows expire. Trade receivables are derecognized only to the extent of those uncollectable exposures for which following recovery activities an agreement has been reached with the customer.

Cash and cash equivalents

Cash and cash equivalents are recognized at nominal value.

Other cash equivalents represent short-term, highly liquid financial investments that are readily convertible

into known cash values subject to irrelevant risk of changes in value, which have an original maturity or maturity at the time of acquisition of no more than 3 months.

Employee benefits

Employee benefits include benefits provided to employees or their dependents, may be settled by means of payments (or through the provision of goods and services) made directly to the employee, spouse, children or other dependents or third parties, such as insurance companies, and are broken down into short-term benefits, benefits due to employees for the termination of the employment relationship and post-employment benefits.

Short-term benefits, which also include incentive programs such as yearly bonuses, MBO programs and one-off renewals of national collective labor agreements, are accounted for as liabilities (cost provision) after deducting any amount already paid and as a cost, unless any other IFRS requires or allows for the inclusion of benefits in the cost of an asset (for example, the cost of personnel employed in developing intangible assets generated internally).

The category of benefits for the termination of the employment relationship includes early retirement incentive plans, arising in the case of voluntary resignations that entail the participation of the employee or a group of employees in union agreements for

the activation of “solidarity funds”, and lay-off plans, which take place in the case of the termination of the employment relationship based on the unilateral decision of the company. The company recognizes the cost of those benefits as a liability in the Financial Statements at the most immediate date between the moment at which the company can no longer withdraw the offer of such benefits and the moment at which the company recognizes the costs of a restructuring that falls within the scope of IAS 37.

Early retirement provisions are reviewed at least every six months.

Post-employment benefit plans are broken down into two categories: defined contribution plans and defined benefit plans.

Defined contribution plans primarily include:

- › supplementary retirement funds that require the contribution of a defined amount on the part of the company;
- › the employee severance indemnity (“TFR”) provision, limited to amounts accruing as of 1 January 2007 for companies with more than 50 employees, irrespective of the allocation option chosen by the employee;

- › the shares of employee severance indemnity accruing as of 1 January 2007 and allocated to a supplementary retirement plan, for companies with fewer than 50 employees;
- › supplementary health care funds.

Defined benefit plans instead include:

- › the share of employee severance indemnity accruing until 31 December 2006 for all companies, as well as the shares accruing as of 1 January 2007 and not allocated to a supplementary retirement plan for companies with fewer than 50 employees;
- › supplementary retirement plans the conditions of which require the payment to participants of a defined benefit;
- › seniority bonuses, which require an extraordinary payment to the employee upon reaching a certain level of seniority with the company.

In defined contribution plans, the obligation of the company drafting the Financial Statements is determined on the basis of the contributions due for that year, and therefore the valuation of the obligation does not require actuarial assumptions and there is no possibility of actuarial gains or losses.

Actuarial assumptions are however required to account for the value of the obligation for defined benefit plans. That valuation is assigned to an external actuary and is carried out every year. For discounting purposes, the company uses the projected unit credit method, which makes a projection of future outlays on the basis of statistical historical analyses and the demographic curve and the financial discounting of such flows on the basis of a market interest rate. Actuarial gains and losses are recognized as an offsetting entry to shareholders' equity (in the valuation reserve) as required by IAS 19.

Provisions for risks, contingent assets and liabilities

Provisions are different from other liabilities as there is no certainty with respect to their due date or the amount of the future expenditure required to fulfil the obligation. Therefore, provisions are shown separately from trade payables and allocations made for presumed payables.

A liability or provision is accounted for when:

- › there is a current legal or implicit obligation as a result of past events;
- › it is likely that the use of resources capable of generating economic benefits will be necessary to fulfil the obligation;
- › the amount of the obligation can be reliably estimated.

Provisions require the use of estimates. In extremely rare circumstances in which a reliable estimate cannot be made, the item in question is deemed a liability that cannot be reliably determined, which is therefore described in the notes to the financial statements as a contingent liability.

To account for the expense, provisions are recognized if there is uncertainty as

to the due date or the amount of cash flows necessary to fulfil the obligation, or other liabilities are recognized, in particular trade payables or allocations for presumed payables.

An allocation is made to the provisions for risks in an amount representing the best possible estimate of the expense required to settle the relative obligation existing at the reporting date and takes into consideration the risks and uncertainties inevitably surrounding many events and circumstances. The amount of the provision reflects any future events that may impact the amount required to extinguish an obligation if there is sufficient objective evidence that they will take place.

Once the best possible estimate of the expenditure necessary to settle the relative obligation existing at the reporting date is determined, the present value of the provision is determined, if the effect of the present value of money is a relevant aspect.

The components deriving from the effects of discounting are reported within the same item used for the recognition of the contingent liability.

Contingent assets are uncertain assets which cannot be accounted for in

the financial statements, but are rather described in a dedicated disclosure.

Payables

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost. Payables to banks and other lenders are initially recognized at fair value, net of directly attributable accessory costs, and they are subsequently measured at amortized cost, applying the effective interest rate approach. If there is a change in the estimate of expected cash flows, the value of liabilities is recalculated to reflect that change on the basis of the present value of the new expected cash

flows and the effective internal rate determined initially. Payables to banks and other lenders are classified under current liabilities, unless the Group has an unconditional right to defer their payment for at least twelve months after the reporting date.

Payables to banks and other lenders are derecognized when they are extinguished and when the Group has transferred all risks and expenses relating to the instrument.

Revenues and costs

Sale of products and provision of services

Revenues from the sale of products and the provision of services are recognized only when all of the following conditions are met:

- › the contract with the customer has been identified - to identify a contract, the parties need to have approved the contract (in writing or in compliance with other customary commercial practices) and must have committed to fulfilling their respective obligations;
- › the performance obligations contained in the contract have been identified - the goods and services to be transferred must be identified;
- › the price has been determined - the consideration and the payment methods must be defined;
- › the price has been allocated to the individual performance obligations contained in the contract - if a contract calls for the delivery/supply of multiple goods or services, the agreed consideration must be allocated to the individual goods/services;
- › the performance obligations set forth in the contract have been satisfied - goods and services must be effectively transferred to the customer.

Revenues are recognized when

(or as) the performance obligation is fulfilled by transferring the promised good or service to the customer. The asset is transferred when (or as) the customer acquires control over it. The consideration set forth in the contract with the customer may include fixed amounts, variable amounts or both.

The consideration relating to one-off contributions to activate the related services is recognized as revenues when the goods or services are provided.

The variable components represented by penalties to be paid to the customer in the case of service disruption are recognized when their payment is deemed likely.

The variable components relating to the invoicing of transactions exceeding a threshold are included in the consideration only when the adjustment is applied if they are not easy to estimate at the start of the year, as they are sensitive to factors outside the control of the supplier.

In the case of a consideration negotiated with the customer on the basis of brackets, an assessment is made based on historical and forecast data of the expected final bracket, so as to include the variable component in the initial amount recognized.

Project activities

For long-term orders, such as software development for customers, the margin on the order is recognized in the course of the development (over time) according to contractual and/or project milestones, if established and recognized by the customer, if one of the following conditions is met:

- › the customer simultaneously receives and uses the benefits arising from the service as it is provided;
- › the service creates or improves the asset that the customer controls as the asset is created or improved;
- › the asset produced has no alternative uses and the entity is entitled to be paid for the work carried out until that time.

If the project is not developed specifically for the customer, or if there are no milestones established, the costs relating to the order are suspended if it is possible to demonstrate that they can be recovered. The revenues will be recognized only upon completion and acceptance by the customer of the order (point in time).

The costs incurred for the development and any additional consideration deemed likely and prudently measured must be suspended in the item "Inventories and construction contracts" in current assets with an offsetting entry in the income statement item "Change in inventories and construction contracts".

Interest income and dividends

Interest income is recognized using the effective interest rate approach. Dividends are recognized in the income statement when the right arises to

receive the established dividend, or following the shareholders' resolution of the subsidiary, associate or joint venture.

Costs

Costs are recognized in the Income Statement on an accrual basis; the costs relating to obtaining and fulfilling contracts with customers are recognized

in the Income Statement in the periods in which the relative revenues are accounted for.

Income tax

Current taxes for the year and previous years are recognized as liabilities to the extent to which they have not been paid. Current tax assets and liabilities for the current and previous years must be determined at the value expected to be recovered or paid to the tax authorities, respectively, by applying the tax rates and tax legislation in force or substantially issued at the reporting date.

Deferred taxes are broken down into:

- › deferred tax liabilities: these are the amounts of income taxes due in future years referring to taxable temporary differences;
- › deferred tax assets: these are the amounts of income taxes recoverable in future years referring to deductible temporary differences, unused tax

losses carried forward and unused tax credits carried forward.

To calculate the amount of deferred tax assets and liabilities, the tax rate is applied to the taxable or deductible temporary differences identified, or to the unused tax losses and unused tax credits.

At each reporting date, a new assessment is performed on deferred tax assets not recognized in the Financial Statements as well as deferred tax assets recognized in the Financial Statements in order to verify whether it is likely that the deferred tax assets will be recovered. This verification is carried out through the probability test, with reference to the forecasts set forth in company plans.

For presentation in the Financial Statements, the items recognized on consolidation which at the time of recognition for the same phenomenon are offsettable, are offset in the consolidated financial statements.

The Group companies proceed with offsetting only with reference to temporary differences which, aside from meeting the above requirements, refer to a defined period of cancellation and the same year of cancellation. As a result, in years in which deductible temporary differences are higher than taxable temporary differences, the relative prepaid taxes are recognized as assets in the statement of financial position under deferred tax assets;

on the other hand, in years in which taxable temporary differences are higher than deductible temporary differences, the relative deferred taxes are recognized as liabilities in the statement of financial position under deferred tax liabilities.

For all Italian companies (with the exception of Consorzio QuenIT in liquidation), the Group has adopted "domestic tax consolidation", with reference to corporate income tax (IRES), which enables groups of companies to offset their income, or determine a single tax base to an extent corresponding to the algebraic sum of the tax bases of each of the

participating Group companies, which are included for their entire amount, irrespective of the consolidating company's stake in them. Based on this option, the Group companies that participate in domestic tax consolidation determine their own tax burden and the corresponding taxable income is transferred to the parent company (likewise in the case of tax losses of the consolidated companies, if there is consolidated income during the year or a high likelihood of future taxable income). Thus, the consolidating company recognizes the payable for its own individual income taxes and for the individual income taxes of the subsidiaries participating in the domestic tax consolidation scheme in the item "Current tax liabilities" net of advances paid, or if the latter are higher than the balance of current liabilities, the net balance is shown in the item "Current tax assets". As an offsetting entry to items transferred by the subsidiaries, there is a payable (receivable) with respect to the subsidiaries, classified under "Other current assets" and "Other current liabilities". The item "Income taxes" includes the cost relating to the taxable income of the consolidating company. This scheme lasts for three years and is renewable automatically. It is currently in place until between 2019 and 2021.

Disclosure on fair value

With respect to the assets and liabilities recognized in the statement of financial position, IFRS 13 requires those values to be classified on the basis of a hierarchy which reflects the significance of the inputs used in determining the fair value. The classification of the fair value of financial instruments is reported below on the basis of the following hierarchical levels:

› **Level 1:** fair value determined with reference to (unadjusted) listed prices in active markets for identical financial instruments. Thus, in Level 1 emphasis is placed on the determination of the following elements: (a) the primary market of the asset or liability or, in the

absence of a primary market, the most advantageous market of the asset or liability; (b) the possibility for the entity to carry out a transaction with the asset or the liability at the price of that market on the valuation date.

› **Level 2:** fair value determined with valuation techniques with reference to variables observable in active markets. The inputs for this level include: (a) listed prices for similar assets or liabilities in active markets; (b) listed prices for identical or similar assets or liabilities in inactive markets; (c) data other than listed prices observable for the asset or liability, for example: interest rates and yield

curves observable at commonly quoted intervals, implicit volatilities, credit spreads or inputs corroborated by the market.

- › **Level 3:** fair value determined with valuation techniques with reference

to variables not observable in the market.

Please refer to the “Disclosure on fair value” section for details on the breakdown of assets and liabilities measured by the Group at fair value based on the levels of the hierarchy.

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

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

- › **IFRS 15** – Revenue from Contracts with Customers (published on May 28, 2014 and supplemented with additional clarifications published on April 12, 2016) which replaced IAS 18 - Revenue and IAS 11 - Construction contracts, as well as the interpretations IFRIC 13 - Customer Loyalty Programs, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 - Revenues-Barter Transactions Involving Advertising Services. The standard establishes a new model for recognizing revenues, which applies to all contracts entered into with customers with the exception of those that fall within the scope of application of other IAS/IFRS such as leases, insurance agreements and financial instruments.

The basic steps for accounting for revenues according to the new model are:

- identify the contract with the customer;
- identify the performance obligations set forth in the contract;
- determine the price;
- allocate the price to the performance obligations set forth in the contract;
- recognize revenues when the entity satisfies each of the performance obligations.

The Group conducted a detailed analysis of contracts with customers,

the nature of the revenues earned and the various types of agreed consideration. Particular attention was paid to analyzing the consideration relating to one-off contributions for the activation of services, the variable components present in contractual agreements and the consideration negotiated with customers on the basis of brackets.

Project activities carried out by the company for customers were also subject to particular attention, especially with reference to the recognition of the profit margin on orders according to the methods specified by the standard, i.e., over time or point in time.

The analyses carried out showed that the accounting treatment of the main types of revenues from contracts with customers was already aligned with the provisions of the new standard and, as a result, there were no significant accounting impacts.

- › **IFRS 9** – Financial Instruments (published on July 24, 2014). This standard introduces new criteria for the classification and measurement of financial assets and liabilities (along with the measurement of unsubstantial changes in financial liabilities). With reference to the impairment model, the new standard requires credit losses to be estimated on the basis of the expected losses model (and not the incurred losses model used by IAS 39) using supportable information available without unreasonable expense or effort which include historical, current and forecast data. Lastly, the new standard introduces a new hedge accounting model (increase in the

types of transactions eligible for hedge accounting, change in the methods of accounting for forward contracts and options when included in a hedge accounting relationship and changes to effectiveness testing).

The new standard was applied as of January 1, 2018. The SIA Group has defined business models that identify the purpose for which the financial instruments are held. Taking into account the Group's operating segments, no critical issues or difficulties arose in linking the business models identified to the specific business model categories defined by IFRS 9, listed below:

- "A business model whose objective is to hold assets in order to collect contractual cash flows" (IFRS 9 par. B4.1.2C - B4.1.4) -> held to collect;
- "A business model whose objective is achieved by both collecting

contractual cash flows and selling assets" (IFRS 9 par. B4.1.4A -B4.1.4C) -> held to collect and sell;
 - Other business models (IFRS 9 par. B4.1.5-B4.1.6).

In addition, again for the classification of financial assets, for some categories of assets, as required by the standard, the Group verified that the contractual cash flows consist solely of payment of principal and interest on the principal amount outstanding (IFRS 9 B4.1.7-B4.1.19 - "SPPI test").

The summary table below defines the purposes for which financial instruments are held within the Group, identifying the reference business models and evaluating if the instrument generates structured/complex cash flows (which do not correspond to payments of principal and interest on the principal amount outstanding).

FINANCIAL INSTRUMENT	PURPOSE OF HOLDING	BUSINESS MODEL	VALUATION CRITERIA
Equity instrument	Medium/long term investment	Equity instrument	Fair value
Financial receivables	Hedging	Held to collect	Amortized cost
Trade receivables	Collection	Held to collect	Amortized cost
Cash	Short term investment	Held to collect	Amortized cost

Given the nature of the financial instruments shown in the table above measured at amortized cost - consider that the financial receivables within the Group relate to transfers of liquidity between the parent company and the subsidiaries, remunerated at market conditions (Euribor + spread) - the SPPI test was passed. The "Accounting standards and valuation criteria" section above describes the methods for recognizing financial instruments. With reference to the methods for presenting the effects of initial application of the standard, the company has decided to apply the option set forth in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which - without prejudice to the retrospective application of the new measurement and presentation rules required by the standard - it is not necessary to restate

the comparative data on a like-for-like basis in the financial statements in which the new standard is first adopted.

No impacts were identified on the method for recognizing financial instruments such so as to require recognition of a first time adoption reserve as at January 1, 2018, following the transition from the provisions of IAS 39 to those of IFRS 9. Please refer to the items in the Notes for a description of the measurements made for the financial instruments listed in the table above.

› Document "Annual Improvements to IFRSs: 2014-2016 Cycle", published on December 8, 2016, which partially supplements pre-existing standards. The majority of the amendments were applied as of January 1, 2018. The adoption of these amendments had no effects on the consolidated financial statements.

IFRS and IFRIC accounting standards, amendments and interpretations endorsed by the European Union, not yet applicable and not adopted early as at December 31, 2018

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

The new standard provides a new definition of lease and introduces an approach based on control (right of use) of an asset to distinguish lease contracts from contracts for the provision of services, identifying as discriminating factors: the identification of the asset, the right to substitute it, the right to substantially obtain all economic benefits deriving from the use of the asset and, lastly, the right to direct the use of the asset underlying the contract. The standard establishes a single model for the recognition and measurement of lease agreements for the lessee, which requires the recognition of the asset subject to the lease, including operating, in the assets with a financial payable as an offsetting entry. To the contrary, the standard does not include significant amendments for lessors. The standard applies as of January 1, 2019, but early application is permitted.

The Group has completed the project for the preliminary assessment of potential impacts arising from the application of the new standard at the transition date (January 1, 2019). The process of implementing the standard is expected to be completed in the first half of 2019. The company has decided to apply the standard retrospectively, however recognizing the cumulative effect deriving from the application of the standard in shareholders' equity as at January 1, 2019 (IFRS 16, paragraph C5(b)). In particular, in relation to lease agreements previously classified as operating, the company will account for:

- a) a financial liability, equal to the present value of residual future payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract;
- b) a right of use equal to the value of the financial liability at the transition date, net of any prepayments and accrued expenses/deferred income and accrued liabilities referring to the lease and recognized in the balance sheet at the closing date of these financial statements.

The Group intends to make use of the exemption provided by IFRS 16 paragraph 5(a) in relation to short-term leases and the exemption provided by IFRS 16 paragraph 5(b) as concerns lease agreements with a low-value underlying asset (i.e., the assets underlying the lease agreement are not worth more than €5,000 when new). The contracts for which the exemption was applied primarily fall within the following categories:

- › Computers, telephones and tablets;
- › Printers;
- › Other electronic devices;
- › Fixtures and furnishings.

For these contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability of the lease and the relative right of use, but the lease payments will be recognized in the income statement on a straight-line basis for the term of the respective contracts.

The Group is completing analyses for the definition of some accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate.

› On June 7, 2017, the IASB published the interpretation document **IFRIC 23** – Uncertainty over Income Tax Treatments. This document deals

with uncertainties regarding the tax treatment to be adopted for income taxes in the case of uncertainties in determining tax liabilities or assets. The new interpretation applies as of January 1, 2019, but early

application is permitted. The directors do not expect the adoption of this interpretation to have a significant effect on the consolidated financial statements.

IFRS accounting standards, amendments and interpretations not yet endorsed by the European Union

At the date of these Financial Statements, the competent bodies of the European Union have not yet concluded the endorsement process necessary to adopt the amendments and standards described below, which could have an impact on the Group's consolidated financial statements.

› Amendment to **IAS 28 “Long-term Interests in Associates and Joint Ventures”** (published on October 12, 2017)”. This document clarifies the need to apply IFRS 9, including the requirements linked to impairment, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies as of January 1, 2019, but early application is permitted. The directors do not expect the adoption of these amendments to have a significant effect on the consolidated financial statements.

› Document **“Annual Improvements to IFRSs 2015-2017 Cycle”**, published on December 12, 2017, which incorporates amendments to several standards as part of the annual improvement process. The amendments apply as of January 1, 2019, but early application is permitted. The directors do not expect the adoption of these amendments to have a significant effect on the consolidated financial statements.

› Amendment to IAS 19 **“Plan Amendment, Curtailment or Settlement”** (published on February 7, 2018). The document clarifies how an entity should recognize an amendment of a defined benefit plan. The amendments apply as of January 1, 2019, but early application is permitted. The directors do not expect the adoption of these amendments to have a significant effect on the consolidated financial statements.

NOTES TO THE BALANCE SHEET ITEMS

ASSETS

Non-current assets

1. Tangible assets

(thousands of euro)

	31/12/2018			31/12/2017			Change 2018 Vs 2017
	Gross amount	Depr. Fund	Net amount	Gross amount	Depr. Fund	Net amount	
Plant and machinery	251,683	(200,661)	51,022	156,797	(120,910)	35,887	15,135
Leased plant and machinery	46,406	(35,783)	10,623	45,129	(29,777)	15,352	(4,729)
Industrial and commercial equipment	3,539	(2,075)	1,464	7,096	(4,657)	2,439	(975)
Land and buildings	40,891	(16,913)	23,978	148	(147)	1	23,977
Other assets	18,154	(16,538)	1,616	8,591	(7,174)	1,417	199
Construction in progress and advances	4,003	-	4,003	3,982	-	3,982	21
Total	364,676	(271,970)	92,706	221,743	(162,665)	59,078	33,628

CHANGES IN TANGIBLE ASSETS (thousands of euro)

Gross amount	31/12/2017	Exchange differences	Increase	Decrease	Impairment	Other changes	31/12/2018
Plant and equipment - Gross	156,797	(290)	17,589	(1,254)	-	78,841	251,683
Leased plant and equipment - Gross	45,129	-	1,277	-	-	-	46,406
Equipment - Gross	7,096	31	220	(52)	-	(3,756)	3,539
Land	-	-	-	-	-	2,472	2,472
Buildings - Gross	148	-	31	(151)	-	38,391	38,419
Other assets - Gross	8,591	29	1,247	(902)	-	9,189	18,154
Construction in progress and advances	3,982	13	2,555	(5,469)	-	2,922	4,003
Total	221,743	(217)	22,919	(7,828)	-	128,059	364,676

Depreciation fund	31/12/2017	Exchange differences	Increase	Decrease	Impairment	Other changes	31/12/2018
Plant and equipment - Fund	(120,910)	235	(15,825)	1,199	-	(65,360)	(200,661)
Leased plant and equipment - Fund	(29,777)	-	(6,006)	-	-	-	(35,783)
Equipment - Fund	(4,657)	(56)	(109)	52	-	2,695	(2,075)
Buildings - Fund	(147)	-	(290)	150	-	(16,626)	(16,913)
Other assets - Fund	(7,174)	(30)	(785)	882	(8)	(9,423)	(16,538)
Total	(162,665)	149	(23,015)	2,283	(8)	(88,714)	(271,970)
Total	59,078						92,706

The changes in this item were caused by the inclusion within the scope of consolidation of the companies SIA Greece and SIA Slovakia. In particular, as at December 31, 2018, SIA Greece has tangible assets for a net value of €29,887 thousand, of which €18,701 referring to three owned properties in which the company's operating activities are carried out. SIA Slovakia's contribution to this item at the reporting date was €7,799 thousand (net value), of which €5,277 linked to an owned property where operating activities are carried out.

2. Intangible assets

(thousands of euro)

	31/12/2018			31/12/2017			Change 2018 Vs 2017
	Gross amount	Depr. Fund	Net amount	Gross amount	Depr. Fund	Net amount	
Goodwill	631,440	(2,171)	629,269	314,654	(2,171)	312,483	316,786
Internally generated assets	356,528	(319,348)	37,180	299,046	(257,207)	41,839	(4,659)
Software licences	140,513	(121,324)	19,189	127,024	(107,480)	19,544	(355)
Intangible assets (others)	310,398	(136,859)	173,539	217,103	(22,522)	194,581	(21,042)
Other intangible assets	807,439	(577,531)	229,908	643,173	(387,209)	255,964	(26,056)
Intangible assets in progress and advances	27,764	-	27,764	8,370	-	8,370	19,394
Total	1,466,643	(579,702)	886,941	966,197	(389,380)	576,817	310,124

CHANGES IN INTANGIBLE ASSETS (thousands of euro)							
Gross amount	31/12/2017	Exchange differences	Increase	Decrease	Impairment	Other changes	31/12/2018
Goodwill	314,654	-	318,188	-	(1,402)	-	631,440
Internally generated assets	299,046	(910)	6,466	(1,311)	-	53,237	356,528
Software licences	127,024	(198)	6,780	(3,998)	-	10,905	140,513
Intangible assets (others)	217,103	-	51	(4,155)	-	97,399	310,398
Intangible assets in progress and advances	8,370	-	22,977	(3,583)	-	-	27,764
Total	966,197	(1,108)	354,462	(13,047)	(1,402)	161,541	1,466,643

Depreciation fund	31/12/2017	Exchange differences	Increase	Decrease	Impairment	Other changes	31/12/2018
Goodwill	(2,171)	-	-	-	-	-	(2,171)
Internally generated assets	(257,207)	657	(21,293)	1,310	(2,521)	(40,294)	(319,348)
Software licences	(107,480)	193	(7,252)	3,971	-	(10,756)	(121,324)
Intangible assets (others)	(22,522)	-	(21,541)	4,106	-	(96,902)	(136,859)
Total	(389,380)	850	(50,086)	9,387	(2,521)	(147,952)	(579,702)
TOTAL	576,817						886,941

Increases during the period related to the expansion of the scope of consolidation as well as the recognition of goodwill on a provisional basis, equal to the difference from the consolidation of companies following the business combination of SIA Greece and SIA Slovakia and the direct subsidiaries.

In compliance with IFRS 3, such goodwill will be allocated to the CGUs identified at the end of the purchase price allocation process, which the standard indicates must be completed within a twelve-month measurement period.

Summary of changes in tangible and intangible assets

CHANGES IN TANGIBLE ASSETS (thousands of euro)								
Net amount	31/12/2017	Exchange differences	Increase	Decrease	Depreciation	Impairment	Other changes	31/12/2018
Plant and equipment	51,239	(55)	18,866	(55)	(21,831)	-	13,481	61,645
Industrial and commercial equipment	2,439	(25)	220	-	(109)	-	(1,060)	1,464
Land and buildings	1	-	31	(1)	(290)	-	24,237	23,978
Other assets	1,417	(1)	1,247	(20)	(785)	(8)	(235)	1,614
Construction in progress and advances	3,982	13	2,555	(5,469)	-	-	2,922	4,003
Total	59,078	(68)	22,919	(5,545)	(23,015)	(8)	39,345	92,706

CHANGES IN INTANGIBLE ASSETS (thousands of euro)								
Net amount	31/12/2017	Exchange differences	Increase	Decrease	Depreciation	Impairment	Other changes	31/12/2018
Goodwill	312,483	-	318,188	-	-	(1,402)	-	629,269
Internally generated assets	41,839	(253)	6,466	(1)	(21,293)	(2,521)	12,943	37,180
Software Licences	19,544	(5)	6,780	(27)	(7,252)	-	149	19,189
Intangible assets (others)	194,581	-	51	(49)	(21,541)	-	497	173,539
Intangible assets in progress and advances	8,370	-	22,977	(3,583)	-	-	-	27,764
Total	576,817	(258)	354,462	(3,660)	(50,086)	(3,923)	13,589	886,941

There are no assets securing liabilities. Tangible and intangible assets are initially recognized at cost and subsequently depreciated and amortized on the basis of their remaining useful life (except for goodwill).

Goodwill impairment test

Purpose and subject of the impairment test

IAS 36 establishes the criteria to be applied to verify whether the carrying amount of assets recognized in the financial statements is recoverable through their use or, alternatively, sale, by performing an impairment test. In particular, the impairment test must be carried out at least once a year for the goodwill arising from a business combination. For goodwill in the consolidated financial statements of the SIA Group arising from the recognition of equity investments at a value higher than the applicable shareholders' equity, the impairment test was performed by estimating the recoverable amount of the legal entity to which the goodwill has been allocated. In other words, for the impairment test, the cash-generating unit with which goodwill is associated is the legal entity from which it was generated.

The exception to this rule is the two subsidiaries acquired at the end of 2016, P4cards and PforCards, which for valuation purposes are considered to be a single cash-generating unit, and the subsidiary Ubiq which was valued within the “Loyalty and Big Data” service line, as the strategic development plans were prepared with a view to integrating all of Ubiq’s activities within the parent company SIA.

The CGUs tested for impairment were therefore:

- › P4cards, referring to the cash flows deriving from SIA’s equity investments in P4cards S.r.l. and in PforCards GmbH, to which the consolidated goodwill recognized during the business combination of the same equity investments was allocated;
 - › SIA Central Europe, referring to the cash flows deriving from SIA’s equity investment in SIA Central Europe Zrt., to which the consolidated goodwill recognized during the business combination of the same equity investment was allocated;
 - › Emmecom, referring to the cash flows deriving from SIA’s equity investment in Emmecom S.r.l., to which the consolidated goodwill recognized during the business combination of the same equity investment was allocated;
 - › SIAadvisor, referring to the cash flows deriving from SIA’s equity investment in SIAadvisor S.r.l., to which the consolidated goodwill recognized during the business combination of the same equity investment was allocated;
- and the Loyalty and Big Data service line, to which the consolidated goodwill recognized during the business combination of SIA’s equity investment in Ubiq S.r.l. was allocated.

The goodwill recognized in the Consolidated Financial Statements relating to companies that were merged by incorporation into SIA in previous years was tested for impairment considering SIA as a whole as the CGU, as the strong degree of integration of the business activities makes it difficult to identify a CGU at a lower level - see the dedicated paragraph below.

Please note that there is no consolidated goodwill relating to the companies Perago FSE or SIAPay. Therefore, they were assessed only for the purposes of the separate financial statements. In compliance with the provisions of IAS 36, the impairment test was not carried out on the goodwill not yet allocated at the reporting date, as elements or further information that could have adjusted the market acquisition price between independent parties were not identified.

Reference data and documentation

The reference date for the performance of the tests is December 31, 2018; the relative estimates are based on the data from the 2018 draft Financial Statements and the income and cash flow projections formulated by the management of the investee companies for the 2019-2021 period. Market information is current information available at the reference date of the estimates; furthermore, sensitivity analyses were also performed on the test results.

The key parameters used for the Italian CGUs are those listed below, unless specified otherwise:

- › The risk-free rate is differentiated between the analytical period and terminal rate in order to capture, under normal circumstances, a likely assumption of growth in Italian risk-free rates with respect to current ones.
- › The execution premium is 4%.
- › The “g” growth rate is estimated as the average of the inflation rates forecast for Italy in the long term (time horizon 2018-2023) and is equal to 1.58%.
- › The resulting WACC is 10.8% in the Plan period and 12.0% on the terminal value.

Valuation criteria and rules applied

To estimate the “recoverable amount”, reference was made to the notion of “value in use”. Value in use is estimated on the basis of the management’s

forecasts of the cash flows that can be generated by the CGU in question from SIA's perspective. The values in use from impairment testing were therefore compared with the value of goodwill recognized in the Consolidated Financial Statements. Pursuant to IAS 36, the baseline used for the estimate of the value in use was the unlevered financial method, applied with an "asset side" approach.

For the foreign CGUs, the value in use is calculated based on cash flows expressed in local currency, discounted on the basis of a discount rate expressing the risks connected to that currency and then converted into euro at the spot exchange rate on the reference date of the estimate.

The discount rate used for the assessments is equal to the weighted average cost of capital (WACC), which weights the cost of own capital and financial debt, calculated as a nominal rate and net of taxes. A parameter associated with the execution risks incorporated within the plans, named "specific risk premium" was also used, differentiated by individual company and highlighted in the analysis of the results of the individual equity investments.

RESULTS

P4CARDS CGU

The Plan of the companies P4cards and PforCards calls for further growth in turnover and profit margins, including in the plan years (2019-2021) subsequent to 2018.

Key parameters

The risk-free rate is differentiated between the analytical period and the terminal rate in order to capture, under normal circumstances, a likely assumption of growth in Italian risk-free rates with respect to current ones.

The execution premium is 1% only for the terminal period, primarily considering the substantial stability of the business based on a significant long-term contract already entered into.

The "g" growth rate is estimated as the average of the inflation rates forecast for Italy in the long term (time horizon 2018-2023) and is equal to 1.58%.

The resulting WACC is 6.8% in the Plan period and 8.7% on the terminal value.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU's recoverable amount is higher than the carrying amount recognized in the consolidated financial statements and therefore there is no need for any write-downs.

SIA CENTRAL EUROPE CGU

The 2019-2021 Plan of SIA Central Europe appears to be challenging from the perspective of revenue growth; however, in the early years of the plan the EBITDA margin is essentially in line with the historical figure and that of this past year, while considerable growth is expected in 2021

Key parameters

The risk-free rate is differentiated between the analytical period and the terminal rate in order to capture, under normal circumstances, a likely assumption of growth in Hungarian risk-free rates with respect to current ones.

The execution premium is 4%.

The long-term "g" growth rate is estimated in two stages: for the first (5 years), it is equal to the average of the Hungarian GDP growth rate (5.7%) and that of the Eurozone countries (3.5%); for the second stage, it is equal to expected long-term inflation in Hungary (3%).

The resulting WACC is 11.4% in the Plan period and 14.5% on the terminal value.

Summary of results

The impairment test carried out applying the methodology described above

shows that the CGU's recoverable amount (converted into euro at the exchange rate on December 31, 2018) is higher than the carrying amounts recognized in the consolidated financial statements and therefore there is no need for any write-downs.

EMMECOM CGU

Emmecom's 2019-2021 Plan calls for substantial stability in revenues and a decline in profitability in the first years of the plan compared to the year that just ended, but with a slight recovery in subsequent years.

Key parameters

The risk-free rate is differentiated between the analytical period and the terminal rate in order to capture, under normal circumstances, a likely assumption of growth in Italian risk-free rates with respect to current ones.

The execution premium is 4%.

The "g" growth rate is estimated as the average of the inflation rates forecast for Italy in the long term (time horizon 2018-2023) and is equal to 1.58%.

The resulting WACC is 10.8% in the Plan period and 12.0% on the terminal value.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU's recoverable amount is higher than the carrying amounts recognized in the consolidated financial statements and therefore there is no need for any write-downs.

SIAADVISOR CGU

SIAAdvisor's 2019-2021 Plan contains considerable revenue growth forecasts, while maintaining a good level of profit margins.

Key parameters

The risk-free rate is differentiated between the analytical period and the terminal rate in order to capture, under normal circumstances, a likely assumption of growth in Italian risk-free rates with respect to current ones.

The execution premium is 4%.

The "g" growth rate is estimated as the average of the inflation rates forecast for Italy in the long term (time horizon 2018-2023) and is equal to 1.58%.

The resulting WACC is 10.8% in the Plan period and 12.0% on the terminal value.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU's recoverable amount is higher than the carrying amount of the assets, and therefore there is no need for any write-downs. The value of the goodwill allocated to the SIAAdvisor CGU is €1.7 million. The impairment test carried out applying the methodology described above shows that the CGU's recoverable amount is higher than the amounts recognized in the consolidated financial statements and therefore there is no need for any write-downs. A stress test was also carried out to verify the stability of the carrying amount in light of separate and joint changes in the terminal cash flow discount rate (up to +1.0%) and the terminal EBITDA flow (up to -10.0%). The sensitivity analysis easily confirms the carrying amount, as the value in use is always higher.

LOYALTY AND BIG DATA CGU

This CGU, established within SIA in 2018, has three-year projections that initially take into account the launch of activities and thus forecast a negative EBITDA; however, based on its growth prospects, it is deemed that profit margins will be able to stabilize beginning from the last year of the plan.

This CGU also includes the subsidiary Ubiq S.r.l., with a view to leveraging the software originally developed for Loyalty services.

Key parameters

The risk-free rate is differentiated between the analytical period and the terminal rate in order to capture, under normal circumstances, a likely assumption of growth in Italian risk-free rates with respect to current ones.

The execution premium is 4%.

The “g” growth rate is estimated as the average of the inflation rates forecast for Italy in the long term (time horizon 2018-2023) and is equal to 1.58%.

The resulting WACC is 10.8% in the Plan period and 12.0% on the terminal value.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU's recoverable amount is €2.5 million and therefore a write-down of €1.4 million was recognized in the consolidated financial statements.

Goodwill relating to RA Computer and SiNSYS (companies merged by incorporation into SIA)

The goodwill recognized in the Consolidated Financial Statements relating to companies that were merged by incorporation into SIA in previous years (SiNSYS on January 1, 2013 and RA Computer on January 1, 2015), with a carrying amount of €8 million, was tested for impairment considering SIA as a whole as the CGU. In continuity with the financial statements of previous years, as well as taking into account the recent strategic plan for the 2019-2021 three-year period approved by the SIA Board of Directors in February 2019, the value of the above-mentioned CGU is considerably higher than the carrying amount of the goodwill in question.

The table below summarizes the values of goodwill recognized in the consolidated financial statements as at December 31, 2018 and allocated to the CGUs identified, following adjustments made during previous impairment testing, as described above.

(thousands of euro)

	Business combination	Goodwill as of 31/12/2018
CGU		
SIA	SiNSYS S.A.	7,486
	Ra Computer S.r.l.	523
Perago	Perago FSE Ltd	-
SIApay	SIApay S.r.l.	-
SIA Central Europe	SIA Central Europe Zrt	9,945
Emmecom	Emmecom S.r.l.	3,275
Loyalty and Big Data	Ubiq S.r.l.	2,482
SIAdvisor	SIAdvisor S.r.l.	1,732
P4cards	P4cards S.r.l.	284,029
	PforCards GMBH	1,608
Total allocated goodwill		311,080
Non allocated goodwill	SIA Slovakia	216,431
	SIA Greece	101,758
Total non allocated goodwill		318,189
TOTAL GOODWILL		629,269

3. Equity investments

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Subsidiaries	720	758	(38)
Total	720	758	(38)

The net carrying amount of the equity investments is €720 thousand, down compared to the previous year due to the reclassification of Trustlink to non-controlling equity investments (“Financial assets at fair value through other comprehensive income”). The remaining amount relates to the associated company ATS.

4. Non-current financial assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Financial assets at fair value through other comprehensive income - non current	50	12	38
Total	50	12	38

These amount to €50 thousand and correspond to the carrying amount of the non-controlling interests of the parent company SIA in MIP Politecnico di Milano and Trustlink, reclassified from “Equity investments” as noted above.

5. Non-current trade receivables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Trade receivables from customers	6	6	-
Total	6	6	-

6. Other non-current assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Leasehold improvements	4,102	788	3,314
Total	4,102	788	3,314

This item refers to improvements on properties leased by the Group companies where they carry out their business. It rose compared to the previous period due to work performed on a new operating office of the parent company SIA.

7. Deferred tax assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Deferred tax assets	10,646	6,322	4,324
Total	10,646	6,322	4,324

- This item shows taxes incurred in periods prior to that of accrual and consists of:
- › prepaid taxes equal to the difference between the depreciation of tangible assets for accounting and tax purposes;
 - › prepaid taxes recognized on actuarial components on defined benefit plans for employees, recognized in the valuation reserve;
 - › other temporary differences arising in calculating current taxes between accounting and tax values.

The increase is due primarily to the change in the scope of consolidation, in particular the amounts recognized by SIA Greece.

Current assets

8. Inventories

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Finished products and raw materials	2,548	860	1,688
Work in progress - current	1,827	4,171	(2,344)
Total	4,375	5,031	(656)

The item inventories refers for the most part to stocks of credit/debit cards and telephone PINs of the subsidiary company P4cards, which rose due to increases in customer resale volumes and therefore the need to acquire more inventory. The item construction contracts declined since during the period a good part of the software projects developed on behalf of third parties ended.

9. Current financial receivables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Other financial receivables	1,703	-	1,703
Total	1,703	-	1,703

These amounts refer to adjustments in several balance sheet items of the recently acquired companies, SIA Greece and SIA Slovakia, which will be settled in the course of 2019 during the price adjustment process set forth in the contract with the selling counterparty.

10. Current financial assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Financial assets measured at fair value through profit or loss - current	-	353	(353)
Financial assets measured at fair value at amortised cost - current	122	135	(13)
Total	122	488	(366)

This item declined as a result of the expiry in September 2018 of the period for exercising the call option granted and sold by the executives of SIA and its Belgian branch, as part of a reserved capital increase approved by the Shareholders' Meeting on July 23, 2015, without that option being exercised.

11. Current tax assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Other tax assets	38,922	38,840	82
Current tax assets - IRES	13	8,233	(8,220)
Current tax assets - IRAP	-	1,655	(1,655)
Foreign tax assets	440	-	440
Total	39,375	48,728	(9,353)

This item includes the payment made by the parent company SIA of substitute tax totaling €35.8 million to redeem the goodwill generated in the consolidated financial statements following the acquisition of P4cards. The benefits of this redemption will be seen as of 2019 and therefore the advance paid was suspended in current tax assets, in line with the application document released by the Italian Accounting Standard Authority for entities that apply international accounting standards. The item declined compared to the previous year as the payables for the year were higher than advances paid and therefore the net balance has been reclassified to "Current tax liabilities".

12. Current trade receivables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Trade receivables - current	194,375	160,459	33,916
Bad debt provision	(5,618)	(2,164)	(3,454)
Total	188,757	158,295	30,462

Trade receivables increased compared to the previous period due to the inclusion within the scope of consolidation of the credit balances of SIA Greece and SIA Slovakia, as well as the postponed settlement in January 2019 of credit positions of the company P4cards with respect to a top customer, for which a number of debt positions were also open at year-end, offset by a decline in credit exposures of the parent company SIA due to positive collection trends.

Given the short-term nature of trade receivables, the Group believes that the carrying amounts, net of any bad debt provision, represent a good approximation of fair value.

The following tables show the changes in the bad debt provision and the breakdown in trade receivables by overdue time brackets.

CHANGES IN BAD DEBT PROVISION (thousands of euro)			
	31/12/2018	31/12/2017	Change 2018 Vs 2017
Opening balance	(2,164)	(1,595)	(569)
Increase	(4,057)	(582)	(3,475)
Decrease	600	13	587
Exchange rate differences	3	-	3
Closing balance	(5,618)	(2,164)	(3,454)

RECEIVABLES PAST DUE BY TIME RANGES (thousands of euro)				
	1 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables	24,533	3,319	7,888	35,740
Total	24,533	3,319	7,888	35,740

With respect to overdue amounts, there are no particularly critical issues, and a precise analysis has been conducted on the individual positions which led to an adjustment in the bad debt provision to bring it into line with the risks identified, in accordance with the Group's internal policies.

13. Other current assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Security deposits	1,008	866	142
Prepayments to suppliers	1,792	475	1,317
Receivables from employees	360	113	247
Other activities	6,138	9,339	(3,201)
Tax receivables	2,659	2,032	627
Prepayments and accrued expenses	25,730	25,665	65
Total	37,687	38,490	(803)

The value of prepayments remains consistent and aligned with the previous period due to the high amounts invoiced in advance by top tech suppliers to the parent company SIA in relation to software leases (acquisition of buckets of transactions) and hardware and software maintenance.

14. Cash and cash equivalents

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Cash in hand	15	18	(3)
Bank accounts and deposits	94,624	61,328	33,296
Other cash and cash equivalents	13	3	10
Total	94,652	61,349	33,303

As highlighted in the cash flow statement, in the year 2018 investment activities absorbed significant cash flows which were generated by operating and funding activities. The positive results achieved by the parent company SIA and by the various Group companies led to a year-end close with cash levels significantly higher than in the previous period.

LIABILITIES AND SHAREHOLDERS' EQUITY

15. Shareholders' equity

Share capital

The share capital of SIA S.p.A. amounts to €22,275 thousand, broken down into 171,343,227 ordinary shares with a nominal value of €0.13 each.

Share premium reserve

This amounts to €5,317 thousand and did not change during the year.

Reserves

They amount to €187,921 thousand (€167,824 thousand as at December 31, 2017).

Valuation reserve

It was negative in the amount of €6,198 thousand (negative €3,573 thousand as at December 31, 2017).

Statement of reconciliation between Shareholders' equity and profit (loss) for the year of SIA and Consolidated shareholders' equity attributable to the Group and profit (loss) attributable to the Group

(thousands of euro)

	Shareholders' equity as of 31/12/2018	Profit/(loss) for 2018	Shareholders' equity as of 31/12/2018	Profit/(loss) for 2017
SIA S.p.A.	273,939	84,641	251,578	63,445
Shareholders' equity and results for the period attributable to the Group	177,552	33,205	103,598	30,155
Shareholders' equity and results for the period attributable to non-controlling interests	(5)	-	(5)	-
Subsidiaries carrying amount elimination	(913,394)	-	(527,129)	-
Intra-group dividends elimination	-	(28,456)	-	(1,558)
Allocated goodwill	311,080	-	307,020	-
Non-allocated goodwill	318,189	-	-	-
Intangible assets recognised as a result of purchase price allocation processes	124,013	(15,501)	139,514	(15,501)
Other consolidation adjustments	(2,523)	5,647	(2,650)	3,542
SIA Group	288,851	79,536	271,926	80,083

Non-current liabilities

16. Non-current financial payables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Bank loans - non current	695,860	354,855	341,005
Other non current payables	13,318	9,680	3,638
Total	709,178	364,535	344,643

Non-current bank debt refers primarily to the long-term portion of loans disbursed to the company SIA for acquisition operations carried out at the end of 2016 (P4cards and PforCards) and in 2018 (SIA Greece and SIA Slovakia). For further details, please refer to the “Group consolidated performance” section of the 2018 management report.

Other non-current financial payables consist of the component due in more than twelve months of payables relating to finance lease agreements for the acquisition of technological infrastructure. The amount increased after P4cards entered into a sale and lease-back agreement on its POSs with a leading leasing company.

17. Non-current financial liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Other non current financial liabilities	2,117	78	2,039
Hedging derivatives - non current	3,114	856	2,258
Total	5,231	934	4,297

The item “Other non-current financial liabilities” refers to the present value of the liability recognized for the acquisition of the non-controlling interests in the company SIAadvisor, recognized in the Consolidated Financial Statements based on the provisions of paragraph 33 of IAS 32 due to the presence of “puttable instruments”. The option was renewed for another three years, and therefore it was reclassified from “Other current financial liabilities”. The item non-current hedging derivatives refers to the negative fair value of the derivative contracts entered into in December 2018 by the parent company to cover interest rate risk on the outstanding bank loan with the same lending banks. The derivative instrument swaps the floating rate on the loan with a fixed market rate set up when the contract was entered into.

18. Provisions for employee benefits

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Employee benefits	23,145	20,785	2,360
Total	23,145	20,785	2,360

Employee benefits refer to the provision for severance indemnity for employees of the Group’s Italian companies, and the pension funds required by union agreements for the foreign companies and branches. This item increased due to the consolidation of the company SIA Greece.

19. Deferred tax liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Deferred tax liabilities	48,416	54,049	(5,633)
Total	48,416	54,049	(5,633)

This amount refers almost in its entirety to the balance of deferred tax liabilities recognized on the basis of the provisions of IAS 12 following the recognition of intangible assets during the P4cards purchase price allocation process. The reduction during the year is due to the tax repercussions of the amortization process on the item recognized.

20. Provisions for risks

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Provisions for risks	1,823	4,187	(2,364)
Total	1,823	4,187	(2,364)

CHANGES OF THE PERIOD (thousands of euro)				
	Charges for employees	Tax disputes	Other provisions	Total
Balances as of 31/12/2017				
Opening balance	3,458	240	489	4,187
Reclassifications				
Reclassifications	-	-	-	-
Increase				
Provisions of the period	-	-	823	823
Consolidation area change	-	-	99	99
Decrease				
Utilisation of the period	(3,128)	-	(158)	(3,286)
Balances as of 31/12/2017				
CLOSING BALANCE	330	240	1,253	1,823

The decline in expenses for personnel was due to the fact that the amounts recognized - referring to outlays expected for the employee solidarity fund of the parent company SIA - became certain over the course of the year. In addition, at the reporting date it was no longer possible for employees to request access to this fund, and therefore no further allocations were made. The item other provisions includes likely provisions relating to requests for indemnification and/or compensation from customers and values relating to seniority bonuses to be recognized to employees based on the company's supplementary agreement. These values were adjusted based on payments made during the year and expert actuarial estimates.

21. Other non-current liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Other non current liabilities	9,928	6	9,922
Total	9,928	6	9,922

This item includes amounts recognized for the new long-term incentive plan classified at the end of the year in “Other current liabilities” as they relate to the previous plan, terminated in 2017 and settled in 2018.

Current liabilities

22. Current financial payables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Current bank debt	85,585	63,352	22,233
Other current financial payables	20,412	10,594	9,818
Total	105,997	73,946	32,051

The item current bank debt rose following the increase in borrowings by the parent company SIA to finance acquisition operations, while other current financial payables was up due to the sale and lease-back agreement entered into by P4cards on its POS terminals.

23. Current financial liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Other current financial liabilities	-	2,117	(2,117)
Total	-	2,117	(2,117)

This item refers to the present value of the liability recognized for the acquisition of the non-controlling interests in the company SIAadvisor, which since it was renewed for another three years was reclassified to “Non-current financial liabilities”.

24. Current tax liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Current tax liabilities - IRES	3,537	-	3,537
Current tax liabilities - IRAP	1,399	1,239	160
Foreign tax liabilities	(14)	59	(73)
Total	4,922	1,298	3,624

25. Current trade payables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Trade payables - current	85,397	81,841	3,556
Total	85,397	81,841	3,556

A good deal of the increase in this item was due to contributions of the companies SIA Greece and SIA Slovakia following the acquisition on September 28, 2018 which resulted in the consolidation of their balance sheet items and those of their respective investees.

Given the short-term nature of trade payables, SIA believes that the carrying amounts represent a good approximation of fair value.

26. Other current liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Customer advance payments	7,658	5,531	2,127
Social security debts	24,090	22,567	1,523
Amounts due to Directors and Auditors	367	818	(451)
Payables to employees	23,790	38,273	(14,483)
Deferred income and accrued liabilities	7,228	3,226	4,002
Tax liabilities	10,828	6,032	4,796
Other liabilities	4,989	4,086	903
Total	78,949	80,533	(1,584)

Payables to employees were down due to the payment of the long-term incentive plan for the management, offset by the increase in other items following the change in the scope of consolidation.

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT AND LOSS ITEMS

27. Revenues from sales and services

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Revenues from sales and services	614,802	567,213	47,589
Total	614,802	567,213	47,589

This item rose due to the excellent results of the parent company as well as P4cards and the positive contributions of SIA Greece and SIA Slovakia (consolidated on September 28, 2018) to the Group's income statement in the final quarter of the year.

BREAKDOWN OF REVENUES BY BUSINESS SEGMENT (thousands of euro)			
	31/12/2018	31/12/2017	Change 2018 Vs 2017
Cards	389,222	336,060	53,162
Payments	115,145	118,557	(3,412)
Institutional Services	110,414	112,592	(2,178)
Corporate	21	4	17
Total	614,802	567,213	47,589

(*) Some amounts from 2017 were reclassified among the operating segments.

Below are the main reasons for the changes in revenues during the year, broken down by business segment.

- › **Cards:** this segment saw higher revenues for issuing and acquiring services relating to debit and credit cards and merchants, in particular there were higher revenues for transactions, project activities and value-added services.
- › **Payments:** higher revenues for innovative services in the Network Services as well as Mobile Payment and PSD2 areas, but lower revenues on traditional Network Services activities and a decrease in project activities for collections and payments, resulting in an overall decline in revenues for this segment.
- › **Institutional Services:** the positive change posted for revenues for clearing services due to higher volumes managed, as well as for revenues for project activities and network services, was offset by lower revenues for Post-Trading services.
- › **Corporate:** this is a residual segment basically encompassing revenues from third parties that cannot be allocated to the business segments. The increase was caused by higher charge-backs of unallocated costs for services.

BREAKDOWN OF REVENUES BY REGION (thousands of euro)			
	Italy	Foreign	Total 2018
Cards	296,722	92,500	389,222
Payments	114,745	400	115,145
Institutional Services	55,014	55,400	110,414
Corporate	21	-	21
Total	466,502	148,300	614,802

28. Other revenues and income

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Several revenues	718	470	248
Contingent revenues	2,400	1,947	453
Gains	73	52	21
Total	3,191	2,469	722

29. Changes in inventories for third parties

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Software projects developed for third parties	(1,886)	352	(2,238)
Total	(1,886)	352	(2,238)

30. Costs for raw and ancillary materials, consumables and goods

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Goods and products	(13,750)	(12,195)	(1,555)
Total	(13,750)	(12,195)	(1,555)

31. Costs for services

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Rental	(24,459)	(21,250)	(3,209)
Maintenance	(29,806)	(27,442)	(2,364)
Network	(16,765)	(17,366)	601
Outsourcing	(27,343)	(27,675)	332
Building	(13,517)	(12,943)	(574)
Professional Services	(56,517)	(54,984)	(1,533)
Royalties	(11,350)	(9,592)	(1,758)
General expenses	(11,993)	(8,866)	(3,127)
Insurance	(1,337)	(1,058)	(279)
Total	(193,087)	(181,176)	(11,911)

There were higher software rental costs due to new contracts entered into for the management of technological infrastructure, which also explains the rise in maintenance costs.

Remuneration for the auditing of the separate and consolidated financial statements of the Group and to check that the company's books are properly kept, including tax attestation services, paid by the parent company during the year to the company PricewaterhouseCoopers S.p.A. amounted to €169 thousand. Every subsidiary incurred its own applicable costs for the relative auditing and accounting controls. Furthermore, in the course of 2018 PricewaterhouseCoopers also provided permitted services other than auditing.

32. Staff costs

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Wages and salaries	(125,953)	(118,613)	(7,340)
Social charges	(31,211)	(29,864)	(1,347)
Severance indemnities	(5,664)	(7,450)	1,786
Payments to pension funds	(3,854)	(3,366)	(488)
Charges for restructuring	(9,148)	(6,209)	(2,939)
Other costs	(8,237)	(7,831)	(406)
Travel	(3,085)	(2,947)	(138)
Other staff	(974)	(1,176)	202
Directors and Auditors	(1,235)	(2,065)	830
Recoveries seconded staff	342	-	(342)
Refunds seconded staff	(401)	(1,090)	(689)
Capex internal staff costs	6,919	5,519	1,400
Total	(182,501)	(175,092)	(7,409)

The main increases relate to the larger Group workforce following the expansion of its scope of consolidation. In addition, more internal resources were used for capitalized software development.

The table below shows the average and precise number as at December 31, 2018 of Group employees broken down by category.

WORKFORCE						
Workforce (year-end)	31/12/2018		31/12/2017		31/12/2018	31/12/2017
	Employees	Executives	Employees	Executives	Total	Total
SIA	1,476	35	1,452	33	1,511	1,485
SIApay	20	-	12	-	20	12
SIAadvisor	24	-	13	-	24	13
Ubiq	14	-	20	-	14	20
Emmecom	11	-	12	-	11	12
P4cards	403	3	339	4	406	343
PforCards	18	-	7	-	18	7
SIA Central Europe	46	-	49	-	46	49
Perago FSE	74	-	67	-	74	67
SIA Greece	951	22	-	-	973	-
SIA Slovakia	260	10	-	-	270	-
SIA Romania	1	-	-	-	1	-
SIA Hungary	15	-	-	-	15	-
SIA Czech Republic	1	-	-	-	1	-
SIA Croatia	5	-	-	-	5	-
SIA Serbia	75	1	-	-	76	-
Total	3,394	71	1,971	37	3,465	2,008

Workforce (average)	31/12/2018		31/12/2017		31/12/2018	31/12/2017
	Employees	Executives	Employees	Executives	Total	Total
SIA	1,473	36	1,465	33	1,509	1,498
SIApay	18	-	18	-	18	18
SIAadvisor	19	-	14	-	19	14
Ubiq	17	-	18	-	17	18
Emmecom	12	-	12	-	12	12
P4cards	367	3	348	3	370	351
PforCards	16	-	11	-	16	11
SIA Central Europe	49	-	50	-	49	50
Perago FSE	78	-	76	-	78	76
SIA Greece	241	6	-	-	247	-
SIA Slovakia	64	3	-	-	67	-
SIA Romania	-	-	-	-	-	-
SIA Hungary	4	-	-	-	4	-
SIA Czech Republic	1	-	-	-	1	-
SIA Croatia	1	-	-	-	1	-
SIA Serbia	19	-	-	-	19	-
Total	2,379	48	2,012	36	2,427	2,048

33. Other operating expenses

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Undeductable VAT	(21,779)	(19,160)	(2,619)
Tax expenses	(585)	(401)	(184)
Losses on disposal of assets	(132)	(37)	(95)
Other charges	(2,886)	(2,148)	(738)
Total	(25,382)	(21,746)	(3,636)

Costs for non-deductible VAT rose during the year due to increased acquisitions of goods and services subject to VAT and the worse percentage of deductibility of SIA and P4cards, which work under a pro-rata system.

34. Depreciation and amortization

(thousands of euro)

	Depreciation	Write-off	Total
Tangible assets	(17,008)	(10)	(17,018)
Leased tangible assets	(6,006)		(6,006)
Total	(23,014)	(10)	(23,024)

(thousands of euro)

	Depreciation	Write-off	Total
Intangible assets	(50,087)	(3,952)	(54,039)
Total	(50,087)	(3,952)	(54,039)
Total depreciation	(73,101)	(3,962)	(77,063)

Adjustments in the value of intangible assets include the write-down recognized on consolidated goodwill referring to the subsidiary Ubiq (€1.4 million) and a write-down of €2.5 million on software developed internally by Perago FSE, deemed obsolete.

35. Adjustments to trade receivables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Provision for bad debts	(1,220)	(6,370)	5,150
Total	(1,220)	(6,370)	5,150

Provisions recognized during the year are marginal, bearing witness to the good composition of customers and their solidity.

The change relates to the write-down in 2017 on a receivable of the parent company SIA due from a customer that suspended a service early.

36. Additions to provisions for risks

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Provision fund risk	(823)	(200)	(623)
Total	(823)	(200)	(623)

This refers to allocations made for any costs and expenses for preparatory activities for the management of a dispute with a customer and some requests for compensation for damages received from customers which are currently being assessed and defined.

37. Profit/loss on financial assets and liabilities management

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Profit/loss on financial assets and liabilities management	(396)	960	(1,356)
Total	(396)	960	(1,356)

The negative amounts relating to the management of financial assets are explained by the elimination of the value of the call option granted and sold by the executives of SIA and its Belgian branch, as part of a reserved capital increase approved by the Shareholders' Meeting on July 23, 2015, for €353 thousand, and the adjustment of the value of the financial liability relating to the acquisition of the non-controlling interests in Ubiq for €43 thousand. In the previous year, there were positive values due to the adjustment of the value and proceeds from the sale of shares of Banca Etica.

38. Financial income

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Interest income	347	284	63
Total	347	284	63

39. Financial charges

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Interest expenses	(11,385)	(9,042)	(2,343)
Bank charges	(592)	(669)	77
Total	(11,977)	(9,711)	(2,266)

This item increased as a result of higher interest expenses incurred by the parent company SIA due to the higher financial debt during the year, including negative spreads paid to cover interest rate risk.

40. Income tax

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Current taxes	(37,854)	(30,726)	(7,128)
Prepaid/deferred taxes	7,801	4,400	3,401
Taxes from previous years	(666)	6,346	(7,012)
Total	(30,719)	(19,980)	(10,739)

Current taxes were up due to the better operating results achieved and the acquisition of the Greek and Slovak subsidiaries effective starting from the last quarter of 2018. In addition, this item rose due to the elimination of the previous benefits recognized in the financial statements as at December 31, 2017 for the years 2015 and 2016 deriving from the Patent Box agreement with the Italian Revenue Agency.

DISCLOSURE ON FAIR VALUE ↗

The table below shows the assets and liabilities measured at fair value broken down on the basis of the levels set forth in the fair value hierarchy.

To define the fair value levels, the Group refers to the hierarchy established in IFRS 13, which classifies the inputs of the valuation techniques adopted into three levels:

- › **level 1:** includes (unadjusted) listed prices in active markets for identical assets or liabilities which the company can access at the valuation date;
- › **level 2:** includes inputs other than the listed prices included in level 1, observable directly or indirectly for the asset or liability;
- › **level 3:** includes input data not observable for the asset or liability.

Given the short-term nature of trade receivables and payables, the Group believes that the carrying amounts, net of any bad debt provision, represent a good approximation of fair value. Assets and liabilities at amortized cost are remunerated on the basis of floating interest rates, thus the differences between the fair value and the valuation at amortized cost are deemed insignificant.

FINANCIAL ASSETS (thousands of euro)				
	Carrying amount	L1	L2	L3
Financial assets - non current				
Financial assets at fair value through other comprehensive income - non current	50			x
Total	50			

CHANGES IN FINANCIAL ASSETS (thousands of euro)		
	31/12/2018	31/12/2017
Opening balance	500	519
Purchases/increases	-	135
Sales/settlements	(353)	(154)
Fair value adjustment	-	-
Reclassifications	(135)	-
Other changes	38	-
Closing balance	50	500

Changes during the year refer primarily to the elimination of the option held by the parent company following the capital increase reserved to executives which expired in September 2018, the reclassification to financial assets at amortized cost of time deposits of the South African subsidiary Perago FSE (€135 thousand) and the recognition in the item of the non-controlling equity investment in the company Trustlink (€38 thousand).

FINANCIAL LIABILITIES (thousands of euro)				
	Carrying amount	L1	L2	L3
Financial liabilities - non current				
Other financial liabilities - non current	2,117			x
Hedging derivatives - non current	3,114		x	
Financial liabilities - current				
Other financial liabilities - current	-			
Total	5,231			

CHANGES IN FINANCIAL LIABILITIES (thousands of euro)		
	31/12/2018	31/12/2017
Opening balance	3,051	3,153
Purchases/increases	-	-
Sales/settlements	(856)	-
Fair value adjustment	-	(958)
Reclassifications	-	-
Other changes	3,036	856
Closing balance	5,231	3,051

TRANSACTIONS WITH RELATED PARTIES

Information on remuneration of key managers

As at December 31, 2018, the remuneration due to key managers amounts to €6,481 thousand (€6,424 thousand as at December 31, 2017). €1,294 thousand of these amounts was disbursed (€1,211 thousand as at December 31, 2017).

The remuneration due to Directors and Statutory Auditors for the year 2018 amounts to €1,235 thousand (€2,065 thousand in 2017).

The above-mentioned remuneration was recognized in the income statement item "Payroll costs".

The balance sheet items include other current liabilities of €5,117 thousand.

Other transactions with related parties

Transactions with related parties, including trade transactions with shareholders, are part of the ordinary course of business of the Group companies and are carried out in compliance with criteria of substantial and procedural fairness, under the same conditions as would be applied for transactions entered into with independent third parties.

In drafting this report, related party refers to a person or entity related to the entity drafting the Financial Statements, pursuant to IAS 24.

An individual or a close family member of that individual are related to the company drafting the Financial Statements if that individual:

- › has control or joint control over the company drafting the Financial Statements;
- › has significant influence over the company drafting the Financial Statements;
- › is one of the key managers of the company drafting the Financial Statements or one of its parent companies.

An entity is related to the company drafting the Financial Statements if any one of the following conditions applies:

- › the entities are part of the same Group (which means that each parent company, subsidiary and Group company is related to the others);
- › an entity is an associate or a joint venture of the other entity (or an associate or a joint venture that is part of a Group to which the other company belongs);
- › both entities are joint ventures of the same third counterparty;
- › an entity is a joint venture of a third party company and another entity is an associate of the third party entity;
- › the entity is represented by a post-employment benefit plan in favor of employees of the entity drafting the Financial Statements or a related company. If the entity drafting the Financial Statements is itself a plan of this type, also the employers that sponsor it are related to the entity drafting the Financial Statements;
- › the entity is controlled or jointly controlled by an individual identified as a related party;
- › an individual identified as a related party has significant influence over the entity or is one of the key managers of the entity (or of one of its parent companies).

Transactions with related parties also include transactions with the company ATS, 30% held by SIA. These income statement and balance sheet values are deemed insignificant. The balance sheet and income statement transactions with shareholders are primarily attributable to trade contracts entered into under market conditions.

CAPITAL MANAGEMENT POLICY ↗

The Group's objective is to maximize the return on net invested capital while maintaining the capacity to operate over time, guaranteeing adequate returns for shareholders and benefits for other stakeholders, with a sustainable financial structure. To reach these targets, aside from pursuing satisfactory economic results and generating cash flows, the Group can intervene in its dividend policy and the configuration of the company's capital.

The main indicators used by the Group in capital management are:

- › R.O.E (Return on equity): calculated as the ratio between the profit (loss) attributable to the Group and shareholders' equity attributable to the Group. This indicator represents the Group's capacity to remunerate its shareholders. The objective is for the indicator's value to be higher than the rate of return on a risk-free investment, correlated with the nature of the businesses managed.
- › R.O.I (Return on Investment): calculated as the ratio between operating profit and invested capital; this indicator represents the capacity of company profit to remunerate invested capital, understood as the sum of non-current assets and current assets.

The value of these ratios in 2018 and the relative comparison with 2017 are shown in the dedicated section of the Management Report.

POLICY FOR THE MANAGEMENT OF FINANCIAL RISKS

Qualitative information on risks is provided in the dedicated section of the Management Report for each risk factor including in relation to financial risks.

The same section of the Management Report provides qualitative information on non-financial risks.

The quantitative information on financial risk is instead provided below.

Credit risk

The Group is marginally exposed to credit risk for its operating activities and the management of financial resources and cash.

The quantitative information, consisting of the breakdown of trade receivables by overdue time brackets, increases in the bad debt provision and the indication of any significant positions with individual counterparties, is provided in the comments on trade receivables and/or cash and cash equivalents.

Liquidity risk

The quantitative information consists of an indication of liquidity reserves existing at the reporting date and the breakdown by maturity of payables and other financial liabilities, based on the tables provided below:

LIQUIDITY RESERVES (thousands of euro)		
	31/12/2018	31/12/2017
Cash	94,652	61,349
Financial assets - current	122	488
Financial receivables - current	1,703	-
Committed lines not used (*)	81,750	72,750
Total	178,227	134,587

(*) The amounts refer to the parent company SIA S.p.A.

BREAKDOWN OF LIABILITIES BY RESIDUAL MATURITY (thousands of euro)					
	Within 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years	Total
Bonds	-	-	-	-	-
Financial payables	105,997	84,637	624,541	-	815,175
Financial liabilities	-	2,117	3,114	-	5,231
Trade payables	85,397	-	-	-	85,397
Other liabilities (*)	83,871	58,344	-	-	142,215
Total	275,265	145,098	627,655	-	1,048,018

(*) Includes the amounts classified in the items relating to tax liabilities and other liabilities and does not include amounts relating to provisions for employee benefits and provisions for risks.

Exchange rate risk

The Group, with the exception of the foreign subsidiaries SIA Central Europe and Perago FSE, operates mainly in the euro area, and therefore it is not significantly exposed to exchange rate risks. The exchange differences realized by the Group companies are recognized in the income statement under other revenues and other expenses depending on whether they are positive or negative. Unrealized differences are recognized in shareholders' equity under Valuation reserve. Please refer to the information shown in the Notes which indicates gains and losses due to fluctuations in exchange rates as well as the marginal values.

Interest rate and market risk

The interest rate risk to which the company is exposed depends essentially on financial payables connected to finance leases and the loan entered into by the parent company SIA with a pool of banks for a total notional amount of €775 million, disbursed on September 28, 2018. This transaction made it possible to finance the purchase of the companies SIA Slovakia and SIA Greece (formerly First Data Slovakia and First Data Hellas) and to fully extinguish the previous loan taken out on December 23, 2016 to acquire the companies P4cards and PforCards, benefitting from better economic conditions. The new loan includes 3 lines: the first is fully amortizing and for €390 million, the second is a bullet line of €185 million and the third is a "bridge to equity" line for €200 million. The amortizing and bullet lines have a contractual duration of five years, while the bridge to equity line matures on May 31, 2019, with the possibility to extend the maturity to the same date as the other two lines. The agreement also calls for granting a revolving line of credit of €50 million, currently unused, also for a contractual duration of five years. All lines of credit bear interest at a floating rate (Euribor+spread) and are subject to customary conditions for transactions of this type.

The financing agreement provides for drawing up covenants, in the terms normally accepted for these types of transactions, based on profit level and financial indebtedness indicators.

SIA invests the liquid assets available primarily in current bank accounts and bank deposits, with fixed or variable rate returns. Given what is set forth above and the market interest rate curves for the euro in the coming years, we do not expect to have economic impacts requiring the performance of particular sensitivity analyses, aside from what has already been described above.

FINANCIAL ASSETS (thousands of euro)				
	31/12/2018		31/12/2017	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Cash in hand	-	15	-	18
Bank accounts and deposits	-	94,624	-	61,331
Non current financial assets (*)	-	-	-	-
Current financial assets (*)	-	122	-	135
Total	-	94,761	-	61,484

(*) Amounts relating to non-controlling interests, other cash and cash equivalents and receivables relating to price adjustments for extraordinary operations are excluded due to their nature.

FINANCIAL LIABILITIES (thousands of euro)				
	31/12/2018		31/12/2017	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Bonds	-	-	-	-
Non current financial liabilities (**)	-	3,114	-	856
Current financial liabilities	-	-	-	-
Non current financial payables (***)	7,939	701,239	-	364,468
Current financial payables (***)	8,131	97,866	-	68,404
Total	16,070	802,219	-	433,728

(**) The value relates to the hedging derivative of the parent company SIA.

(***) The value relates to the bank loan of the parent company SIA as well as the values of finance leases.

SIGNIFICANT NON-RECURRING EVENTS AND OPERATIONS ↗

There are no significant non-recurring events or operations not already disclosed in the Management Report and/or in the Notes.

POSITIONS OR OPERATIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS ↗

There were no positions or operations deriving from atypical and/or unusual operations in 2018.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR ↗

The significant events subsequent to the end of the financial year are described in the Management Report.

Please note that the 2018 Consolidated Financial Statements were approved by the Board of Directors on March 13, 2019.

INDEPENDENT AUDITORS' REPORT



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the shareholders of
SIA SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of SIA Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of SIA SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

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

PricewaterhouseCoopers SpA

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The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate SIA SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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



- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010

The directors of SIA SpA are responsible for preparing a report on operations of the SIA Group as of 31 December 2018, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the SIA Group as of 31 December 2018 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the consolidated financial statements of SIA Group as of 31 December 2018 and is prepared in compliance with the law. With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.


Milan, 25 March 2019

PricewaterhouseCoopers SpA

Signed by

Lorenzo Pini Prato
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers



FINANCIAL STATEMENTS OF SIA S.P.A. AS AT DECEMBER 31, 2018

STATEMENT OF FINANCIAL POSITION

Balance Sheet Assets

TOTAL ASSETS (euro)					
	Notes	31/12/2018	31/12/2017	Change	%
Plant and machinery	1	30,085,062	32,852,815	(2,767,753)	-8.4%
Industrial and commercial equipment	1	5,519	4,249	1,270	29.9%
Other assets	1	1,673,578	1,227,982	445,596	36.3%
Tangible assets		31,764,159	34,085,047	(2,320,888)	-6.8%
Goodwill	2	3,853,616	3,853,616	-	-
Other intangible assets	2	48,978,314	36,959,079	12,019,235	32.5%
Intangible assets		52,831,930	40,812,695	12,019,235	29.4%
Investments	3	912,955,257	528,311,741	384,643,516	72.8%
Non current financial assets	4	50,146	12,000	38,146	
Other non current assets	5	3,674,301	782,594	2,891,707	
Deferred tax assets	6	4,751,835	4,396,337	355,498	8.1%
Total non current assets		1,006,027,628	608,400,413	397,627,215	65.4%
Inventories	7	-	109,167	(109,167)	-100.0%
Current financial receivables	8	1,126,511	2,635,305	(1,508,794)	-57.3%
Current financial assets	9	-	352,563	(352,563)	-100.0%
Current tax assets	10	38,921,717	58,898,792	(19,977,075)	-33.9%
Current trade receivables	11	124,811,127	131,482,108	(6,670,981)	-5.1%
Other current assets	12	27,339,279	26,993,709	345,570	1.3%
Cash and cash equivalents	13	41,491,354	34,743,085	6,748,269	19.4%
Total current assets		233,689,988	255,214,730	(21,524,742)	-8.4%
TOTAL ASSETS		1,239,717,616	863,615,143	376,102,473	43.5%

Balance Sheet Liabilities and Shareholders' Equity

TOTAL LIABILITIES AND EQUITY (euro)					
	Note	31/12/2018	31/12/2017	Change	%
Capital stock	14	22,274,620	22,274,620	-	
Share premium reserve	14	5,316,654	5,316,654	-	
Reserves	14	167,159,773	163,685,016	3,474,757	2.1%
Valuation reserve	14	(5,452,804)	(3,145,163)	(2,307,641)	73.4%
Profit/(loss) for the period	14	84,641,251	63,444,887	21,196,364	33.4%
SHAREHOLDERS' EQUITY		273,939,493	251,576,014	22,363,479	8.9%
Non current financial payables	15	701,166,961	364,468,078	336,698,883	92.4%
Hedging derivatives	16	3,114,401	856,095	2,258,306	
Employees benefits	17	18,205,423	19,207,324	(1,001,901)	-5.2%
Deferred tax liabilities	18	31,824	31,824	-	-
Provisions for risks	19	1,477,603	3,991,849	(2,514,246)	-63.0%
Other non current liabilities	20	5,659,500	-	5,659,500	
Total non current liabilities		729,655,712	388,555,170	341,100,542	87.8%
Current financial payables	21	137,965,613	104,971,281	32,994,332	31.4%
Current tax liabilities	22	3,941,762	-	3,941,762	
Trade payables - current	23	43,430,625	49,571,254	(6,140,629)	-12.4%
Other current liabilities	24	50,784,411	68,941,425	(18,157,014)	-26.3%
Total current liabilities		236,122,411	223,483,959	12,638,452	5.7%
TOTAL LIABILITIES		965,778,122	612,039,129	353,738,993	57.8%
TOTAL LIABILITIES AND EQUITY		1,239,717,616	863,615,143	376,102,473	43.5%

STATEMENT OF PROFIT AND LOSS ↗

PROFIT/(LOSS) FOR THE PERIOD (euro)					
	Note	31/12/2018	31/12/2017	Change	%
Revenues from sales and services	25	411,939,413	403,359,306	8,580,107	2.1%
Other revenue and income	26	2,390,215	2,339,893	50,322	2.2%
Changes in inventories third parties	27	(109,167)	(1,425,249)	1,316,082	-92.3%
Costs for raw materials, supplies, consumables and goods	28	(896,378)	(2,356,729)	1,460,351	-62.0%
Service costs	29	(134,604,652)	(131,228,088)	(3,376,564)	2.6%
Payroll costs	30	(138,005,432)	(140,999,127)	2,993,695	-2.1%
Other operating expenses	31	(16,204,358)	(15,100,444)	(1,103,914)	7.3%
EBITDA		124,509,641	114,589,562	9,920,079	8.7%
Depreciation of tangible and intangible assets	32	(23,817,035)	(20,254,090)	(3,562,945)	17.6%
Impairment of trade receivables	33	(2,597,520)	(5,589,293)	2,991,773	-53.5%
Provision for risks	34	(734,000)	(200,000)	(534,000)	
Operating Income		97,361,086	88,546,179	8,814,907	10.0%
Impairment of subsidiaries carrying amount	35	(3,502,972)	(2,608,704)	(894,268)	34.3%
Dividends	35	28,456,369	1,558,135	26,898,234	
Gains/(losses) on investments		24,953,397	(1,050,569)	26,003,966	
Management/negotiation of financial assets and liabilities	36	(2,362,830)	1,572	(2,364,402)	
Financial income	37	350,733	290,516	60,217	20.7%
Interest expenses	38	(11,373,151)	(9,056,354)	(2,316,797)	25.6%
Bank charges	39	(457,986)	(389,729)	(68,257)	17.5%
Financial expenses		(11,831,137)	(9,446,084)	(2,385,053)	25.2%
Profit/(loss) before income taxes		108,471,249	78,341,614	30,129,635	38.5%
Current taxes	40	(23,920,000)	(19,000,000)	(4,920,000)	25.9%
Prepaid/deferred tax	40	768,427	(2,235,994)	3,004,421	
Taxes from previous years	40	(678,425)	6,339,267	(7,017,692)	
Income taxes		(23,829,998)	(14,896,727)	(8,933,271)	60.0%
Net profit from continuing operations		84,641,251	63,444,887	21,196,364	33.4%
Net profit from assets held for sale or discontinued operations		-	-	-	-
Profit/(loss) for the period		84,641,251	63,444,887	21,196,364	33.4%

STATEMENT OF COMPREHENSIVE INCOME

TOTAL NET COMPREHENSIVE INCOME (euro)					
	Note	31/12/2018	31/12/2017	Change	%
Profit/(loss) for the period		84,641,251	63,444,887	21,196,364	33.4%
Defined-benefit schemes	14	(557,940)	(485,207)	(72,733)	
Other items of comprehensive income, net of taxes without reversal to P&L		(557,940)	(485,207)	(72,733)	
Cash flow hedges	14	(1,749,701)	(617,245)	(1,132,456)	
Other items of comprehensive income, net of taxes with reversal to P&L		(1,749,701)	(617,245)	(1,132,456)	
Total other items of comprehensive income, net of tax		(2,307,641)	(1,102,452)	(1,205,189)	109.3%
TOTAL NET COMPREHENSIVE INCOME		82,333,610	62,342,435	19,991,175	32.1%

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

CHANGES IN SHAREHOLDERS' EQUITY IN 2017 (thousands of euro)						
	Share capital	Share premium reserves	Reserves	Valuation reserves	Profit/(loss) for the period	Shareholders' equity
Opening balances	22,275	5,317	138,420	(2,043)	69,814	233,783
Opening balances as of 01/01/2017	22,275	5,317	138,420	(2,043)	69,814	233,783
Allocation of profit			69,814		(69,814)	-
Distribution of dividends			(44,549)			(44,549)
Changes of the period			(1)	(1,102)	63,445	62,342
Cash flow hedging				(617)		(617)
Actuarial gains/(losses)				(485)		(485)
Rounding			(1)			(1)
Result for the period					63,445	63,445
Closing balances as of 31/12/2017	22,275	5,317	163,684	(3,145)	63,445	251,576

On April 18, 2017, the Shareholders' Meeting of SIA S.p.A. approved the allocation of the profit from 2016 to a dividend of €44,549,239 and retained earnings for €25,264,686.

CHANGES IN SHAREHOLDERS' EQUITY IN 2018 (thousands of euro)						
	Share capital	Share premium reserves	Reserves	Valuation reserves	Profit/(loss) for the period	Shareholders' equity
Opening balances	22,275	5,317	163,684	(3,145)	63,445	251,576
Opening balances as of 01/01/2018	22,275	5,317	163,684	(3,145)	63,445	251,576
Allocation of profit			63,445		(63,445)	-
Distribution of dividends			(59,970)			(59,970)
Changes of the period			1	(2,308)	84,641	82,334
Cash flow hedging				(1,750)		(1,750)
Actuarial gains/(losses)				(558)		(558)
Rounding			1			1
Result for the period					84,641	84,641
Closing balances as of 31/12/2018	22,275	5,317	167,160	(5,453)	84,641	273,940

On April 17, 2018, the Shareholders' Meeting of SIA S.p.A. approved the allocation of the profit from 2017 to a dividend of €59,970,129 and retained earnings for €3,474,758.

CASH FLOW STATEMENT - INDIRECT METHOD ↗

CASH FLOW STATEMENT (thousands of euro)		
	31/12/2018	31/12/2017
Profit/(loss) before taxes	108,471	78,342
Income taxes	(23,830)	(14,897)
Depreciation and write-off of fixed assets	12,113	11,452
Depreciation and write-off of intangible assets	11,704	8,802
Provisions for employees	4,986	4,817
Provisions for risks	734	200
Change in trade receivables	6,671	10,039
Change in trade payables	(6,141)	10,418
Change in inventories	109	1,426
Change in provisions for employees	(5,988)	(4,946)
Change in current and deferred tax assets and liabilities	23,561	(59,319)
Change in provisions for risks	(3,248)	353
Changes in other assets and liabilities	(15,732)	10,539
Cash flow generated/absorbed by operating activities	113,410	57,226
Net investments in tangible assets	(9,790)	(22,354)
Net investments in intangible assets	(23,723)	(26,129)
Change in investments	(384,644)	8,799
Cash flow generated/absorbed by investment activities	(418,157)	(39,684)
Change in reserves	(2,309)	(1,100)
Distribution of dividends	(59,970)	(44,549)
Change in financial receivables	1,508	(627)
Change in financial payables	369,693	10,654
Change in financial liabilities	2,258	856
Change in financial assets	315	16
Cash flow generated/absorbed by funding activities	311,495	(34,750)
Change in cash and cash equivalents	6,748	(17,208)
Cash and cash equivalents at the beginning of the period	34,743	51,951
Change in cash and cash equivalents	6,748	(17,208)
Cash and cash equivalents at the end of the period	41,491	34,743

The cash flow absorbed by investment activities was impacted significantly by the acquisition of the companies SIA Greece and SIA Slovakia on September 28, also financed through borrowings, reflected above in the cash flow generated by funding activities. The cash flow generated by operating activities is considerably higher than in 2017 due to the better pre-tax profit, also explained by the receipt of a €25 million dividend from P4cards and tax benefits due to the Patent Box agreement with the Italian Revenue Agency (please note that in the previous period substitute tax was also paid to redeem goodwill recognized during the P4cards business combination). Please also note that in the course of the year, dividends of €59,970 thousand were paid (€49,689 thousand in 2017).

Statement of compliance with international accounting standards

The Separate Financial Statements as at December 31, 2018 of SIA S.p.A. include the Management Report and the Financial Statements of the company and were drafted in compliance with the International Financial Reporting Standards (“IFRS”) endorsed by the European Commission and in force as of the date of approval of this document. “IFRS” refers to all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

The international accounting standards were also applied by making reference to the “Systematic Framework for the Preparation and Presentation

of Financial Statements” and no exemptions to IAS/IFRS were applied.

In particular, the Separate Financial Statements include the statement of financial position, the statement of profit and loss, the statement of comprehensive income, the statement of changes in shareholders’ equity, the cash flow statement and the Notes and the relative comparative information, and are accompanied by the Management Report.

SIA S.p.A.’s Separate Financial Statements were audited by the Independent Auditing Firm PricewaterhouseCoopers S.p.A., in execution of shareholders’ resolution of April 15, 2016, which assigned the engagement until the approval of the Financial Statements as at December 31, 2018.

General accounting principles

The Separate Financial Statements of SIA S.p.A. consist of the compulsory accounting statements set forth in IAS 1, i.e., the statement of financial position, the statement of profit and loss, the statement of comprehensive income, the statement of changes in shareholders’ equity and the cash flow statement, as well as the Notes and are accompanied by the Management Report.

The company has presented the statement of profit and loss by nature of expense, while in the statement of financial position the assets and liabilities are broken down between current and non-current. The cash flow statement is drafted according to the indirect method.

The reporting currency is the euro and the information reported in these Financial Statements, if not specified otherwise, is expressed in euro.

The statement of financial position, the statement of profit and loss and the

statement of comprehensive income are expressed in euro, while the notes and explanatory tables are in thousands of euro.

The Financial Statements were drafted clearly and provide a true and fair view of the financial position, profit and loss for the year, change in shareholders’ equity and cash flows. If the information required by the international accounting standards is insufficient to provide a true and fair, relevant, reliable, comparable and comprehensible view, the Notes provide the necessary additional information.

The Separate Financial Statements were drafted on a going concern basis, according to the accrual basis of accounting, in compliance with the principle of relevance and significance of information, with the prevalence of substance over form, and with a view to favoring consistency with future presentations.

The assets and liabilities and costs and revenues are not offset unless this is permitted or required by the international accounting standards. If an asset or liability element falls under multiple items of the balance sheet, the Notes specify, if this is necessary to understand the Financial Statements, that it relates to items other than that in which it is recognized. Items of a different nature or purpose were presented separately provided they were not deemed irrelevant.

The preparation of the Financial Statements in application of IFRS requires making recourse to estimates and assumptions that have an effect on the values of the assets and liabilities and on the relative disclosure, as well as on contingent assets and liabilities at the reporting date. The estimates and the relative assumptions are based on past experience and on other factors considered reasonable in the particular case and are adopted when the carrying

amount of assets and liabilities is not easy to infer from other sources.

The Financial Statement items for which the use of estimates and assumptions is most significant regard the quantification of provisions for risks, the definition of the share of depreciation of tangible assets and the amortization of intangible assets with a finite useful life, the measurement of intangible assets with an indefinite useful life, goodwill and equity investments, the measurement of receivables and the relative bad debt provision, the measurement of employee benefits and the quantification of deferred taxation. The estimates and assumptions are reviewed periodically and the effects of every change are reflected in the income statement if it concerns only that period. If the revision concerns both current and future periods, the change is recognized in the period in which the revision is made and in the relative future periods.

Accounting standards and valuation criteria

The criteria adopted with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as the revenue recognition criteria, are described in the dedicated section of the Consolidated Financial Statements, which should be referred to for the details. That section also provides a disclosure on the IFRS and IFRIC accounting standards, amendments and interpretations endorsed by the European Union but not yet applicable

and not adopted early by the SIA Group as at December 31, 2018, as well as a disclosure on the IFRS accounting standards, and amendments and interpretations not yet endorsed by the European Union.

Please note that the accounting standards used to prepare the Separate Financial Statements are the same as those used to prepare the Consolidated Financial Statements, when applicable.

NOTES TO THE BALANCE SHEET ITEMS

ASSETS

Non-current assets

1. Tangible assets

(thousands of euro)

	31/12/2018			31/12/2017			Change 2018 Vs 2017
	Gross amount	Depr. Fund	Net amount	Gross amount	Depr. Fund	Net amount	
Plant and machinery	115,437	(95,510)	19,927	107,934	(90,432)	17,500	2,427
Leased plant and machinery	45,920	(35,762)	10,158	45,129	(29,777)	15,352	(5,194)
Industrial and commercial equipment	1,024	(1,019)	5	1,084	(1,079)	5	-
Other assets	8,423	(6,749)	1,674	8,194	(6,966)	1,228	446
Total	170,804	(139,040)	31,764	162,341	(128,254)	34,085	(2,321)

CHANGES IN TANGIBLE ASSETS (thousands of euro)						
Gross amount	31/12/2017	Increase	Decrease	Reclassification	31/12/2018	
Plant and equipment - Gross	107,932	8,069	(471)	(93)	115,437	
Leased plant and equipment - Gross	45,129	791	-	-	45,920	
Equipment - Gross	1,084	1	(59)	(2)	1,024	
Other assets - Gross	8,194	996	(862)	95	8,423	
Total	162,339	9,857	(1,392)	-	170,804	
Depreciation fund	31/12/2017	Increase	Decrease	Reclassification	31/12/2018	
Plant and equipment - Fund	(90,432)	(5,526)	450	(2)	(95,510)	
Leased plant and equipment - Fund	(29,777)	(5,985)	-	-	(35,762)	
Equipment - Fund	(1,079)	(1)	59	2	(1,019)	
Other assets - Fund	(6,966)	(602)	819	-	(6,749)	
Total	(128,254)	(12,114)	1,328	-	(139,040)	
TOTAL	34,085				31,764	

The table below shows the total future minimum payments due for leases at the reporting date.

MINIMUM PAYMENTS FOR OPERATING LEASES (thousands of euro)		
	31/12/2018	31/12/2017
Due within 12 months	4,224	5,182
From 2 to 5 years	5,373	9,680
Beyond 5 years	-	-
Final value	9,597	14,862

2. Intangible assets

(thousands of euro)

	31/12/2018			31/12/2017			Change 2018 Vs 2017
	Gross amount	Depr. Fund	Net amount	Gross amount	Depr. Fund	Net amount	
Goodwill	5,094	(1,240)	3,854	5,094	(1,240)	3,854	-
Internally generated assets	242,682	(231,805)	10,877	239,099	(225,143)	13,956	(3,079)
Software licences	107,963	(92,194)	15,769	102,666	(87,154)	15,512	257
Intangible assets (others)	90	(90)	-	90	(90)	-	-
Other intangible assets	350,735	(324,089)	26,646	341,855	(312,387)	29,468	(2,822)
Intangible assets in progress and advances	22,332	-	22,332	7,491	-	7,491	14,841
Total	378,161	(325,329)	52,832	346,949	(313,627)	40,813	12,019

CHANGES IN INTANGIBLE ASSETS (thousands of euro)				
Gross amount	31/12/2017	Increase	Decrease	31/12/2018
Goodwill	5,094	-	-	5,094
Internally generated assets	239,099	3,583	-	242,682
Software licences	102,666	5,320	(23)	107,963
Intangible assets (others)	90	-	-	90
Intangible assets in progress and advances	7,491	18,424	(3,583)	22,332
Total	354,440	8,903	(23)	378,161

Depreciation fund	31/12/2017	Increase	Decrease	31/12/2018
Goodwill	(1,240)	-	-	(1,240)
Internally generated assets	(225,143)	(6,663)	-	(231,805)
Software licences	(87,154)	(5,041)	2	(92,194)
Intangible assets (others)	(90)	-	-	(90)
Total	(313,627)	(11,704)	2	(325,329)
Total	40,813			52,832

Goodwill relates to the difference, generated by the merger by incorporation of SiNSYS, between the carrying amount of the equity investment and the shareholders' equity of the company when the merger became effective (January 1, 2013). This goodwill has been tested for impairment considering SIA as a whole as the CGU. In continuity with the financial statements of previous years, as well as taking into account the recent strategic plan for the 2019-2021 three-year period approved by the SIA Board of Directors in February 2019, the value of the above-mentioned CGU is considerably higher than the carrying amount of the goodwill in question.

Summary of changes in tangible and intangible assets

CHANGES IN TANGIBLE ASSETS (thousands of euro)						
Net amount	31/12/2017	Increase	Decrease	Depreciation	Reclassification	31/12/2018
Plant and equipment	32,852	8,860	(21)	(11,511)	(95)	30,085
Industrial and commercial equipment	5	1	-	(1)	-	5
Other assets	1,228	996	(43)	(602)	95	1,674
Total	34,085	9,857	(64)	(12,114)	-	31,764

CHANGES IN INTANGIBLE ASSETS (thousands of euro)						
Net amount	31/12/2017	Increase	Decrease	Depreciation	Reclassification	31/12/2018
Goodwill	3,854	-	-	-	-	3,854
Internally generated assets	13,956	3,583	-	(6,663)	-	10,876
Software Licences	15,512	5,320	(21)	(5,041)	-	15,770
Intangible assets in progress and advances	7,491	18,424	(3,583)	-	-	22,332
Total	40,813	27,327	(3,604)	(11,704)	-	52,832

During the year, there was no impairment recognized on tangible or intangible assets. There are also no restrictions on the ownership of and title to assets securing liabilities.

Tangible and intangible assets are initially recognized at cost and subsequently depreciated and amortized on the basis of their remaining useful life (except for goodwill). It is deemed that the net carrying amount can represent a good approximation of fair value.

3. Equity investments

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Subsidiaries	912,023	527,125	384,898
Associates	932	1,187	(255)
Total	912,955	528,312	384,643

The increase derives from the acquisition on September 28, 2018 of the controlling interests in the companies SIA Greece (100%), which wholly owns the company DMAN in liquidation, and SIA Slovakia (100%). The latter holds the controlling interest (all 100%) in the companies SIA Croatia, SIA Romania, SIA Serbia, SIA Hungary and SIA Czech Republic.

As explained in the subsequent paragraphs, at the end of the year impairment testing resulted in a write-down of the equity investment in Perago FSE of €458 thousand. During the year, the remaining non-controlling interests in the company Ubiq were purchased for a total of €120,000, and a payment of €850,000 was made to cover losses. As explained in the subsequent paragraphs, at the end of the year impairment testing resulted in a write-down of the equity investment in Ubiq of €2,828 thousand. During the year, also following the reduction in the shareholding, it was deemed that SIA is no longer capable of exercising significant influence over the company Trustlink, which was therefore reclassified to non-current financial assets.

CHANGES IN EQUITY INVESTMENTS (thousands of euro)					
	31/12/2017	Increase	Decrease	Impairment	31/12/2018
Perago FSE	721	-	-	(458)	263
SIApay	5,716	-	-	-	5,716
TSP	-	-	-	-	-
SIA Central Europe	15,200	-	-	-	15,200
Emmecom	7,490	-	-	-	7,490
Ubiq	4,340	970	-	(2,828)	2,482
SIAdvisor	969	-	-	-	969
P4cards	487,588	-	-	-	487,588
PforCards	5,100	-	-	-	5,100
Consorzio QuenIT	-	-	-	-	-
SIA Slovakia	-	236,897	-	-	236,897
SIA Greece	-	150,317	-	-	150,318
Subsidiaries	527,125	388,184	-	(3,286)	912,023
TrustLink	255	-	(255)	-	-
ATS	932	-	-	-	932
Associates	1,187	-	(255)	-	932
Total	528,312	388,184	(255)	(3,286)	912,955

Subsidiaries

Emmecom S.r.l.

The company, with registered office in Turin, is 100% held by SIA S.p.A. and specializes in fixed, mobile and satellite telecommunications. Established in 2000, Emmecom integrates high-quality services from the main phone service providers, developing solutions for selected target customers, offering optimization of spending, certainty of savings (benchmark, reporting, consulting on fees) and completeness of the service (phone, internet access, value-added services, mobile phones).

In 2018, revenues amounted to €16.5 million (€15.4 in 2017), the EBIT amounted to €2.0 million (€1.6 million in 2017) and net income stood at €1.4 million (€1.0 in 2017). At the end of the year, shareholders' equity was €3.2 million.

Perago FSE Ltd

The company, with registered office in Pretoria (South African Republic) develops systems for Central Banks (including RTGS, CSD, Instant Payments) adopted by several Institutions worldwide for the automatic management of interbank payment transactions and management of government securities.

In 2018, revenues amounted to €4.6 million (€6.1 million in 2017), the EBIT was negative at €3.9 million (positive €0.5 million in 2017) and the net loss was €4.0 million (net income of €0.8 million in 2017). The share capital amounted to 30,000 rand (corresponding to €2,000 as at December 31, 2018) and shareholders' equity at the end of the year was a negative €2.3 million. Pursuant to Par. 9, Art. 2427 of the Italian Civil Code, the parent company has stated its willingness to support the development of the company by meeting the related financial requirements. Based on the impairment test carried out at December 31, 2018, the carrying amount of the equity investment was written down by €458 thousand in the Separate Financial Statements of SIA S.p.A.

P4cards S.r.l.

The company, with registered office in Verona, was acquired on December 31, 2016 from UBIS, a company of the UniCredit Group. The operation was finalized with the acquisition of 100% of the shares of the company, to which, at the same time, UBIS transferred the processing of payment cards and the management of POS Terminals and ATMs in Italy and Germany. P4cards has also agreed to provide UBIS, by outsourcing for a period of ten years, processing services for the transactions carried out with debit, credit and prepaid cards and for the management of the POSs and ATMs of the UniCredit Group.

In 2018, revenues amounted to €151.3 million (€135.0 in 2017), the EBIT amounted to €41.8 million (€38.8 million in 2017) and net income stood at €30.8 million (€28.3 million in 2017). Shareholders' equity is €83.8 million, including the profit for the period.

Consorzio QuenIT in liquidation

The equity investment in the company, which has its registered office in Verona, is held by P4cards and it has therefore been included in the consolidation perimeter of SIA at December 31, 2016 following the acquisition of P4cards from UBIS. P4cards's shareholding in Consorzio QuenIT in liquidation is 55%; the remaining shares are held by Infogroup Informatica e Servizi Telematici S.C.p.A. and Ingenico Italia S.p.A. The consortium was established to provide the services requested in a specific call for tenders issued by Eni S.p.A. On April 20, 2018, the Meeting of consortium members approved the dissolution and resulting placement under liquidation of the consortium, as the services will be provided to Eni directly by P4cards, making use of the products and services provided by Infogroup and Ingenico. During the period, the consortium recognized revenues of €705 thousand and it closed the period with a result for the year of zero (due to consortium activities) and shareholders' equity of €10 thousand. The carrying amount of the company in P4cards is €5.5 thousand.

PforCards GmbH

The company has its registered office in Vienna and was bought on December 31, 2016 from UBIS Austria, a company of the UniCredit Group, as part of the acquisition from the UniCredit Group of the processing activities related to payment cards and the management of the POS and ATM terminals located in Italy, Germany and Austria. The operation was finalized with the acquisition of all the shares of the company.

In 2018, revenues amounted to €3.5 million (€3.1 in 2017), the EBIT was negative at €1.1 million (€1.2 million in 2017) and the net loss stood at €1.2 million (net loss of €1.2 million in 2017). Shareholders' equity is €2.7 million.

SIA Central Europe Zrt.

The company, wholly owned by SIA, which bought it in 2007, has its registered office in Budapest (Hungary). It has a share capital of 177 million Hungarian forints (equal to approximately €551,000 as at December 31, 2018) and shareholders' equity, including profit for the year, equal to €6.5 million. SIA Central Europe, a payment system and payment card processing leader in Hungary, mainly provides financial institutions, corporations, and issuers and acquirers of payment cards with management services for ATM and POS terminals, transaction switching, fraud monitoring and other payment system services.

In keeping with SIA's three-year Strategic Plan, SIA Central Europe's aim is to consolidate and expand the Group's presence in Hungary and across its key operating areas (Austria, Poland, Romania, Slovakia, the Czech Republic, Slovenia and Croatia) by offering innovative and competitive technological systems in

the payments sector, for financial and corporate institutions, in compliance with European legislative requirements (SEPA, PSD, etc.).

Since 2012, SIA Central Europe has operated as a commercial hub for all services offered by the SIA Group in Hungary and in Central European countries.

In 2018, revenues amounted to €12.4 million (€11.1 million in 2017) and EBIT to €2.5 million (€2.1 million in 2017). The year ended with a net profit of €2.3 million (€1.9 million in 2017).

SIApay S.r.l.

This company, a wholly owned direct subsidiary of SIA, has its registered office in Milan. Established in 2009 and operating since 2010, in 2011 SIApay was authorized by the Bank of Italy and included in the Register of Payment Institutions.

The shareholders' equity as at December 31, 2018, which includes a share premium reserve of €600,000, was €8.3 million, including profit for the year. In 2018, revenues amounted to €12.8 million (€10.0 million in 2017), EBIT to €0.9 million (€1.2 million in 2017) and net profit to €0.5 million (€0.7 million in 2017).

SIA Slovakia, s.r.o.

This company has its registered office in Bratislava (Slovak Republic) and, along with its direct subsidiaries, provides issuing and acquiring services throughout Central and Eastern Europe. Its main services regard the management of roughly 50 thousand POS devices and around 4 thousand ATMs and card transaction processing, directly serving 50 customers and over 4 thousand merchants across 12 countries.

In the last quarter of 2018, following the acquisition by SIA in September 2018, revenues amounted to €10.3 million, the EBIT amounted to €4.4 million and net income stood at €3.5 million. At the end of the year, shareholders' equity was €21.6 million.

SIA Slovakia's direct subsidiaries are:

- **SIA Croatia d.o.o** which has its registered office in Zagreb, and earned revenues of €570 thousand during the quarter, closing with shareholders' equity of €230 thousand.
- **SIA Romania Payment Technologies S.r.l.**, which has its registered office in Bucharest, and earned revenues of €19 thousand during the quarter, closing with shareholders' equity of €355 thousand.
- **SIA RS d.o.o. Beograd**, which has its registered office in Belgrade, and earned revenues of €550 thousand during the quarter, closing with shareholders' equity of €192 thousand.
- **SIA Hungary Kft.**, which has its registered office in Budapest, and earned revenues of €442 thousand during the quarter, closing with shareholders' equity of €1,095 thousand.
- **SIA Czech Republic, s.r.o.**, which has its registered office in Prague, and earned revenues of €47 thousand during the quarter, closing with shareholders' equity of €158 thousand.

New SIA Greece S.A.

This company, which has its registered office in Athens (Greece), provides a complete set of payment and high value-added services throughout the payments value chain. The company, which has around 1,000 employees, manages 280 thousand POSs and 3 thousand ATMs in addition to offering card production and customization services (1.6 million customized cards) and managing back office and call center services (approximately 8.8 million calls managed). Its services reach 7 different countries in Eastern and Southern Europe. Its direct subsidiary is **DMAN in liquidation**.

In the last quarter of the year, revenues amounted to €13.3 million, the EBIT basically reached the break-even point and net income stood at €0.3 million.

At the end of the year, shareholders' equity was €48.4 million. DMAN in liquidation closed the year with shareholders' equity of €415 thousand.

Ubiq S.r.l.

This company, with registered office in Parma, is wholly owned following the acquisition in 2018 of the remaining shares (3.5%) from the non-controlling shareholders. Ubiq, a start-up founded in 2012 from a spin-off of Parma University, specializes in the design and development of innovative technology solutions for the promotion of branded products, in which it operates with the "Ti Frutta" App: consumers who purchase the products promoted online by the "Ti Frutta" App at any point of sale receive a discount in proportion to the amount spent. This acquisition operation is part of SIA's strategy to grow as a technologically advanced company in the area of digital payments, also by acquiring innovative companies and distributing added-value services through mobile phones.

In the first half of 2018, the parent company SIA acquired the remaining shares (3.5%) from the non-controlling shareholders for a total of €120 thousand and made a payment of €850 thousand to cover accumulated losses. In 2018, revenue amounted to €0.5 million (€0.7 million in 2017), EBIT was a negative €1.5 million (-€2.2 million in 2017) and there was a net loss of €1.2 million (-€1.8 million in 2017). At the end of the year, shareholders' equity was €0.5 million. Pursuant to Par. 9, Art. 2427 of the Italian Civil Code, the parent company has stated its willingness to support the development of the company by meeting the related financial requirements. As at December 31, 2018, the impairment test was performed including the company within the Loyalty and Big Data business line, identified as a Cash Generating Unit (CGU). The test resulted in the recognition of an impairment loss of €2,828 thousand in the separate financial statements of SIA and of €1,402 thousand in the consolidated financial statements.

SIAAdvisor S.r.l.

The company, with registered office in Rome, was acquired on January 13, 2016, with the acquisition of 51% of the share capital. On December 1, 2018, it changed its name from LM Enterprise S.r.l. to SIAAdvisor S.r.l. The company is, however, fully consolidated, since it is believed that the outstanding derivative instruments (to be exercised until December 31, 2021) give to SIA immediate access to SIAAdvisor's profits. Established in 2011, the Company specializes in providing consulting on Marketing & Sales, IT/Operations and Organization. Due to its close collaboration with the company, it is possible to meet the demand by SIA customers for support, implementation and development of their business strategy, providing specialist skills on innovative issues and creating potential market synergies.

In 2018, revenues amounted to €4.1 million (€2.7 million in 2017), EBIT to €1.0 million (€0.8 million in 2017) and net income to €0.7 million (€0.5 million in 2017). Shareholders' equity at the end of the year was €2.3 million.

Associated companies

In the reporting period, also following the parent company's reduction of its shareholding, it was deemed that the Group is no longer capable of exercising significant influence over the company Trustlink Ltd, which was therefore reclassified to non-current financial assets. The only company over which the Group exercises significant influence is:

ATS S.p.A.

In December 2000, SIA acquired a 30% stake in ATS S.p.A., which has a share capital of €120 thousand. The company is a software developer, primarily for the banking and financial sector, and has been SIA's qualified partner for many years now.

Its data for 2018 were not yet available at the date of approval of this document.

The company closed the last three years with shareholders' equity of around €2.5 million and net income between €50 thousand and €80 thousand. For 2018, no significant changes are expected compared to previous years.

Impairment test on equity investments

Purpose and subject of the impairment test

IAS 36 establishes the criteria to be applied to verify whether the carrying amount of assets recognized in the financial statements is recoverable through their use or, alternatively, sale, by performing an impairment test. For the equity investments recognized in the separate financial statements, the impairment test was performed by estimating the recoverable amount of the legal entity to which the carrying amount refers. In other words, the impairment test was carried out individually for each investee, which coincides with the cash-generating unit identified. The exception to this rule is the two subsidiaries acquired at the end of 2016, P4cards and PforCards, which for valuation purposes are considered to be a single cash-generating unit, and the subsidiary Ubiq, for which reference was made to the CGU identified in the Consolidated Financial Statements, or the "Loyalty and Big Data" service line, as the strategic development plans were prepared with a view to integrating all of Ubiq's activities within the parent company SIA.

The CGUs (cash-generating units) tested for impairment were:

- › P4cards, consisting of the equity investments in P4cards S.r.l. and PforCards GmbH, wholly owned and controlled, 55% held by P4cards and indirectly controlled by SIA for the same percentage;
 - › SIA Central Europe Zrt., wholly owned and controlled;
 - › Perago FSE Ltd, wholly owned and controlled;
 - › Emmecom S.r.l., wholly owned and controlled;
 - › SIApay S.r.l., wholly owned and controlled;
 - › SIAadvisor S.r.l. (formerly LM Enterprise S.r.l.), wholly owned.
- and the Loyalty and Big Data service line, to which SIA's equity investment in Ubiq S.r.l. was allocated.

Reference data and documentation

The reference date for the performance of the tests is December 31, 2018; the relative estimates are based on the data from the 2018 draft Financial Statements and the income and cash flow projections formulated by the management of the investee companies for the 2019-2021 period. Market information is current information available at the reference date of the estimates; furthermore, sensitivity analyses were also performed on the test results.

The key parameters used for the Italian CGUs are those listed below, unless specified otherwise:

- › The risk-free rate is differentiated between the analytical period and the terminal rate in order to capture, under normal circumstances, a likely assumption of growth in Italian risk-free rates with respect to current ones.
- › The execution premium is 4%.
- › The "g" growth rate is estimated as the average of the inflation rates forecast for Italy in the long term (time horizon 2018-2023) and is equal to 1.58%.
- › The resulting WACC is 10.8% in the Plan period and 12.0% on the terminal value.

Valuation criteria and rules applied

To estimate the "recoverable amounts" of the assets recognized in the financial statements as at December 31, 2018, reference was made to the notion of "value in use".

Pursuant to IAS 36, the baseline used for the estimate of the value in use was the unlevered financial method, applied with an "asset side" approach.

For the foreign investees, based on the current operating procedure described above, the value in use is calculated based on cash flows expressed in local currency, discounted on the basis of a discount rate expressing the risks connected to that currency and then converted into euro at the spot exchange rate on the reference date of the estimate.

The discount rate used for the assessments is equal to the weighted average cost of capital (WACC), which weights the cost of own capital and financial debt, calculated as a nominal rate and net of taxes. A parameter associated with the execution risks incorporated within the plans, named “execution premium”, differentiated by individual CGU, was also used.

RESULTS

P4CARDS

The Plan of the companies P4cards and PforCards calls for further growth in turnover and profit margins, including in the plan years (2019-2021) subsequent to 2018.

Key parameters

The risk-free rate is differentiated between the analytical period and the terminal rate in order to capture, under normal circumstances, a likely assumption of growth in Italian risk-free rates with respect to current ones.

The execution premium is 1% only for the terminal period, primarily considering the substantial stability of the business based on a significant long-term contract already entered into.

The “g” growth rate is estimated as the average of the inflation rates forecast for Italy in the long term (time horizon 2018-2023) and is equal to 1.58%.

The resulting WACC is 6.8% in the Plan period and 8.7% on the terminal value.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU’s recoverable amount is higher than the carrying amount of the equity investments and therefore there is no need for any write-downs.

SIA CENTRAL EUROPE

The 2019-2021 Plan of SIA Central Europe appears to be challenging from the perspective of revenue growth; however, in the early years of the plan the EBITDA margin is essentially in line with the historical figure and that of this past year, while considerable growth is expected in 2021.

Key parameters

The risk-free rate is differentiated between the analytical period and the terminal rate in order to capture, under normal circumstances, a likely assumption of growth in Hungarian risk-free rates with respect to current ones.

The execution premium is 4%.

The long-term “g” growth rate is estimated in two stages: for the first (5 years), it is equal to the average of the Hungarian GDP growth rate (5.7%) and that of the Eurozone countries (3.5%); for the second stage, it is equal to expected long-term inflation in Hungary (3%).

The resulting WACC is 11.4% in the Plan period and 14.5% on the terminal value.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU’s recoverable amount (converted into euro at the exchange rate on December 31, 2018) is higher than the carrying amount of the equity investment and therefore there is no need for any write-downs.

EMMECOM

Emmecom's 2019-2021 Plan calls for substantial stability in revenues and a decline in profitability in the first years of the plan compared to the year that just ended, but with a slight recovery in subsequent years.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU's recoverable amount is higher than the carrying amount of the equity investment and therefore there is no need for any write-downs.

SIAADVISOR

SIAAdvisor's 2019-2021 Plan contains considerable revenue growth forecasts, while maintaining a good level of profit margins.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU's recoverable amount is higher than the carrying amount of the equity investment and therefore there is no need for any write-downs.

PERAGO FSE

The 2019-2021 Plan calls for substantial stability in revenues as well as the EBITDA margin.

Key parameters

The risk-free rate is equal to the rate on South African 10-year government bonds, calculated as the average of the rates recorded in 2018. Additional country risk (+2.73%) was considered, which is not reflected in the risk-free rate, since Perago's operations primarily take place in countries other than South Africa, where the registered office is located.

The execution premium is 4%.

The long-term "g" growth rate is estimated in two stages: for the first (5 years), it is equal to the average of the South African GDP growth rate (6.9%) and that of advanced countries (3.7%); for the second stage, it is equal to the average of the expected long-term inflation in South Africa (5.5%) and in advanced countries (2.0%). The resulting WACC is 19.6%.

Summary of results

The impairment test carried out applying the methodology described above shows that the equity investment's recoverable amount (converted into euro at the exchange rate on December 31, 2018), taking into consideration the high likelihood of converting the financial debt due to the parent company into equity, is €0.3 million, lower than the carrying amount; therefore, a write-down of €0.4 million was recognized, adjusting the carrying amount of the equity investment.

SIAPAY

The 2019-2021 Plan contains significant growth forecasts attributable basically to revenues from the business based on the "Associate" model relating to issuing and acquiring licenses, with a corresponding increase in profit margins.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU's recoverable amount is higher than the carrying amount of the equity investment and therefore there is no need for any write-downs.

LOYALTY AND BIG DATA - UBIQ

This CGU, established within SIA in 2018, has three-year projections that initially take into account the launch of activities and thus forecast a negative EBITDA; however, based on its growth prospects, it is deemed that profit margins will be able to stabilize beginning from the last year of the plan.

This CGU also includes the subsidiary Ubiq S.r.l., with a view to leveraging the software originally developed for Loyalty services.

Summary of results

The impairment test carried out applying the methodology described above shows that the CGU's recoverable amount is €2.5 million and therefore a write-down of around €2.8 million was recognized in the carrying amount of the equity investment (of which €0.9 million relating to the payment made in August 2018 to cover losses).

4. Non-current financial assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Financial asset at fair value through other comprehensive income - non current	50	12	38
Total	50	12	38

The value refers to the equity investments held in MIP Politecnico di Milano (€12 thousand) and in Trustlink (€38 thousand), which was reclassified from equity investments, as it was no longer considered a controlling interest in accordance with IFRS 10.

5. Other non-current assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Leasehold improvements	3,674	783	2,891
Total	3,674	783	2,891

The increases relate to the values of improvements made to the new registered office on Via Lorenteggio in Milan, which replaced the office in Via Giuliani in the second half of 2018.

6. Deferred tax assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Deferred tax assets	4,752	4,396	356
Total	4,752	4,396	356

They amount to €4,752 thousand (€4,396 thousand as at December 31, 2017). For details on the breakdown, please refer to the table in the "Income tax" section.

Current assets

7. Inventories

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Work in progress - current	-	109	(109)
Total	-	109	(109)

The decrease is due to the conclusion of all project activities for third parties.

8. Current financial receivables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Financial receivables due from subsidiaries	1,127	2,635	(1,508)
Total	1,127	2,635	(1,508)

The amount relates to the financial receivable from PforCards GmbH. The decline for the period was due to the write-off (roughly €2 million) of the receivable for the loan disbursed to Perago FSE, as it was deemed that the company is not in the conditions to repay it.

9. Current financial assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Financial assets measured at fair value through profit or loss - current	-	353	(353)
Total	-	353	(353)

The position referring to the value of the call option granted and sold by the executives of SIA and its Belgian branch, as part of a reserved capital increase approved by the Shareholders' Meeting on July 23, 2015, was eliminated since the option expired.

10. Current tax assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Other tax assets	38,922	38,840	82
Current tax assets - IRES	-	18,403	(18,403)
Current tax assets - IRAP	-	1,656	(1,656)
Total	38,922	58,899	(19,977)

They amount to €38,922 thousand (€58,898 thousand as at December 31, 2017) and refer primarily to the payment of substitute tax on goodwill generated during the acquisition of P4cards (€35,840 thousand), in order to make it tax deductible. This transaction will begin to have effects on the income statement and balance sheet in 2019.

Please also note that the results of the IRES refund request submitted in 2013 due to the failure to deduct IRAP on personnel and similar expenses for the years 2007-2011 were also accounted for.

The change compared to the previous year is primarily due to the fact that in 2017 the company signed a Patent Box agreement with the Italian Revenue Agency, which reduced the current tax payable, enabling the company to close the year with a tax credit due to higher advances already paid.

11. Current trade receivables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Trade receivables - current	115,835	125,007	(9,172)
Trade receivables due from subsidiaries	12,742	7,737	5,005
Bad debt provision	(3,766)	(1,262)	(2,504)
Total	124,811	131,482	(6,671)

Trade receivables were down during the year due to the greater uniformity and regularity of collections throughout the year, which limited seasonal effects, as well as more intense and efficient debt collection activities.

Given the short-term nature of trade receivables, SIA believes that the carrying amounts, net of any bad debt provision, represent a good approximation of fair value.

CHANGES IN BAD DEBT PROVISIONS (thousands of euro)			
	31/12/2018	31/12/2017	Change 2018 Vs 2017
Opening balance	(1,262)	(1,302)	40
Increase	(2,598)	(5,589)	2,991
Decrease	94	5,629	(5,535)
Closing balance	(3,766)	(1,262)	(2,504)

The breakdown in trade receivables by overdue time brackets is presented below.

(thousands of euro)

	from 0 to 90 days	from 90 to 180 days	> 180 days	Total
Trade receivables	11,781	2,939	5,278	19,998
Total	11,781	2,939	5,278	19,998

12. Other current assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Security deposits	99	120	(21)
Prepayments to suppliers	508	281	227
Receivables from employees	97	78	19
Other activities	4,724	6,383	(1,659)
Tax receivables	8	8	-
Prepayments and accrued expenses	21,903	20,124	1,779
Total	27,339	26,994	345

The increase in deferred expenses was caused mainly by higher costs for software leases and hardware and software maintenance.

13. Cash and cash equivalents

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Cash in hand	5	9	(4)
Bank accounts and deposits	41,486	34,734	6,752
Total	41,491	34,743	6,748

As highlighted in the cash flow statement, in 2018 the company generated consistent cash flows from operations, which supported investment activities net of the amount financed through recourse to external sources, and made it possible to close the year with significant available cash. Please also note that during the year intra-group contracts were activated for centralized treasury management.

LIABILITIES AND SHAREHOLDERS' EQUITY

14. Shareholders' equity

Share capital

The share capital is fully paid-up and amounts to €22,274,620, broken down into 171,343,227 ordinary shares with a nominal value of €0.13 each.

Share premium

This amounts to €5,316,654 and refers to the capital increase carried out in 2015 dedicated to the management, in execution of the shareholders' resolution of July 23, 2015.

Legal reserve

This reserve, which amounts to €4,454,924, has already reached one-fifth of the share capital pursuant to art. 2430 of the Italian Civil Code.

Reserve from merger surplus

This reserve is recognized for a total of €77,048,710 and represents the differences generated by the mergers by incorporation with SSB S.p.A. in 2007 and with Ra Computer S.p.A. in 2015.

Reserve from spin-off surplus

This reserve is recognized for a total of €5,698,828, with €4,273,027 generated following the spin-off of a business unit of TSP S.r.l. in 2015 and €1,425,801 generated following the spin-off of a business unit of Servizi Interbancari S.p.A. in 2000.

FTA Reserve

This reserve has a negative total of €6,053,628, representing changes in the balance sheet deriving from the first time adoption of IAS/IFRS on January 1, 2014.

Valuation reserve

This reserve has a negative value of €5,452,804, representing the effects on the balance sheet deriving from items that require an offsetting entry in the balance sheet in accordance with IAS/IFRS. The change during the year was caused by the actuarial component of employee severance indemnity, the cash flow hedge on bank debt and seniority bonuses.

Revaluation reserve for equity investments

Recognized for a total value of €2,714,625, this represents the revaluations made in previous years, relating to TSP for €1,271,884 and to SiNSYS for €1,442,741.

Retained earnings

They amount to €83,296,315 following the distribution of profit for the year 2017 in execution of the shareholders' resolution of April 20, 2018 approving the allocation of the profit from 2017 to a dividend of €59,970,129 and retained earnings for €3,474,758.

Other information

As required by article 2427, point 7 bis of the Italian Civil Code, the table below shows the details of the Shareholders' Equity items other than profit (loss) for the year and retained earnings, with an indication of their origin, availability for utilization and availability for distribution, as well as any use during the year and in previous years.

(thousands of euro)

	Amount	Availability for utilisation (*)	Portion available	Distribution last 3 years
Share capital	22,274,620	-	-	-
Share premium reserve	5,316,654	A,B,C	5,316,654	-
Legal reserve	4,454,924	B	4,454,924	-
Reserve from merger surplus	77,048,710	A,B,C	77,048,710	-
Reserve from spin-off surplus	5,698,828	A,B,C	5,698,828	-
Retained earnings	83,296,315	A,B,C	83,296,315	-
FTA reserve	(6,053,628)	-	-	-
Revaluation reserve for equity investments	2,714,625	A,B	2,714,625	-
Valuation reserve	(5,452,804)	-	-	-
Total	189,298,244		178,530,056	-
Non distributable portion			7,169,549	-
Residual portion available for distribution			171,360,507	-

(*) A: for capital increases; B: to cover losses; C: for distribution to shareholders.

Non-current liabilities

15. Non-current financial payables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Bank loans - non current	695,794	354,788	341,006
Other non current payables	5,373	9,680	(4,307)
Total	701,167	364,468	336,699

Non-current bank debt refers to the long-term portion of the loan originally taken out in 2017 to acquire P4cards and PforCards, and subsequently renegotiated in 2018 for the acquisition of SIA Greece and SIA Slovakia.

Other non-current financial payables consist of the component due in more than twelve months of payables relating to finance lease agreements for the acquisition of technological infrastructure. The amount rose during the year after important new contracts were entered into.

16. Hedging derivatives

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Hedging derivatives - non current	3,114	856	2,258
Total	3,114	856	2,258

The item "Hedging derivatives" amounts to €3,114 thousand and refers to the negative fair value of the derivative contracts entered into in December 2018 by the parent company to cover interest rate risk on the outstanding bank loan. The derivative instruments swap the floating rate on the loan with a fixed market rate set up when the contract was entered into and are accounted for as cash flow hedges in accordance with IAS 39.

17. Provisions for employee benefits

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Employee benefits	18,205	19,207	(1,002)
Total	18,205	19,207	(1,002)

(thousands of euro)

	Employees severance indemnity fund
Balances as of 31/12/2017	19,207
Increases	
Provision for the period	4,986
Decreases	
Payments for the period	(5,988)
Balances as of 31/12/2018	18,205

Accounting data	EMPLOYEES SEVERANCE INDEMNITY	SENIORITY AWARDS
Number of employees as of 31.12.2018	1,504	659
Civil law provision 31.12.2017	17,642,645	
Accounted changes 31.12.2018	-1,201,376	-97,054
Civil law provision 31.12.2018	16,759,200	

Changes in the present value of the defined-benefit obligation	EMPLOYEES SEVERANCE INDEMNITY	SENIORITY AWARDS
(+) DBO at 31.12.2017	19,096,046	289,187
(+) Current Service Cost	0	10,532
(+) Interest Expense	-48,716	-634
(-/+) Actuarial (Gains)/Losses arising	123,785	-14,877
(-) (Balance of Fund movements)	-1,201,376	-97,054
(+) DBO al 31.12.2018	17,969,738	187,155

Charges for defined-benefit schemes recognised in profit and loss	EMPLOYEES SEVERANCE INDEMNITY	SENIORITY AWARDS
Current Service Cost	0	10,532
Interest Expense	-48,716	-634
Actuarial (Gains)/Losses recognised	0	-14,877
Total	-48,716	-4,979

Other Comprehensive Income (OCI)	EMPLOYEES SEVERANCE INDEMNITY	SENIORITY AWARDS
Actuarial (Gains)/Losses arising to be recognised in OCI	123,785	
- Actuarial (Gains)/Losses arising for change in demographic assumption	35,523	
- Actuarial (Gains)/Losses arising for change in financial assumption	-248,990	
- Other Actuarial (Gains)/Losses arising in the period	337,252	

The data processed by the actuary are always net of the employees severance indemnity set aside on variable remuneration as this is settled every year.

ACTUARIAL ASSUMPTIONS USED		
FINANCIAL AND ECONOMIC ASSUMPTIONS:		
Discount rate	Curve Eur Composite AA at 31.12.2018	
	Maturities (years)	Rates
	1	-0.180%
	2	0.001%
	3	0.195%
	4	0.380%
	5	0.548%
	7	0.849%
	8	0.983%
	9	1.109%
	10	1.223%
	15	1.613%
Inflation rate		1.50%
Expected rate of pay increase (including inflation)		N.A.
Percentage of employees severance indemnity requested in advance		100%

DEMOGRAPHIC ASSUMPTIONS:	
Maximum retirement age	According to latest legal provisions
Mortality tables	SI 2017
Average annual percentage of personnel exit*	2.82%
Annual probability of request for an advance	1.00%

* calculated for any cause of termination, in the first ten years after the assessment year.

Sensitivity analysis	Sensitivity	EMPLOYEES SEVERANCE INDEMNITY
		New DBO
Discount rate	+0.50%	17,005,967
	-0.50%	19,008,149

Addition information	EMPLOYEES SEVERANCE INDEMNITY
Duration (in years)	11.30

Payments expected	EMPLOYEES SEVERANCE INDEMNITY
Payments expected as of 31.12.2019	444,449
Payments expected as of 31.12.2020	472,217
Payments expected as of 31.12.2021	508,240
Payments expected as of 31.12.2022	548,124
Payments expected as of 31.12.2023	709,393
Payments expected from 1.01.2024 to 31.12.2028	5,236,133

18. Deferred tax liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Deferred tax liabilities	32	32	-
Total	32	32	-

They amount to €32 thousand and did not change during the year.

19. Provisions for risks

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Provisions for risks	1,478	3,992	(2,514)
Total	1,478	3,992	(2,514)

CHANGES IN PROVISION FOR RISKS (thousands of euro)				
	Employees charges	Tax disputes	Other provisions	Total
Balances as of 31/12/2017				
Opening balance	3,263	240	489	3,992
Reclassifications				
Reclassifications	-	59	-	59
Increase				
Provision for the period	-	-	734	734
Decrease				
Utilisation for the period	(3,128)	-	(179)	(3,307)
Balances as of 31/12/2018				
Closing balance	135	299	1,044	1,478

The change in the amount of the provisions for risks for personnel derives from utilizations during the period.

The item "Other provisions" includes values relating to seniority bonuses to be recognized to employees based on the company's supplementary agreement. These values were adjusted based on payments made during the year and expert actuarial estimates. This item also includes amounts recognized in 2018 relating to legal expenses for a possible dispute with a customer following a contractual suspension and requests for compensation for damages from certain customers, still being assessed and defined. The amount relating to the dispute under way with the Italian Revenue Agency for the 2006, 2007, 2008, 2009, 2010 and 2011 tax periods is basically to cover the estimated legal expenses that could be incurred to protect the company's rights. In this regard, please note that there are several disputes under way with the Italian Revenue Agency. One relates to services provided by the company SiNSYS - subsequently incorporated into SIA - to SIA itself which, according to the Agency, should have been subject to VAT by the Italian permanent establishment rather than the parent company, although the VAT relating to the consideration agreed for those services was already settled by the client SIA through the issue of a "self-invoice". Another regards the transfer pricing used by SiNSYS to determine the income between the Belgian parent company and the Italian and Dutch branches: although it agrees with the method selected by the company (the profit split method set forth in the OECD guidelines), the Agency

contested the approach used by the company to allocate the costs between the three offices.

At the date of approval of the financial statements, all of the rulings issued, including those in the second instance, were favorable to the company, and the appeals submitted were accepted in full.

Reassured by the ruling in the first degree, although it is aware of a possible appeal that could be lodged by the Tax Authorities, the company, along with its tax and legal advisors, believes, all the more so, that the findings are unfounded and the penalties are not applicable.

A third dispute regards the depreciation applied on specific systems for the provision of business services, which the Agency claimed was too high, since it claimed that the systems were equivalent to simple electronic systems; also in this case, the company believes it will be able to demonstrate the speed of technological obsolescence of these systems and therefore the consistency of the depreciation rates applied. At the date of approval of the financial statements, all of the rulings issued, including those in the second instance, were favorable to the company, and the appeals submitted were accepted in full.

The company believes that there are no concrete elements such so as to justify an adjustment to the provision for risks, which currently basically includes the estimated legal expenses to be incurred. Please note that in 2018 the company obtained a partial reimbursement from the Revenue Agency which was accounted for by reconstituting the provision for risks.

20. Other non-current liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Other non current liabilities	5,660	-	5,660
Total	5,660	-	5,660

This item includes amounts recognized for the new long-term incentive plan classified at the end of the previous year in “Other current liabilities” as they relate to the previous plan, terminated in 2017 and settled in 2018.

Current liabilities

21. Current financial payables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Current bank debt	85,500	63,222	22,278
Financial payables due to subsidiaries	48,241	36,567	11,674
Other current financial payables	4,224	5,182	(958)
Total	137,965	104,971	32,994

Current bank debt rose due to the classification of the current part of the loan taken out to purchase equity investments.

The item “Other current financial payables” consists of the component maturing in less than twelve months of the bank loan taken out to purchase equity investments and payables to leasing companies for the acquisition of technological infrastructure.

The item “Financial payables” due to subsidiaries is represented by amounts generated by the activation of a series of contracts for the group’s centralized treasury management, which allow for an efficient management of the cash requirements as well as surpluses of each individual company.

22. Current tax liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Current tax liabilities - IRES	2,524	-	2,524
Current tax liabilities - IRAP	1,417	-	1,417
Total	3,941	-	3,941

The amounts relate to the balance between advances paid and tax payables deriving from the tax burden. In 2017, there was a credit balance due to the effects of the agreement signed with the Italian Revenue Agency with respect to the tax benefits arising from the Patent Box.

23. Current trade payables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Trade payables - current	39,439	45,656	(6,217)
Trade payables due to subsidiaries - current	3,991	3,915	76
Total	43,430	49,571	(6,141)

Given the short-term nature of trade payables, SIA believes that the carrying amounts represent a good approximation of fair value.

24. Other current liabilities

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Customer advance payments	1,388	2,839	(1,451)
Social security debts	20,034	20,515	(481)
Amounts due to Directors and Auditors	49	464	(415)
Payables to employees	17,063	35,524	(18,461)
Deferred income and accrued liabilities	1,996	1,594	402
Tax liabilities	7,404	5,409	1,995
Other liabilities	2,851	2,596	255
Total	50,784	68,941	(18,157)

Payables to employees basically refer to the variable component of the remuneration (MBO) of the Group management, as well as the Company Bonus (VAP), established in agreement with the trade unions and assigned to all of SIA’s employees on the basis of the results achieved. The decline is explained by the payment of the long-term incentive plan for the management during the year. The values relating to the new long-term incentive plan for the management are classified under other non-current liabilities.

NOTES TO THE STATEMENT OF PROFIT AND LOSS ITEMS

25. Revenues from sales and services

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Revenues from sales and services	411,939	403,359	8,580
Total	411,939	403,359	8,580

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Cards	183,955	170,534	13,421
Payments	116,714	119,937	(3,223)
Institutional Services	109,870	111,826	(1,956)
Corporate	1,400	1,062	338
Total	411,939	403,359	8,580

- › **Cards:** higher revenues for issuing and acquiring services relating to debit and credit cards and merchants, in particular there were higher revenues for transactions, project activities and value-added services.
- › **Payments:** higher revenues for innovative services in the Network Services as well as Mobile Payments and PSD2 areas, are more than offset by lower revenues on traditional Network Services activities and a decrease in project activities for collections and payments.
- › **Institutional Services:** higher revenues for clearing services due to higher volumes managed, as well as higher revenues for project activities and network services, were more than offset by lower revenues for Post-Trading services.
- › **Corporate:** greater support services offered to Group companies, primarily due to the integration of P4cards.

26. Other revenues and income

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Several revenues	412	431	(19)
Contingent revenues	1,978	1,909	69
Total	2,390	2,340	50

27. Changes in inventories for third parties

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Software projects developed for third parties	(109)	(1,425)	1,316
Total	(109)	(1,425)	1,316

28. Costs for raw and ancillary materials, consumables and goods

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Goods and products	(896)	(2,357)	1,461
Total	(896)	(2,357)	1,461

This value declined as a result of the decrease in acquisitions of products for resale.

29. Costs for services

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Rental	(20,427)	(18,681)	(1,746)
Maintenance	(20,354)	(19,800)	(554)
Network	(10,153)	(9,637)	(516)
Outsourcing	(12,901)	(11,850)	(1,051)
Building	(10,707)	(10,862)	155
Professional Services	(45,050)	(46,098)	1,048
Royalties	(7,476)	(7,653)	177
General expenses	(6,603)	(5,842)	(761)
Insurance	(934)	(805)	(129)
Total	(134,605)	(131,228)	(3,377)

- › **Rental:** higher costs for IT infrastructure management contracts.
- › **Maintenance:** higher costs for investments made in software and hardware.
- › **Outsourcing:** higher costs for the outsourced management of business services.

Remuneration for the auditing of the separate and consolidated financial statements of the Group and to check that the company's books are properly kept, including tax attestation services, paid during the year to the independent auditing firm PricewaterhouseCoopers S.p.A. amounted to €169 thousand.

30. Staff cost

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Wages and salaries	(93,680)	(96,851)	3,171
Social charges	(24,639)	(24,988)	349
Severance indemnities	(4,986)	(4,817)	(169)
Payments to pension funds	(3,550)	(3,099)	(451)
Charges for restructuring	(8,180)	(6,209)	(1,971)
Other costs	(6,773)	(7,068)	295
Travel	(2,290)	(2,307)	17
Other staff	(394)	(480)	86
Directors and Auditors	(719)	(1,195)	476
Recoveries seconded staff	2,949	2,804	(145)
Refunds seconded staff	(642)	(534)	108
Capex internal staff costs	4,899	3,745	1,154
Total	(138,005)	(140,999)	2,994

The reduction in staff costs was caused by the decline in the item “Wages and salaries” as a result of lower provisions relating to the long-term management incentive plan and higher internal capitalizations, against higher charges for restructuring.

There was an increase in the use of employees for the development of internal projects.

The table below shows the average and precise number as at December 31, 2017 of Group employees broken down by category.

Workforce (year-end)	31/12/2018		31/12/2017		31/12/2018	31/12/2017
	Employees	Executives	Employees	Executives	Total	Total
SIA	1,476	35	1,465	33	1,511	1,498
Total	1,476	35	1,465	33	1,511	1,498

Workforce (average)	31/12/2018		31/12/2017		31/12/2018	31/12/2017
	Employees	Executives	Employees	Executives	Total	Total
SIA	1,473	36	1,452	33	1,509	1,485
Total	1,473	36	1,452	33	1,509	1,485

31. Other operating expenses

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Undeductable VAT	(13,970)	(13,299)	(671)
Tax expenses	(254)	(168)	(86)
Losses on disposal of assets	(70)	-	(70)
Other charges	(1,910)	(1,633)	(277)
Total	(16,204)	(15,100)	(1,104)

Please note that there was an increase in costs for VAT; indeed, the percentage of non-deductibility rose from 35% to 38%.

32. Depreciation and amortization

(thousands of euro)

	Depreciation	Write-off	Total
Tangible assets	(6,128)	-	(6,128)
Leased tangible assets	(5,985)	-	(5,985)
Total	(12,113)	-	(12,113)

(thousands of euro)

	Depreciation	Write-off	Total
Intangible assets	(11,704)	-	(11,704)
Total	(11,704)	-	(11,704)
TOTAL DEPRECIATION AND WRITE-OFF	(23,817)	-	(23,817)

33. Adjustments to trade receivables

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Provision for bad debts	(2,598)	(5,589)	2,991
Total	(2,598)	(5,589)	2,991

The amount for the year relates to trade receivables due from the subsidiary Perago FSE for €1,598 thousand, as it is deemed that the company does not have the capacity to repay and thus in 2019 the possibility will be evaluated of waiving receivables in exchange for an increase in the shareholders' equity.

A further adjustment of €1 million was made to the bad debt provision due to some uncertainty with regard to commercial customers, in line with the rules laid out in internal policies.

34. Additions to provisions for risks

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Provision for risks	(734)	(200)	(534)
Total	(734)	(200)	(534)

This refers to allocations made for any costs and expenses for preparatory activities for the management of a dispute with a customer and some requests for compensation for damages received from customers which are currently being assessed and defined.

35. Income (expense) on equity investments

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Impairment of subsidiaries carrying amount	(3,503)	(2,609)	(894)
Dividends	28,456	1,558	26,898
Total	24,953	(1,051)	26,004

Adjustments in the value of equity investments are attributable to Ubiq, Perago FSE and Trustlink, while dividends refer to the amounts disbursed by the companies

P4cards, SIA Central Europe, Emmecom and SIAPay. Dividends rose due to improvements in the results of the companies listed as well as the amounts paid by P4cards totaling €25 million.

36. Management/trading of financial assets

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Profit/loss on financial assets and liabilities management	(353)	2	(355)
Impairment of financial receivables and financial assets	(2,010)	-	(2,010)
Total	(2,363)	2	(2,365)

The amounts relating to the management of financial assets relate to the elimination of the value of the call option granted and sold by the executives of SIA and its Belgian branch, as part of a reserved capital increase approved by the Shareholders' Meeting on July 23, 2015.

Value adjustments were made on financial receivables due from the subsidiary Perago FSE, as it is deemed that the company does not have the capacity to repay. In 2019 the possibility will be evaluated of waiving the receivables due from the subsidiary in exchange for an increase in the shareholders' equity.

37. Financial income

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Interest income	351	291	60
Total	351	291	60

The increase in interest income derives primarily from improved management of cash and cash equivalents.

38. Financial charges

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Interest expenses	(11,373)	(9,056)	(2,317)
Bank charges	(458)	(390)	(68)
Total	(11,831)	(9,446)	(2,385)

The item "Interest expenses" derives mainly from the loan taken out for the acquisition of equity investments, while this item also includes interest paid on finance lease agreements for the acquisition of tangible assets.

39. Income tax

(thousands of euro)

	31/12/2018	31/12/2017	Change 2018 Vs 2017
Current taxes	(23,920)	(19,000)	(4,920)
Taxes from previous years	(678)	6,339	(7,017)
Prepaid/deferred taxes	768	(2,236)	3,004
Total	(23,830)	(14,897)	(8,933)

Higher current taxes are due primarily to the better results from ordinary operations compared to the previous year.

The year 2017 was impacted by a cumulative effect relating to the years 2015 and 2016 deriving from the application of the Patent Box. The facilitation had effects on current taxes, as concerns the benefits in 2017 which generated a decline in the tax burden, as well as taxes of previous years, for which a supplementary statement will be transmitted with regard to the relative benefits.

STATEMENT OF RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE TAX RATES (thousands of euro)								
	2018		2017		2018		2017	
			IRES	IRAP	IRES	IRAP	IRES	IRAP
Ordinary applicable tax rate			24%	3.90%	27.5%	3.90%		
Profit/(loss) before taxes	108,471	78,342	26,033		18,802			
- IAS effects	-124	-643	-30		-154			
- Income exempt from IRES	-19,101	-32,155	-4,584		-7,717			
- Dividends	-28,456	-1,558	-6,830		-374			
- Undeductable costs IRES	19,783	15,635	4,748		3,752			
- IRAP taxable income	97,465	96,162		5,429		3,750		
- Income exempt from IRAP	-25,332	-17,854		-1,411		-696		
- Undeductable costs IRAP	12,581	2,549		701		99		
- Previous year revenues	-678	6,339	-163		1,521			
- Other accruals			25	1		17		
Total			19,200	4,720	15,830	3,170		
Effective tax rate			18.69%	3.52%	27.64%	3.93%		

BREAKDOWN OF DEFERRED TAX ASSETS AND LIABILITIES (thousands of euro)				
	2018		2017	
	Temporary difference amounts	Fiscal effect	Temporary difference amounts	Fiscal effect
Deferred tax asset:				
Provisions for risks	934	261	200	56
Bad debt provision	1,268	304	1,268	304
Payroll expenses to be paid	4,795	1,151	2,701	648
Write-down of tangible assets	4,862	1,167	4,535	1,088
Write-down of intangible assets	261	71	277	76
Others	855	205	908	218
IAS effect	6,576	1,593	8,157	2,006
Total	19,550	4,752	18,047	4,396
Deferred tax liabilities:				
Dividends	66	20	66	20
Bad debt provision	44	12	44	12
IAS effect	0	0	0	0
Total	111	32	111	32

SIA S.p.A.

The Chairman of the Board of Directors
Mr. Giuliano Asperti

DISCLOSURE ON FAIR VALUE ↗

The table below shows the assets and liabilities measured at fair value broken down on the basis of the levels set forth in the fair value hierarchy.

To define the fair value levels, the company refers to the hierarchy established in IFRS 13, which classifies the inputs of the valuation techniques adopted into three levels:

- › **level 1:** includes (unadjusted) listed prices in active markets for identical assets or liabilities which the company can access at the valuation date;
- › **level 2:** includes inputs other than the listed prices included in level 1, observable directly or indirectly for the asset or liability;
- › **level 3:** includes input data not observable for the asset or liability.

FINANCIAL ASSETS (thousands of euro)				
	Carrying amount	L1	L2	L3
Financial assets - non current				
Financial asset at fair value through other comprehensive income - non current	50			x
Financial assets - current				
Financial asset at fair value through other comprehensive income - current	-			
Total	50			

CHANGES IN FINANCIAL ASSETS (thousands of euro)		
	31/12/2018	31/12/2017
Opening balance	365	381
Purchases/increases	-	-
Sales/settlements	(353)	(16)
Fair value adjustment	-	-
Reclassifications	38	-
Other changes	-	-
Closing balance	50	365

The decrease for the year corresponds to the expiry of the period for exercising the call option that gave SIA the possibility, when certain conditions were met, to repurchase shares issued as part of the capital increase reserved to executive personnel (as part of incentive plans). During the year, the shareholding in Trustlink Ltd, previously recognized under equity investments, was classified in current financial assets.

FINANCIAL LIABILITIES (thousands of euro)				
	Carrying amount	L1	L2	L3
Financial liabilities - non current				
Other financial liabilities - non current	-			
Hedging derivatives - non current	3,114		x	
Financial liabilities - current				
Other financial liabilities - current	-			
Total	3,114			

CHANGES IN FINANCIAL LIABILITIES (thousands of euro)		
	31/12/2018	31/12/2017
Opening balance	856	-
Purchases/increases	-	-
Sales/settlements	(856)	-
Fair value adjustment	-	-
Reclassifications	-	-
Other changes	3,114	856
Closing balance	3,114	856

During the period the entire bank loan outstanding at the end of the previous period was repaid and as a result the hedging derivative on that loan was completely unwound. A new derivative contract to cover the outstanding lines of credit was then entered into.

TRANSACTIONS WITH RELATED PARTIES ↗

Information on remuneration of key managers

As at December 31, 2018, the remuneration due to key managers amounts to €6,481 thousand (€6,424 thousand as at December 31, 2017). €1,294 thousand of these amounts was disbursed (€1,211 thousand as at December 31, 2017).

The remuneration due to Directors and Statutory Auditors for the year 2018 amounts to €1,235 thousand (€1,195 thousand in 2017).

The above-mentioned remuneration was recognized in the income statement item "Payroll costs".

The balance sheet items include other current liabilities of €5,117 thousand.

Other transactions with related parties

Transactions with related parties, including trade transactions with shareholders, are part of the ordinary course of business of the Group companies and are carried out in compliance with criteria of substantial and procedural fairness, under the same conditions as would be applied for transactions entered into with independent third parties.

In drafting this report, related party refers to a person or entity related to the entity drafting the Financial Statements, pursuant to IAS 24.

An individual or a close family member of that individual are related to the company drafting the Financial Statements if that individual:

- › has control or joint control over the company drafting the Financial Statements;
- › has significant influence over the company drafting the Financial Statements;
- › is one of the key managers of the company drafting the Financial Statements or one of its parent companies.

An entity is related to the company drafting the Financial Statements if any one of the following conditions applies:

- › the entities are part of the same Group (which means that each parent company, subsidiary and Group company is related to the others);
- › an entity is an associate or a joint venture of the other entity (or an associate or a joint venture that is part of a Group to which the other company belongs);
- › both entities are joint ventures of the same third counterparty;
- › an entity is a joint venture of a third party company and another entity is an associate of the third party entity;
- › the entity is represented by a post-employment benefit plan in favor of employees of the entity drafting the Financial Statements or a related company. If the entity drafting the Financial Statements is itself a plan of this type, also the employers that sponsor it are related to the entity drafting the Financial Statements;
- › the entity is controlled or jointly controlled by an individual identified as a related party;
- › an individual identified as a related party has significant influence over the entity or is one of the key managers of the entity (or of one of its parent companies).

Transactions with related parties also include transactions with the company ATS, 30% held by SIA. These income statement and balance sheet values are deemed insignificant. The impact of the transactions mentioned above on the items of the statement of financial position and the income statement as at December 31, 2018 is deemed marginal.

Below is a summary table of the transactions with subsidiaries and associates.

TRANSACTIONS WITH RELATED PARTIES (thousands of euro)				
	Receivables 31/12/2018	Payables 31/12/2018	2018 revenues	2018 costs
Subsidiaries				
P4cards				
Trade	4,305	538	5,955	660
Financial	-	45,887	-	166
Dividends	-	-	25,000	-
SIApay				
Trade	2,430	162	3,663	285
Dividends	-	-	699	-
SIA Central Europe				
Trade	1,965	554	3,455	1,865
Dividends	-	-	1,795	-
Emmecom				
Trade	538	604	1,016	1,050
Financial	-	2,354	-	12
Dividends	-	-	962	-
Perago FSE				
Trade	-	1,144	227	3,001
Financial	-	-	24	-
SIAadvisor				
Trade	117	934	130	2,513
UBIQ				
Trade	1,680	55	323	181
PforCards				
Trade	5	-	70	-
Financial	1,127	-	12	-
SIA Greece				
Trade	33	-	11	-
SIA Slovakia				
Trade	21	-	7	-
Associates				
ATS				
Trade	-	154	-	3,390

The financial payables of the parent company to P4cards and Emmecom and the financial receivable of the parent company from PforCards fall within the scope of centralized treasury management, governed by contractual agreements.

The services rendered by SIA to the Group companies refer primarily to seconded personnel for operating requirements of the companies, the facility management of operating systems, corporate services and network services. The subsidiaries provide processing services to SIA, using their specific skills. ATS provides technical consulting to SIA.

CAPITAL MANAGEMENT POLICY ↗

SIA's objective is to maximize the return on net invested capital while maintaining the capacity to operate over time, guaranteeing adequate returns for shareholders and benefits for other stakeholders, with a sustainable financial structure. To reach these targets, aside from pursuing satisfactory economic results and generating cash flows, the company can intervene in its dividend policy and the configuration of the capital.

The main indicators used by the company in capital management are:

- › R.O.E (Return on equity): calculated as the ratio between the profit (loss) and shareholders' equity. This indicator represents SIA's capacity to remunerate its shareholders. The objective is for the indicator's value to be higher than the rate of return on a risk-free investment, correlated with the nature of the businesses managed.
- › R.O.I (Return on Investment): calculated as the ratio between operating profit and invested capital; this indicator represents the capacity of company profit to remunerate invested capital, understood as the sum of non-current assets and current assets.

POLICY FOR THE MANAGEMENT OF FINANCIAL RISKS ↗

Qualitative information on risks is provided in the dedicated section of the Management Report of the Consolidated Financial Statements for each risk factor, including in relation to financial risks.

The same section of the Management Report provides quantitative information on non-financial risks.

The quantitative information on financial risk is instead provided below.

Credit risk

SIA is marginally exposed to credit risk for its operating activities and the management of financial resources and cash. The quantitative information, consisting of the breakdown of trade receivables by overdue time brackets, increases in the bad debt provision and the indication of any significant positions with individual counterparties, is provided in the comments on trade receivables and/or cash and cash equivalents.

Liquidity risk

The quantitative information consists of an indication of liquidity reserves existing at the reporting date and the breakdown by maturity of payables and other financial liabilities, based on the tables provided below:

LIQUIDITY RESERVES (thousands of euro)		
	31/12/2018	31/12/2017
Cash	41,491	34,743
Financial assets - current	-	353
Financial receivables - current	1,127	2,635
Committed lines not used	81,750	76,750
Total	124,368	114,481

BREAKDOWN OF LIABILITIES BY RESIDUAL MATURITY (thousands of euro)					
	Within 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years	Total
Bonds	-	-	-	-	-
Financial payables	137,965	76,626	624,541	-	839,132
Financial liabilities	-	-	3,144	-	3,144
Trade payables	43,430	-	-	-	43,430
Other liabilities (*)	54,726	5,692	-	-	60,418
Total	236,121	82,318	627,685	-	946,124

(*) Includes the amounts classified in the items relating to tax liabilities and other liabilities and does not include amounts relating to the provisions for employee benefits and provisions for risks.

Exchange rate risk

The company operates mainly in the euro area, and therefore it is not significantly exposed to exchange rate risks. Contracts receivable and payable in foreign currency are for insignificant amounts and therefore do not have considerable impacts on the values recognized.

Please also refer to the information shown in the Notes to the Separate Financial Statements which indicate gains and losses due to fluctuations in exchange rates as well as the marginal values.

Interest rate and market risk

The interest rate risk to which the company is exposed depends essentially on financial payables connected to finance leases and the loan entered into with a pool of banks for a total notional amount of €775 million, disbursed on September 28, 2018. This transaction made it possible to finance the purchase of the companies SIA Slovakia and SIA Greece (formerly First Data Slovakia and First Data Hellas) and to fully extinguish the previous loan taken out on December 23, 2016 to acquire the companies P4cards and PforCards, benefitting from better economic conditions. The new loan includes 3 lines: the first is fully amortizing and for €390 million, the second is a bullet line of €185 million and the third is a “bridge to equity” line for €200 million. The amortizing and bullet lines have a contractual duration of five years, while the bridge to equity line matures on May 31, 2019, with the possibility to extend the maturity to the same date as the other two lines. The agreement also calls for granting a revolving line of credit of €50 million, currently unused, also for a contractual duration of five years. All lines of credit bear interest at a floating rate (Euribor+spread) and are subject to customary conditions for transactions of this type.

The financing agreement provides for drawing up covenants, in the terms normally accepted for these types of transactions, based on profit level and financial indebtedness indicators.

SIA invests the liquid assets available primarily in current bank accounts and bank deposits, with fixed or variable rate returns.

Given what is set forth above and the market interest rate curves for the euro in the coming years, we do not expect to have economic impacts requiring the performance of particular sensitivity analyses, aside from what has already been described above.

FINANCIAL ASSETS (thousands of euro)				
	31/12/2018		31/12/2017	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Cash in hand	-	5	-	9
Bank accounts and deposits	-	41,486	-	34,734
Non current financial assets (*)	-	-	-	-
Current financial assets (*)	-	-	-	-
Current financial receivables	-	1,127	-	2,635
Total	-	42,618	-	37,378

(*) Amounts relating to non-controlling interests, other cash and cash equivalents and receivables relating to price adjustments for extraordinary transactions are excluded due to their nature.

FINANCIAL LIABILITIES (thousands of euro)				
	31/12/2018		31/12/2017	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Non current financial liabilities (**)	-	3,114	-	856
Non current financial payables (***)	-	701,167	-	364,468
Current financial payables (***)	-	137,965	-	104,971
Total	-	842,246	-	470,295

(**) The value relates to the hedging derivative.

(***) The value relates to the bank loan as well as the values of finance leases.

SIGNIFICANT NON-RECURRING EVENTS AND OPERATIONS ↗

There are no significant non-recurring events or operations for the year 2018 which were not already described in the Management Report and/or in the Notes.

POSITIONS OR OPERATIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS ↗

There were no positions or operations deriving from atypical and/or unusual operations in 2018.

REPORT OF THE BOARD OF STATUTORY AUDITORS

SIA S.p.A.

Registered Office in Via Gonin 36, Milan

Share capital €22,274,619.51 fully paid-up

Registered with the Companies' Register of Milan, no. 1385874

Report of the Board of Statutory Auditors to the Shareholders' Meeting pursuant to article 2429 of the Italian Civil Code for the year 2018

Dear Shareholders,

During the year, we carried out the activities for which we are responsible and we supervised compliance with the law and the articles of association, as well as compliance with the principles of sound management, the adequacy of the organizational structure for the aspects for which we are responsible, the internal control system and the administration and accounting system, as well as the reliability of the latter to properly represent operating events. We provide an account of those activities in this report.

1. Reference regulations

We would like to point out that the values inspiring our activities are drawn from the main content of the "Rules of Conduct of the Board of Statutory Auditors" issued by the National Board of Accountants.

We also acknowledge that the Board of Statutory Auditors is also assigned the role of the Supervisory Body pursuant to Italian Legislative Decree 231 of 2001; in relation to that duty, a separate disclosure is provided to the Board of Directors.

We have deemed it appropriate to adopt, insofar as they are compatible, the layout and indications provided in Consob communication no. 1025564 of April 6, 2001 on the Annual Report of the Board of Statutory Auditors.

2. Results for the financial year

The financial statements for the year ended as at December 31, 2018 show a Gross Operating Margin of €124.5 million (compared to €114.6 million in the previous year) and Operating Income of €97.4 million (€88.5 million in 2017). The profit for the year came to €84.6 million, compared to €63.4 million in the previous year. Shareholders' equity is €273.9 million, compared to €251.6 million in 2017.

3. Activities of the Board of Statutory Auditors

The Board of Statutory Auditors deemed it appropriate to plan its control activities with a risk-based approach, intended to intercept the most critical elements with an intervention frequency proportionate to the relevance of the perceived risk remaining after the mitigations adopted by the Company.

Planning for 2018 (which concludes with the approval of the financial statements as at December 31, 2018) did not present delays in the execution of controls.

-
- Control activities were also carried out through:
- › periodic meetings to obtain information, data, notes and reports through interaction with the various corporate functions and, namely, with the Internal Audit, Risk Governance, Law and Legal Affairs, Finance and Administration, Strategies Planning and Control and Human Resources and Organization functions;
 - › participation in meetings of the corporate bodies, namely the Board of Directors and the Shareholders' Meeting;
 - › the periodic exchange of information with the independent auditing firm, also pursuant to what is set forth in the regulations;
 - › the information and activities carried out, insofar as is also of interest for supervisory activities in its role as the Board of Statutory Auditors, in its capacity as the Supervisory Body pursuant to Italian Legislative Decree no. 231 of 2001.

3.1. Frequency and number of meetings of the Board of Directors and the Board of Statutory Auditors

We participated in all 10 meetings of the Board of Directors, obtaining in compliance with the provisions of art. 2381, par. 5 of the Italian Civil Code and the articles of association, prompt and suitable information on general business performance and on its foreseeable evolution, as well as on the most significant transactions, due to size or characteristics, carried out by the Company. In particular, the decision-making process of the Board of Directors appeared to be properly inspired by compliance with the fundamental principle of informed action.

We also participated in the Shareholders' Meeting held during the year.

We held 7 meetings of the Board of Statutory Auditors, and 3 meetings were also held in 2019 until the drafting of this report, maintaining constant and suitable relations with the internal functions and meeting with the Independent auditing firm.

3.2. Considerations on the most significant transactions for the profit and loss, cash flows and financial position carried out by the Company and their compliance with the law and the deed of incorporation

The information acquired on the most significant transactions for the profit and loss, cash flows and financial position carried out by the Company made it possible for us to ascertain compliance with the law and the articles of association and alignment with the corporate interests; we believe that these transactions, described exhaustively in the management report, require no specific observations from the Board of Statutory Auditors.

With reference to the decisions made by the executive body, the Board of Statutory Auditors acknowledges that it found no violations with regard to respect for decision-making autonomies and limits.

In order to provide as comprehensive a disclosure as possible, we believe it is appropriate to provide a summary of the main operations carried out during the year, namely:

- › the acquisition, completed on September 28, 2018, of the target companies of the First Data Group (Magnolia Project) operating in several Central and South-Eastern European countries. The acquisition regarded processing and card production, call center and back office services, as well as the management of POS terminals and ATMs. The agreement entailed the transfer of roughly 1400 human resources from First Data to SIA;
- › to support the acquisition operation mentioned above, the extinction and simultaneous signing of a new loan agreement with a pool of leading banks, under more advantageous conditions than the previous loan outstanding, also formalizing hedging contracts with the banks participating in the loan pool. The derivative contracts mirror the conditions and maturities of the loan, and the notional amounts of each contract correspond exactly to the shares disbursed by each bank in the pool, guaranteeing complete coverage of interest rate risk.

3.3. Transactions with related parties. Indication of any existence of atypical and/or unusual transactions, including intra-group or with related parties

We acquired adequate information on intra-group and related party transactions. These transactions are adequately described in the management report and in the notes in compliance with the provisions of art. 2428. For our part, we acknowledge their compliance with the law and the articles of association, as well as the absence of situations that require further observations or comments.

In terms of transactions with related parties, the Board of Statutory Auditors believes it is appropriate to mention the extension to July 31, 2019 of the loan for up to a maximum of €2 million granted by the Company to the Subsidiary Perago FSE, due to the latter's cash requirements deriving primarily from temporal misalignments between when the company is assigned a tender contract and when the relative cash flows are realized. The transaction noted above was carried out under market conditions.

3.4. Adequacy of the information provided in the Directors' management report with respect to atypical and/or unusual transactions, including intra-group and with related parties

This situation does not apply.

3.5. Indications on the content of the Report provided by the Independent Auditing Firm and opinion on the financial statements

In compliance with the amendments made to Italian Legislative Decree 39/2010 by Italian Legislative Decree no. 135/2016, the audit report includes (i) a different arrangement of the paragraphs making up the report, with the opinion paragraph now at the beginning; (ii) a paragraph regarding the responsibility for the financial statements of the Directors as well as the Board of Statutory Auditors; (iii) a paragraph on the responsibilities of the independent auditing firm in order to provide more information regarding the activities carried out for the audit, including communications to the parties responsible for governance activities; (iv) a paragraph containing an opinion on the consistency of the management report with respect to the financial statements, as well as an opinion on its compliance with the law, in addition to a statement regarding any significant errors identified.

The report issued by the independent auditing firm provides a positive opinion, which is qualified "without modifications" and has no emphasis of matter paragraph.

For our part, we acknowledged the adequacy of the financial statement auditing plan and its compliance with an approach based on the risk of significant errors or objectionable conduct; we also acknowledged the independence of the independent auditors and the procedures adopted.

3.6. Observations and proposals on findings and emphasis of matter paragraphs contained in the report of the Independent Auditing Firm

There were no findings or emphasis of matter paragraphs in the independent auditors' report.

3.7. Indication of any submission of complaints pursuant to art. 2408 of the Italian Civil Code, of any initiatives undertaken and the relative results

We acknowledge that in the course of the year no complaints were submitted to the Board of Statutory Auditors pursuant to art. 2408 of the Italian Civil Code.

3.8. Indication of any submission of reports, of any initiatives undertaken and the relative results

We acknowledge that in the course of the year no reports were submitted to the Board of Statutory Auditors by anyone.

3.9. Indication of any assignment of further duties to the Independent auditing firm and the relative costs

The auditing engagement relates to auditing services for the separate and consolidated financial statements of the Group and checking that the company's books are properly kept, including tax attestation services.

The independent auditing firm received engagements for audit-related services. The Board of Statutory Auditors believes that, based on the nature of the engagement and the oversight mechanisms put into place, they did not impair the auditor's independence.

3.10. Indication of any assignment of duties to parties linked to the Independent auditing firm by continuous relationships and the relative costs

There are no engagements pursuant to art. 17, paragraph 3 of Italian Legislative Decree no. 39 of January 27, 2010, assigned to the independent auditing firm, the entities belonging to its network, the partners, directors, members of the control bodies or employees of the independent auditing firm itself or its subsidiaries or associates.

3.11. Indication of the existence of opinions issued pursuant to the law in the course of the year

During the year 2018, we issued:

- › an opinion in relation to the co-opting of 1 member of the Board of Directors, pursuant to art. 2386 of the Italian Civil Code;
- › an opinion in relation to the determination of the remuneration of the Company's Chief Executive Officer and General Manager, pursuant to art. 2389, par. 3 of the Italian Civil Code. In this regard, we found that the Remuneration Committee played an active role.

3.12. Observations on respect for the principles of proper administration

We obtained an awareness of and supervised, insofar as we are responsible, respect for the key criterion of the sound and prudent management of the Company and the more general principle of diligence, all based on our participation in meetings of the Board of Directors, the documentation and timely information received from the various management bodies in relation to the transactions carried out by the Company, as well as through frequent meetings with the Executive Body and by carrying out specific audits.

The Board of Statutory Auditors acknowledges that the Directors:

- › did not fail to obtain sufficient information in relation to the transactions carried out;
- › were able to express their decision based on the relative documentation received in good time;
- › took all precautions and carried out the preventive controls normally required for the decisions made.

The Board of Directors acted in compliance with the fundamental principle of informed action taken following adequate analysis procedures. The executive body acted in compliance with the limits of the delegations assigned to it.

There were no transactions outside the corporate purpose, in conflict of interests with the Company, which were clearly imprudent or risky, such as to compromise the integrity of the company's assets, or aiming to suppress or modify the rights assigned by the Law or the Articles of Association to shareholders or in conflict with the resolutions passed by the Shareholders' Meeting and the Board of Directors itself.

In relation to the importance of intercompany transactions, the Company has two internal procedures - "Intra-group supply management process" and "Guidelines

for the definition of transfer pricing between Group Companies” - aiming to define the methods for managing intra-group contracts for the transfer of products and services, as well as to govern transfer pricing.

3.13. Observations on the adequacy of the organizational structure

We supervised the adequacy of the organizational structure put into place by the Company, in compliance with the provisions of art. 2403 of the Italian Civil Code.

Following the resignation of the Chief Executive Officer, the Board of Directors decided to appoint a new Chief Executive Officer and General Manager. In this regard, we reviewed the activities carried out by the Management Body and the role taken on by the Chairman and, after the in-depth analyses carried out, we acknowledge that we confirmed precise respect for civil and statutory provisions on the matter, aiming to ensure to the Company the necessary oversight in terms of governance structures.

3.14. Observations on the adequacy of the internal control system and in particular on the activities carried out by those responsible for internal control. Indication of any corrective actions undertaken and/or to be undertaken

We supervised and assumed a central role within the internal control system. We believe that this system is adequate with respect to the operating characteristics of the Company and meets the requirements of efficiency and effectiveness in risk monitoring, in compliance with internal and external procedures and provisions. The Company's control system is based on first, second and third level controls. The first two levels are under the responsibility of the business structures and the staff structures, respectively. The third level controls are instead assigned to the Internal Audit function.

We developed an opinion on the adequacy of the oversight mechanisms activated by the Company in relation to the risk management system. Aside from the monitoring carried out by the Risk Governance function, the Company has established a Risk Committee, chaired by the Chief Executive Officer, in which Division and Departmental managers participate.

We also acknowledge that in 2018 the Company:

- › updated the risk target and risk policy;
- › monitored, including through the Risk Governance function, the risks associated with the most significant business initiatives;
- › updated the service and product risk profile;
- › monitored IT, technological and security risks;
- › evaluated the contractual risk of the SIA Group deriving from relations with its customers and suppliers;
- › reinforced the risk culture with the appropriate use of training.

The Board of Statutory Auditors highlights the extreme importance of cyber security and the GDPR, areas in which the Company has implemented considerable oversight mechanisms. In particular, in relation to the need for alignment with the General Data Protection Regulation, we analyzed the adjustments of processes, procedures and systems of the Company and the Companies belonging to the Group. The Data Protection Officer (DPO) was appointed within the Risk Governance Department.

In terms of monitoring business continuity risks, we believe that the business continuity plan is adequate for this purpose, defining the system of rules, responsibilities, processes and technologies to handle critical issues and threats of interruptions in the services provided.

3.15. Observations on the adequacy of the administrative/accounting system and its reliability to properly represent operating events

Insofar as we are responsible, we evaluated the reliability of the administrative and accounting system to recognize and properly represent operating events, by obtaining information from the department manager, through meetings with the Independent auditing firm and by analyzing the results of the work carried out by it.

In terms of the reliability of the accounting system in representing operating events, we acknowledge that we have not identified issues with suspicious or potentially dangerous characteristics. In the absence of elements such as to justify particular audits, to fulfil its duties the Board of Statutory Auditors carried out a summary and general control on the methods and procedures relating to the concrete functioning of the accounting system, relying on the feedback and positive opinion of the auditor in relation to regular bookkeeping.

We acknowledge that the Company has adopted a single accounting system and that the accounting information used is unambiguous, for the purposes of economic and financial reporting as well as for management analyses.

The subsidiaries act with broad operational autonomy, within the scope of the strategic guidelines defined and formalized by the Parent Company.

3.16. Observations on any relevant aspects emerging in the course of meetings with the Independent Auditors

In 2018, the Board of Statutory Auditors held 2 meetings with the Independent auditing firm, in addition to 1 meeting in 2019 before the preparation of this report, during which no aspects requiring mention in this report emerged.

3.17. Conclusions concerning the supervisory activity carried out, as well as with respect to any omissions, objectionable events or irregularities discovered

We acknowledge that in 2018 our supervisory activity was carried out normally and that in the course of such activity no significant events emerged that would require mention in this report.

3.18. Indication of any proposals to be made to the Shareholders' Meeting

Aside from what is reported in the following paragraph, the Board of Statutory Auditors has no further proposals or observations to be made.

4. Observations and proposals with respect to the Financial Statements and their approval

Please note that the duties of confirming regular bookkeeping and the proper representation of operating events in the accounting entries, as well as checking the correspondence between the financial statement information and the results of the accounting entries and the compliance of the separate financial statements with the law are assigned to the Independent auditing firm.

In particular, the Independent Auditing firm reported to us that on the basis of the audit procedures carried out in the course of the year and the financial statements, no situations of uncertainty or limitations arose in the audits performed and that the relative report contains no findings or emphasis of matter paragraph.

For our part, we supervised its general layout.

We carried out supervisory activities on the financial reporting process by examining the control system and the information production processes, which specifically concern accounting data in the strict sense. In this regard, the Board of Statutory Auditors did not identify any element that could jeopardize its integrity, also on the basis of its meetings with the Independent Auditing firm. We acknowledge that the process put into place by the Company allows for constant

critical screening of sensitive financial reporting processes and helps to guarantee and continuously verify the adequacy and effective application of administrative and accounting procedures. In this regard, we should specify that we performed this activity with regard not to the information per se but to the process whereby information is produced and disseminated.

Having first confirmed, through meetings with the managers of the departments concerned and with the Independent auditing firm, the adequacy of the administrative and accounting system to recognize and properly represent operating events and translate them into reliable data systems for the generation of external information:

- › we verified the observance of provisions of law inherent in the formation and layout of the financial statements;
- › we acknowledge that the Notes contain a statement of compliance with the applicable international accounting standards and specify the main measurement criteria adopted, as well as supporting information for the items of the balance sheet, income statement, statement of changes in shareholders' equity and cash flow statement.

We would like to specify that the Company carried out impairment testing pursuant to IAS 36 by adopting an internal ad hoc procedure. The financial statements provide an adequate disclosure of the impairment test.

We confirmed that the financial statements are consistent with the facts and information of which we became aware during our participation in meetings of the corporate bodies, which enabled us to acquire adequate disclosures concerning the most significant transactions for the income statement, cash flows and balance sheet carried out by the Company.

We ascertained that the management report is consistent with laws in force, as well as with the resolutions passed by the Board of Directors and the information available to the Board of Statutory Auditors. We believe that the disclosure provided includes the salient elements in the various areas in which the company operates, complies with provisions on the matter and contains a faithful, balanced and exhaustive analysis of the situation of the Company, its performance and the results of its operations.

We have no observations or proposals to make with respect to the Financial Statements.

5. Observations regarding the Consolidated Financial Statements

The Consolidated Financial Statements as at December 31, 2018 consist of the statement of financial position, the statement of profit and loss, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements as well as the relative comparative information. They were drafted in compliance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission and in force at the reporting date, as well as the previous International Accounting Standards (IAS).

The financial statements show a consolidated profit of €79.5 million, fully attributable to the Group, and a total shareholders' equity of €288.9 million. The scope of consolidation includes the companies Perago FSE, SIAPay, SIA Central Europe, Emmecom, SIAAdvisor, Ubiq, P4cards, PforCards and Consorzio QuenIT in liquidation, as well as SIA Greece – which holds the direct subsidiary DMAN in liquidation – and SIA Slovakia – which holds controlling interests in SIA Croatia, SIA Czech Republic, SIA Hungary, SIA Romania and SIA Serbia –, as a result of the

acquisition completed on September 28, 2018 as part of the “Magnolia Project”.

With respect to this acquisition, provisional goodwill arising from consolidation differences has been recognized; the relative purchase price allocation (PPA) will be completed within a twelve-month measurement period in compliance with IFRS 3. In our view, there are no critical issues with regard to the provisional allocation.

Based on the supervisory activities performed on the Consolidated Financial Statements and the direct disclosures and information acquired, the Board of Statutory Auditors can therefore acknowledge that:

- › provisions concerning the formation and layout of the Consolidated Financial Statements and the accompanying management report have been respected;
- › the documents used as a basis for the line-by-line consolidation process are the draft Financial Statements referring to December 31, 2018 as approved by the competent Management Bodies of the subsidiaries;
- › no subsidiary is excluded from the scope of consolidation;
- › the scope, the measurement criteria and the consolidation principles adopted are adequately described by the Directors in the notes.

We have provided our consent to the recognition of goodwill in the assets of the consolidated financial statements.

The Board of Statutory Auditors has acknowledged the opinion “without modifications” expressed by the Independent auditing firm specifically with reference to the audit of the consolidated accounts and thus the absence of situations of uncertainty or any limitations to the audits or emphasis of matter paragraphs.

* * *

CONCLUSIONS

Following the supervisory activities performed in 2018 and also taking into account the results of the activities carried out by the independent auditors, contained in the dedicated report accompanying the financial statements:

- a) we acknowledge the adequacy of the organizational, administrative and accounting structure adopted by the company and its concrete functioning, as well as the effectiveness and efficiency of the internal control, internal audit and risk management system;
- b) we express, insofar as we are responsible, a favorable opinion as to the approval of the financial statements for the year ending on December 31, 2018 and the proposal put forward by the Board of Directors regarding the allocation of profit.

Our term of office is expiring with the approval of the financial statements. In thanking you for the trust you have placed in us, we express our willingness to ensure a smooth transition to the new Board of Statutory Auditors by providing it with all information in our possession.

Milan, March 25, 2019

The Board of Statutory Auditors
Riccardo Ranalli
Claudia Cattani
Andrea Bignami

INDEPENDENT AUDITORS' REPORT



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the shareholders of
SIA SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SIA SpA (the Company), which comprise the statement of financial position as of 31 December 2018, statement of profit and loss, statement of comprehensive income, statement of changes in shareholders' equity, cash flows statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

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

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rossa 91 - Tel. 0277961 - Fax 027782240 - Cap. Soc. Euro 6.460.000.00 i.v. - C.F. e P.IVA n. Reg. Imp. Milano 01709880153 - Iscritta al n° 01644 del Registro dei Revisori Legali - Altri Uffici: Ancona 60131 Via Sante Fatti 1 - Tel. 0712122311 - Bari 70122 Via Abate Giunio 72 - Tel. 0805640211 - Bologna 40126 Via Angelo Ronelli 8 - Tel. 0516186011 - Brescia 25123 Via Benigno Padellaro 23 - Tel. 03036697501 - Catania 95126 Corso Italia 203 - Tel. 0957533210 - Firenze 50121 Viale Gherardo 15 - Tel. 0552182611 - Genova 16121 Piazza Rossignoli 9 - Tel. 010209911 - Napoli 80121 Via del Mille 16 - Tel. 081256011 - Padova 35131 Via Venezia 4 - Tel. 0498725011 - Palermo 90141 Via Marsese 124/50 - Tel. 0913497217 - Parma 43121 Viale Parona 20/A - Tel. 0521275011 - Pescara 66127 Piazza Ettore Trullo 8 - Tel. 0854545711 - Roma 00154 Largo Postriveri 29 - Tel. 065781251 - Torino 10122 Corso Palestro 40 - Tel. 011557971 - Trento 38121 Viale della Costituzione 23 - Tel. 0461237004 - Treviso 31100 Viale Palasport 50 - Tel. 0422696011 - Trieste 34125 Via Cesare Battisti 16 - Tel. 0401460781 - Udine 33100 Via Poenale 43 - Tel. 043223789 - Varese 21100 Via Alborno 43 - Tel. 0332285900 - Verona 37135 Via Francia 21/C - Tel. 0452262001 - Vicenza 36100 Piazza Pantelanello 9 - Tel. 0444302211

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The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and



significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010

The directors of SIA SpA are responsible for preparing a report on operations of SIA SpA as of 31 December 2018, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of SIA SpA as of 31 December 2018 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the financial statements of SIA SpA as of 31 December 2018 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 25 March 2019

PricewaterhouseCoopers SpA

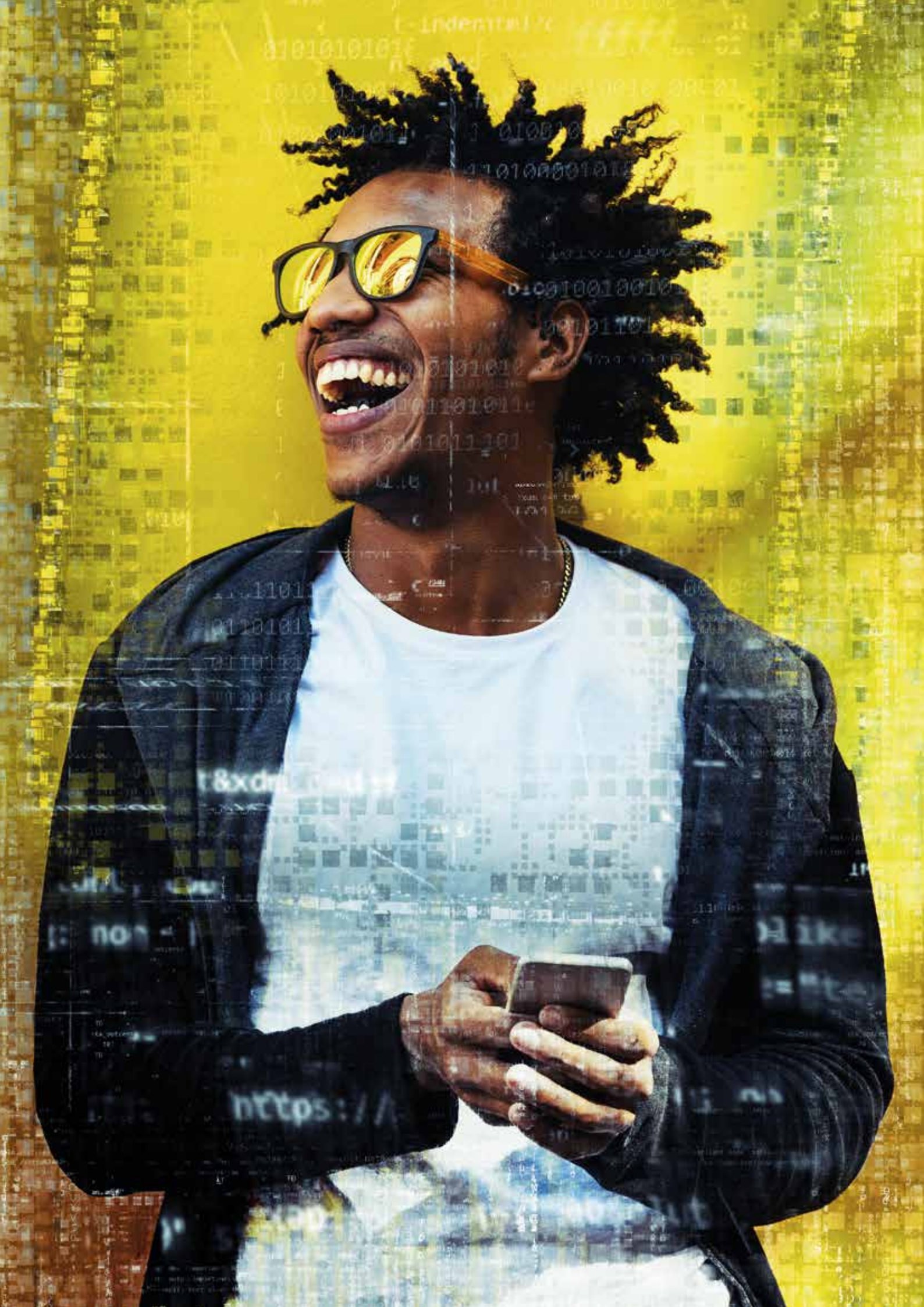
Signed by

Lorenzo Pini Prato
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers



NON-FINANCIAL DISCLOSURE



RESPONSIBLE MANAGEMENT FOR SUSTAINABILITY ↗

In 2015, SIA Group embarked on a journey towards **corporate social responsibility**, laying the foundations for a structured and organic path aimed at **creating sustainable value** for the company and for all its stakeholders - customers, employees, shareholders, suppliers, the community and the environment - in compliance with the organization's objectives and according to an ethical and socially responsible business model.

Despite the specific nature of its sector of operation, in recent years the Group has placed a growing focus on social issues across a wide range of SIA's activities. These include:

- › the accessibility of SIA services, ensuring that there is no discrimination based on financial literacy or geographical provenance, something that also contributes to the process of service digitalization and simplification for citizens, which has been underway for many years within Italy's Public Administration;
- › efforts to develop cutting-edge solutions designed to strengthen the economy for the benefit of not only direct customers, but also end users, and - therefore - the entire community through investment in innovative infrastructure and projects, such as the European Instant Payments platform, which makes it possible to make payments in real time, or the EMV-Contactless service, thanks to which users can use their payment card to access the Milan metro, with the service soon to be extended to other Italian cities;
- › a comprehensive policy to ensure equal opportunities for employees and realize initiatives for employees and their families with regard to work-life balance, welfare, health and safety, corporate environment and training;
- › the promotion of social initiatives in favor of the local community, by supporting scientific research in the health field, as well as initiatives for disadvantaged categories of people;

- › the protection of the environment and energy resources, becoming actively involved in initiatives such as the purchase of green energy and the production of energy from renewable sources.

In order to continue the journey undertaken some time ago towards excellence, innovation and the adoption of international best practices, the SIA Group has decided to combine the following documents for its 2018 reporting:

- › the "Management Report and Financial Statements as at December 31, 2018" document, approved by the Shareholders' Meeting and submitted to PricewaterhouseCoopers S.p.A. for financial auditing;
- › the "Non-financial disclosure 2018" document, voluntarily produced according to GRI Standards and submitted to the Board of Directors and for limiting auditing to the auditing company BDO Italia S.p.A..

By combining our non-financial and financial reporting, the SIA Group aims to provide readers with a more comprehensive, organic and exhaustive view of the trend and performance of the SIA Group, not only from the economic-financial viewpoint but also in terms of ethics, social issues and the environment.

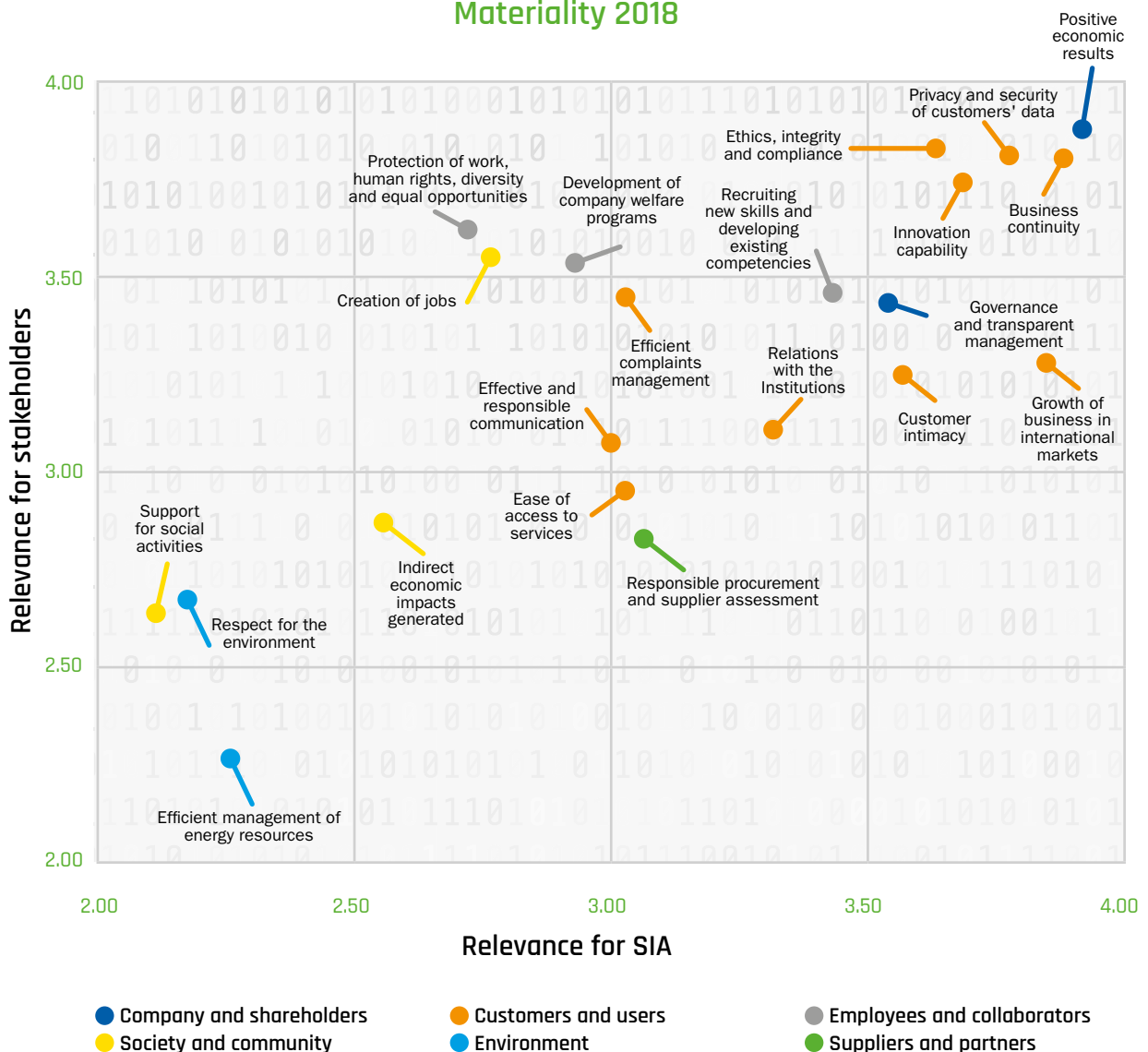
STAKEHOLDER INVOLVEMENT AND MATERIALITY

In 2018, the SIA Group **updated its materiality matrix**, which is a framework of the most significant aspects for the SIA Group, according to the company and its stakeholders, to be reported for sustainability purposes. Updates were made on the basis of opinions expressed by the Group’s top management and the results of a customer satisfaction analysis, which also included a survey of the most significant factors in their decision to choose SIA as a supplier/partner.

The overall results of these considerations are summarized in the matrix that follows. In addition to a way of gauging the importance of the various

reporting areas, this also provides SIA with a useful and effective tool for setting out the Group’s future objectives.

Materiality 2018



SIGNIFICANT ISSUES FOR THE COMPANY AND SHAREHOLDERS AND SIA'S ANSWERS

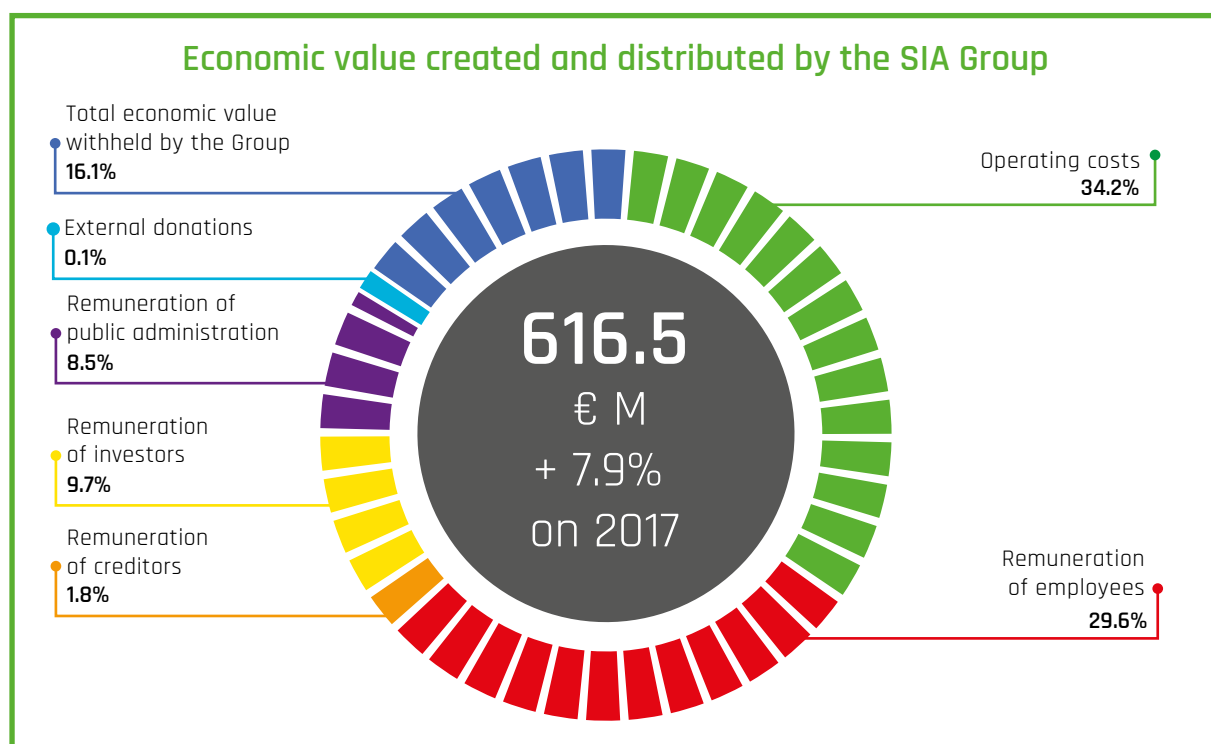
MATERIAL ISSUES	MAIN RISKS AND RISK MANAGEMENT STRATEGIES	POLICIES FOR THE MANAGEMENT OF MATERIAL ISSUES	ACTION TAKEN IN 2018
<p>Positive economic results</p>	<ul style="list-style-type: none"> ✓ Operating risks for new initiatives ✓ Performance risks ✓ Exchange rate risk ✓ Liquidity risk ✓ Credit risk ✓ Interest rate risk 	<ul style="list-style-type: none"> ✓ SIA undertakes impact analyses for all initiatives to be implemented ✓ SIA strives for organic, self-financed growth, focusing its development on the European market and - in Italy - on Public Administration 	<ul style="list-style-type: none"> ✓ Increase in revenues by €47.6 million compared to 2017 (+8.4%) due to P4cards and PforCards activities and the increase in managed payment volumes and card transactions ✓ Further development of solutions for local Public Administration ✓ Continual development of the internal and external information measurement and control systems ✓ Acquisition of card processing activities from First Data in central and south-east Europe
<p>Governance and transparent management</p>	<ul style="list-style-type: none"> ✓ Reputational risk ✓ Operational risk <p>These risks are mitigated by the approval of the Code of Ethics and the Company Values</p>	<ul style="list-style-type: none"> ✓ SIA publishes non-financial disclosure every year ✓ SIA has a Code of Ethics 	<ul style="list-style-type: none"> ✓ Publication of non-financial disclosure and the half-yearly consolidated financial statement

ECONOMIC VALUE CREATED AND DISTRIBUTED ↗

The overall picture of economic aspects regarding the activity of the SIA Group is shown by calculating economic value, which can be defined as the wealth the company creates in carrying on its business.

Economic value created and distributed is one of the elements to consider when measuring **not only the economic but also the social impact** of the Group, as it shows the company's ability to gen-

erate wealth, distributed to some categories of parties that have contributed to producing it and/or are amongst the main stakeholders of the Group.



In 2018, the economic value created was €616.5 million, an increase of 7.9% on the previous year.

Employees were the recipients of the major portion of economic value created. This value was equal to €182.5 million, or 29.6% of the total, representing an increase of over €7 million in comparison with the previous year. The amount covers wages and salaries, social security costs, employee severance indemnity and other costs (e.g. training, substitute canteen services, insurance policies, etc.). The amount also includes the costs of the Corporate

Bodies (Directors, Board of Statutory Auditors) and other staff.

The portion distributed to **Public Administration** was €52.5 million (8.52% of the total), paid in taxes, direct and indirect, attributable to the state and the other local entities.

Credit capital received €11.4 million and corresponds to the interest expenses incurred during the period (1.85% of the total), increasing compared to 2017.

The remuneration of **risk capital**, which totals a little less than €60 million (9.73% of total economic value),

corresponds to the profit for the year distributed to the shareholders.

“Operating costs” indicate economic value distributed to **suppliers** via the acquisition of goods and services and amount to just under €211 million, equal to 34.19% of value distributed.

A sum of €275,000 was allocated to the **community**, and was in the form of donations, sponsorships of charitable activities, membership fees and con-

tributions to universities and research centers.

The remuneration of **the company** (the economic value retained by the Group), amounting to €99 million and 16.07% of the total created in 2018, corresponds to the amount invested in the company through the earnings allocated to reserves and the amortization/depreciation.

ECONOMIC VALUE CREATED AND DISTRIBUTED BY THE SIA GROUP¹ (thousands of euros)			
	12/31/2018	31/12/2017	31/12/2016
Revenues	614,802	567,213	468,222
Other revenues	1,305	2,821	3,458
Financial income	347	1,244	457
Total economic value generated by the Group	616,454	571,278	472,137
Operating costs	210,756	196,112	197,262
Remuneration of employees	182,501	175,092	136,393
Remuneration of creditors	11,385	9,042	412
Remuneration of investors	59,970	59,970	44,549
Remuneration of Public Administration ²	52,499	39,140	46,515
External donations	275	514	501
Total economic value distributed by the Group	517,386	479,870	425,632
Write-down of receivables	1,220	6,370	228
Exchange rate differences	-	-	-
Value adjustments to tangible and intangible assets	3,962	461	475
Value adjustments to financial activities	396	-	-
Depreciations	-	-	-
Provisions and amortizations	73,924	64,464	19,997
Reserves	19,567	20,113	25,805
Total economic value withheld by the Group	99,069	91,408	46,505

¹ The prospectus was produced on the basis of economic data from the consolidated financial statement, in accordance with GRI principles.

² Remuneration of Public Administration also includes deferred taxes.

SIA CUSTOMERS AND USERS

SIGNIFICANT ISSUES FOR CUSTOMERS AND USERS AND SIA'S ANSWERS			
MATERIAL ISSUES	MAIN RISKS AND RISK MANAGEMENT STRATEGIES	POLICIES FOR THE MANAGEMENT OF MATERIAL ISSUES	ACTION TAKEN IN 2018
Easy access to services	<ul style="list-style-type: none"> ✓ Unavailability/difficulty of access to services offered <p>The risk is mitigated by ongoing analysis of target customers and their needs</p>	<ul style="list-style-type: none"> ✓ SIA maps out its customers and monitors the services offered to them in order to ensure ongoing improvement 	<ul style="list-style-type: none"> ✓ Constant monitoring and improvement of accessibility to all services
Business continuity	<ul style="list-style-type: none"> ✓ Events that could compromise company activities and the supply of services and threats that could affect company assets <p>The risk is mitigated by regular Business Impact Analysis</p>	<ul style="list-style-type: none"> ✓ SIA has adopted a Business Continuity Policy ✓ SIA guarantees an adequate system of processes and information security 	<ul style="list-style-type: none"> ✓ Finalization of the Active/Active project ✓ Obtainment of ISO 22301 certification on Business Continuity ✓ Systematic execution of organizational, technological and training tests ✓ Update of the Business Continuity Plan
Privacy and security of customers' data	<ul style="list-style-type: none"> ✓ Loss or theft of data and information ✓ Loss of privacy and integrity of data 	<ul style="list-style-type: none"> ✓ SIA guarantees an adequate level of protection for the information and data of the customers and users in consideration of their criticality ✓ SIA has adopted GDPR (General Data Protection Regulation) and appointed a DPO (Data Protection Officer) 	<ul style="list-style-type: none"> ✓ Strengthening of the Cybersecurity structure ✓ Collaboration with the institutions appointed to oversee protection issues and to fight against cyber threats and computer fraud. ✓ Compliance with GDPR (General Data Protection Regulation)
Innovation capability	<ul style="list-style-type: none"> ✓ Inadequate innovation capability and progressive obsolescence of services provided, with consequent loss of market share ✓ Improperly managed introduction of technological innovation that could lead to operational, technological, security, cybersecurity and reputational risks 	<ul style="list-style-type: none"> ✓ The SIA innovation process drives both the launch and development of individual services and the construction of new functional platforms. This allows us to achieve leadership in the market in the short term and anticipate technological innovation in the sector in the long term, in order to adjust the company's service offering and market positioning. ✓ Each organizational unit of SIA oversees service offering innovation, to the extents of their competencies and according to company methodologies and procedures. 	<ul style="list-style-type: none"> ✓ Development of the Instant Payments system ✓ Continuation of the digitalization process for PA. ✓ Implementation of a contactless solution for purchase of travel documents. ✓ Integration of Jiffy into BANCOMAT Pay
Efficient complaints management	<ul style="list-style-type: none"> ✓ Delayed or unclear responses to complaints ✓ Reputational risk <p>Risks are mitigated by the presence of tools designed to help with complaints management, such as the Control Tower and the Service Desk System</p>	<ul style="list-style-type: none"> ✓ SIA promptly handles customer complaints, identifies the causes of any problems reported and implements the appropriate corrective measures. 	<ul style="list-style-type: none"> ✓ Creation of a structure called "Control Tower" dedicated to handling information flows with customers ✓ Continuation of the activities of Service Desk System for managing all user requests.
Ethics, integrity and compliance	<ul style="list-style-type: none"> ✓ Risks of non-compliance or failure to supply service in violation of laws <p>Risks are monitored and managed through a Supervisory Body (OdV), a Code of Ethics and the dedicated Compliance department</p>	<ul style="list-style-type: none"> ✓ SIA guarantees a service constantly compliant with the laws and regulations of the sector. SIA has also adopted an organizational model in accordance with Legislative Decree 231/2001 and set up a Supervisory Body ✓ SIA has adopted a Code of Ethics and set out anti-corruption guidelines 	<ul style="list-style-type: none"> ✓ Constant monitoring of and compliance with laws and industry regulations ✓ Continuation of the support, training, information, monitoring and internal consultancy activities regarding laws and regulations of the sector ✓ Maintenance of relations with the Bank of Italy and Eurosystem. ✓ Update of the organizational model pursuant to 231/2001

SIGNIFICANT ISSUES FOR THE COMPANY AND SHAREHOLDERS AND SIA'S ANSWERS

MATERIAL ISSUES	MAIN RISKS AND RISK MANAGEMENT STRATEGIES	POLICIES FOR THE MANAGEMENT OF MATERIAL ISSUES	ACTION TAKEN IN 2018
Effective and responsible communication	<ul style="list-style-type: none"> ✓ Reputational risk <p>The risk is mitigated by the activities of the Communication department, which oversees relations with the Group's stakeholders; information relating to services offered is dealt with within client contracts and after-sales services</p>	<ul style="list-style-type: none"> ✓ SIA ensures correct and transparent communication with all customers, as part of a policy of mutual collaboration 	<ul style="list-style-type: none"> ✓ Organization of events for customers and partners ✓ Monitoring and brand engagement also through social media ✓ New issues of the corporate news magazine on innovation "The Place".
Growth of business in international markets	<ul style="list-style-type: none"> ✓ Operational risk ✓ Financial risks <p>For all growth operations and acquisitions, all necessary economic viability analyses are undertaken</p>	<ul style="list-style-type: none"> ✓ SIA analyses its international target markets and carries out impact analyses for all planned operations 	<ul style="list-style-type: none"> ✓ Acquisition of card processing activities from First Data in central and south-east Europe
Customer intimacy	<ul style="list-style-type: none"> ✓ Customer/market risk <p>Risk is mitigated through regular customer satisfaction analyses designed to improve the service by acting on feedback received</p>	<ul style="list-style-type: none"> ✓ SIA undertakes a process of customer mapping ✓ SIA undertakes analysis of products purchased and the ways the after-sales phase is managed 	<ul style="list-style-type: none"> ✓ Customer satisfaction analysis ✓ Creation of a Client Support department for customers ✓ Design of after-sales customer services
Relations with the Institutions	<ul style="list-style-type: none"> ✓ Reputational risk <p>Risk is managed and monitored by company departments who liaise with the Institutions</p>	<ul style="list-style-type: none"> ✓ SIA communicates with the Institutions adopting a policy of transparency and mutual trust 	<ul style="list-style-type: none"> ✓ Publication of non-financial disclosure ✓ Maintenance of relations with the Bank of Italy and Eurosystem.

THE GROUP'S CUSTOMERS

2,260
direct
customers

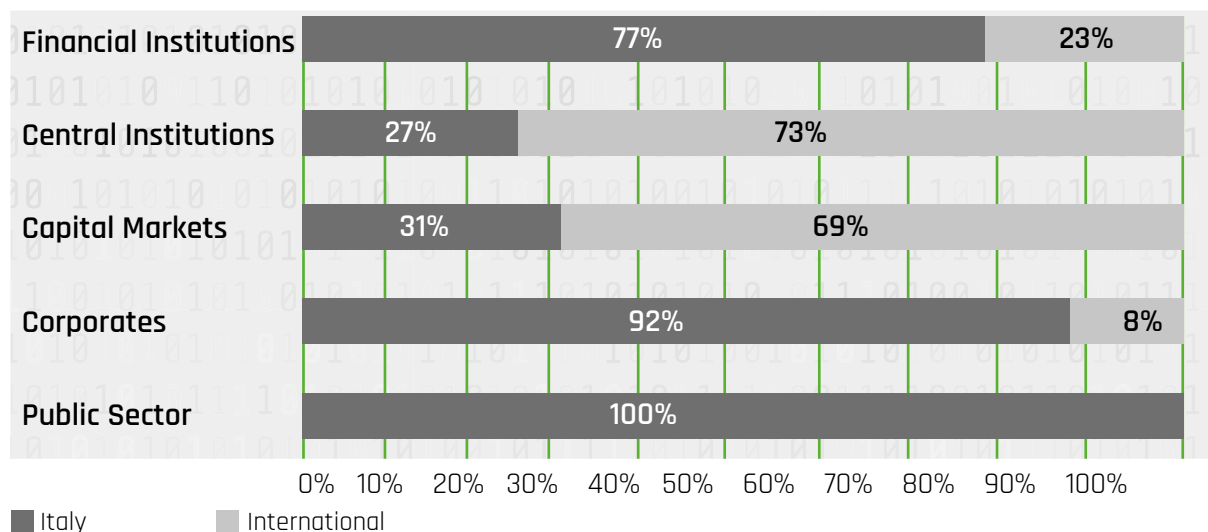
SIA's offer is open to any public or private entity, bank or corporate regardless of their location, size or sector.

The 2,260 direct customers served by SIA in 50 countries include financial institutions, central banks, corporates

and Public Administrations.

The total number of direct customers in 2018 fell consistently with the customer rationalization process undertaken by one of the Group companies.

Percentage distribution of customers by type and geographic location¹



¹ Groups with companies present in multiple countries are counted once for every nation in which revenue was generated in 2018. The base data are higher than the total number of direct customers (2,260).

SERVICES PROVIDED BY CUSTOMER SEGMENT

SIA's offer covers the entire value chain of payment systems and financial transactions, for each specific customer segment.

All services managed by SIA are provided in compliance with the laws in effect in the countries in which the service is provided and with the regulations defined by the Supervisory Authorities.

Group customer segments

Central Institutions	Financial Institutions	Corporates	Public Sector	Capital Markets
<ul style="list-style-type: none"> ▶ Real Time Gross Settlement Technology ▶ Services for pan-European clearing (EBA Step2) ▶ ACH Technology ▶ CSD Technology ▶ Pre-settlement services for the Bank of Italy ▶ Domestic ACH services ▶ Instant Payments Technology ▶ Contingency services for real time gross settlement 	<ul style="list-style-type: none"> ▶ Card Processing: issuing and acquiring ▶ Card Personalization ▶ Management of ATM, POS and Smart POS terminals ▶ Mobile Payments, P2P Payments, Digital Wallet for e-commerce, My Bank ▶ Access solutions for Italy and SEPA ▶ Payments and collections, multi-channel payments, instant payments, PSD2 Open Banking services ▶ Intermediaries compliance ▶ Corporate Banking solutions ▶ Anti-money laundering/anti-terrorism solutions ▶ Services for access to fixed income trading ▶ Bank treasury ▶ e-Document keeping and electronic invoicing ▶ Physical security 	<ul style="list-style-type: none"> ▶ Payment factory to support treasury processes ▶ Multi-channel collection & payment services ▶ Payment Gateway of physical & virtual terminals ▶ Mobility & parking micropayments ▶ Processing of private label cards, fuel cards & gift cards ▶ Account management for Imels & Payment Institutions ▶ Compliance and AML services ▶ Electronic invoicing and substitute storage ▶ Reporting services and Business Intelligence ▶ VAS (electronic direct debit, Apps, couponing) and back office 	<ul style="list-style-type: none"> ▶ Accounts Payable Electronic invoicing ▶ SIOPE+ Electronic Payment Order ▶ e-Document keeping ▶ Accounts Receivable Digital payments ▶ Reconciliation of payments: Ticketing PA Voucher ▶ Contactless payments for transport 	<ul style="list-style-type: none"> ▶ Trading engine for primary and secondary fixed income markets ▶ Post-trading services for CSDs ▶ Access to T2S ▶ Collateral Management services ▶ Compliance & Surveillance services ▶ International bookbuilding services for the primary shareholder market

SIA is a leading authority in Europe in the field of payment systems innovation and works closely with customers and partners to identify both opportunities and risks as soon as possible. This approach is guided by a focus on striking the right balance between rapid time-to-market and the need to guarantee security and reliability requirements for payment systems, including anti-cybercrime protection. The SIA innovation process drives both the launch and development of individual services and the construction of new functional platforms.

Below are some of the principal innovative services introduced recently that have had significant impact in terms of efficiency and simplification for both direct customers and end users.

EasyPA

EasyPA is SIA's solution for guaranteeing compliance with "pagoPA", an electronic payment system which allows end users (private users and companies) to **make electronic payments to Public Administration** (taxes, fees, fines, etc.) in a safe, simple and reliable manner - and with total transparency as regards commission costs.

The efficacy and popularity of the system with customers and users are shown by the sheer number of transactions completed, with the number rising from 3.2 million in 2017 to 10.7 million in 2018, an increase of 230%.

The introduction of "pagoPA" has brought benefits for citizens, for Public Administration and for the whole country.

Benefits for citizens:

- › transparency and lower costs;
- › possibility to use public services in a more immediate manner;
- › simplification of the payment process, making it possible to use the highest possible number of channels and services;
- › standardization of the user experience for payments to Public Administration;
- › standardization of payment notifications across the country.

Benefits for Public Administration:

- › reduced payment collection times as sums are credited directly to the beneficiary within one day of payment;
- › reduction of cash management costs;
- › improved efficiency of payment collection management thanks to automatic reconciliation;
- › increased automatic controls to avoid double payments and subsequent reimbursement procedures.

Benefits for payment service suppliers:

- › elimination of the need for multiple agreements with Public Administration;
- › reduction of cash management costs;
- › general improvement of services provided;
- › increased client loyalty.

Benefits for the country:

- › complete adherence to PSD2 (Payment Service Directive 2) standards;
- › incentivization of the use of electronic payments towards Public Administration across the country, with positive impacts in terms of competition in the payment services market and in terms of leveling out commission.

EMV SERVICE – Contactless

The service is based on the use of a **credit or debit card as a ticket for use on public transport**. It eliminates the need for a paper ticket and automatically identifies the best fare for the journey in question. The service was introduced for the first time in 2018 on the Milan metro network. In its first six months of operation, it registered progressive increases in usage, accounting for 15% of total tickets issued and avoiding the need to print around 12 million tickets.

Benefits for citizens:

- › ease of use;
- › potential to save thanks to automatic identification of most convenient fare;
- › guaranteed compliance with regulations, without the need to look for ticket offices or machines.

Benefits for transport companies:

- › reduction of costs associated with issuing tickets;
- › open standard, eliminating any lock-in

- problems with suppliers;
- › secure, fraud-proof system;

Benefits for public bodies:

- › interoperability, i.e. the possibility to integrate tickets from various transport companies;
- › greater availability of data on public transport usage.

Benefits for the country:

- › digitalization of processes;
- › reduction of cash usage;
- › interoperability on the national level;
- › traceable payments.

INSTANT PAYMENTS

Digital payments are influenced both by current changes in production and in commerce, where the concepts of just in time and e-commerce are becoming standard practice, and by changes to the habits of end users, where speed and immediacy in the exchange of information via social media have become the norm.

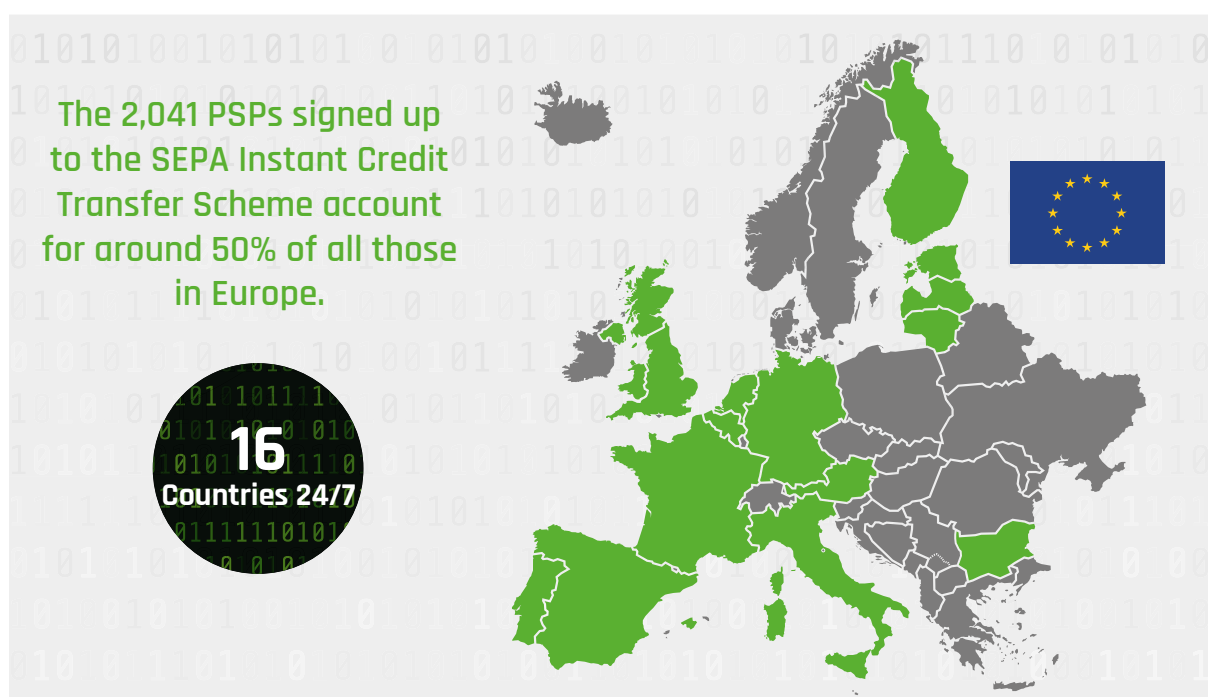
The need to have not only messages, videos and documents but also digital retail payments available in real time

has been recognized by the various stakeholders. On behalf of EBA Clearing, SIA has created the first pan-European support platform for new Instant Payments services named RT1.

This platform makes it possible **to make payments (and therefore purchases) at any time of the day** and throughout the year, using any device in any country belonging to the Single Euro Payments Area (SEPA). Using the highest security and reliability standards, the platform guarantees the availability of funds moving from the payer to the beneficiary within ten seconds across the Euro area.

The advantages of the system include the simplification of commercial relations for companies and end users, with knock-on effects in various different sectors including e-commerce, logistics, credit and supply chain management.

In 2018, the service processed over 10 million transactions, guaranteeing the availability of nearly all Payment Service Providers (PSPs) in SEPA.



QUALITY OF SERVICES

SIA's success is based on its reputation and the trust placed in it by customers and other stakeholders in the business community. In this respect, **data security, protection of privacy and business continuity** are essential aspects. Consequently, SIA updates and boosts the protection systems and resilience of the services offered to cus-

tomers, integrating the requirements in systems and in its internal procedures, as well as in those of its suppliers.

In 2018, this activity was supported by the search for solutions featuring highly innovative aspects which, alongside ensuring compliance with quality objectives, bring advantages in terms of flexibility and effectiveness.

SIA'S QUALITY POLICY

KEY PRINCIPLES

Guaranteeing satisfaction of the requirements of customers and of the applicable regulatory requirements.

Continuous improvement in company processes through measurement and monitoring systems.

Behavioral and technical training aimed at guaranteeing professionalism able to ensure the provision of services at the highest market standards.

Periodic examination of the Quality Policy, in order to ensure constant satisfaction of the requirements of customers and of the market.

Implementation and maintenance of a Quality Management System compliant with international standard ISO 9001:2015.

SIA's **Quality Management System** (QMS) includes:

- › definition of company processes;
- › assignment of the relative responsibilities;

› specific indicators to measure the capacity of its processes and services to produce the expected results with regard to defined objectives.

PRIVACY AND SECURITY OF THE CUSTOMERS' DATA; THE DATA PROTECTION OFFICER

In 2018 the activities to make the SIA Group companies compliant with the **GDPR - General Data Protection Regulation** 2016/679 of the EU were completed. SIA appointed a **Data Protection Officer** (DPO), who is responsible for guaranteeing compliance with GDPR, ensuring that company regulations are kept up to date and liaising with supervisory authorities, Data Protection Officers of customers/suppliers, other interested parties and internal departments from SIA and its subsidiary companies on all issues related with privacy.

More specifically, the following activities have been carried out:

- ✓ verification of the rights of interested parties as regards services and processes;
- ✓ creation of a register of personal data processing;
- ✓ creation of DPAs (Data Processing Agreements) for customers and suppliers;
- ✓ definition/update of company documentation;
- ✓ implementation of awareness and training programs for employees;
- ✓ creation of privacy templates;
- ✓ collaboration with company departments involved in security to deal with data breaches and complete Data Protection Impact Assessments.

CERTIFICATIONS

SIA holds a number of certifications that confirm and guarantee the quality of services and company processes, card processing services, payment infrastructures and mobile telephony applications.

Main SIA Group certifications as at December 31, 2018



ISO 9001
Certification

QUALITY

SIA's compliance with the **ISO 9001** standard certifies the existence and monitoring of a Quality Management System designed to guarantee efficacy and efficiency in the provision of company services, as well as boosting client satisfaction.

Group companies certified: **SIA S.p.A., SIA Central Europe, SIAPay, SIA Greece).**



ISO/IEC 27001
Certification

INFORMATION SECURITY

SIA's compliance with the **ISO/IEC 27001** standard certifies the existence and monitoring of an Information Security Management System designed to ensure goals spanning privacy, integrity, availability and compliance are met as regards company information.

Group companies certified: **SIA S.p.A., Perago FSE, SIA Central Europe, SIA Greece, P4cards.**



ISO/IEC 22301
Certification

BUSINESS CONTINUITY

SIA's compliance with the **ISO 22301** standard certifies the existence and monitoring of a Business Continuity Management System designed to ensure the business continuity of company services.

Group companies certified: **SIA S.p.A., P4cards.**



PCI DSS
Certification

PAYMENT CARD INDUSTRY - DATA SECURITY STANDARD (PCI DSS)

SIA's compliance with the **PCI DSS** security standard certifies that information relating to debit and credit cards issued by international providers VISA, MasterCard, Amex, JCB and Discover is protected. SIA is part of a list of certified companies published on the VISA and MasterCard websites.

Group companies certified: **SIA S.p.A., SIA Central Europe, SIAPay*, P4cards, SIA Greece, SIA Slovakia.**

**SIAPay's card processing parameter is included in that of SIA S.p.A..*

SIA also has certifications and technical approvals for the markets and payment systems, as well as certifications relating to physical security (plants, electrical systems, etc).

At the Group level, SIA has several ISAE (International Standards for Assurance Engagements) reports, which confirm the efficacy and effective functioning of existing controls.

BUSINESS CONTINUITY

For SIA, business continuity is a fundamental factor in the protection and management of its customers' data and information. Aware of the strategic importance of business continuity for the sector in which it operates and in accordance with the contractual commitments defined with customers, SIA has set up a **Business Continuity Management System (BCMS)** and technological infrastructure aimed at:

- › driving decisions made in emergency and crisis situations;
- › defining the plans, procedures and technical, human and logistic resources to ensure continuity in the provision of services;
- › reacting promptly in order to reduce interruptions in business processes and guarantee recovery effectively.

In consideration of the international scenario and its business continuity objectives, SIA adopted standard BS25999 as of 2008 - this was converted to standard ISO 22301:2012 in 2012 (Societal Security – Business Continuity Management Systems – Requirements) - as the basis for the development of its own BCMS and implements an ongoing management and governance process which, supported by Corporate Management and by an adequate organizational structure, ensures that the plans and recovery strategies are updated and applicable in order to ensure the continuity of both products and services.

The model adopted is checked on an annual basis by qualified third parties.

Within the Group, roles and responsibilities have been identified as part of efforts to tackle problems of an organizational (Business Continuity), technological (Disaster Recovery) and logistical nature.

A Committee has been set up to bring the most relevant issues to the attention of the company management. The **Business Continuity and Disaster Recovery Steering Committee** coordinates the development of issues relating to Business Continuity and resilience in the supply of services and

application and infrastructural projects.

A Risk Team has also been set up with the objective of developing a **Risk Management** program and overseeing and monitoring the identification and analysis of risk and strategies to deal with this.

Company Departments and Divisions are responsible for their own business continuity activities and - in accordance with management - identify critical processes and services for the company and the ways in which their continuity is guaranteed, even in critical situations.

To guarantee operational flows between the body responsible for Business Continuity and the other company Departments and Divisions, specific points of reference and operational relations have been identified in the various Departments and Divisions.

In order to handle emergencies and crisis situations, SIA has:

- › prepared an **Emergency and Crisis Management Process** which describes the activation methods, responsibilities and contacts required to manage an emergency and/or crisis in the company;
- › produced documents describing the **organizational procedures** (Business Continuity Plans) that each Division/ Department must follow in order to restore and control its services;
- › produced documents describing the **technical procedures** (Disaster Recovery plans) processed for every single infrastructure, which describe the methods and time frames for reactivation at the Disaster Recovery site;
- › developed **Business Continuity rooms and a Disaster Recovery site**, situated outside the urban area, equipped with platforms that have the same processing capacities as the primary site.

The supply of services in Disaster Recovery mode is guaranteed by dedicated hardware, software and connectivity solutions and by the availability of specifically trained internal personnel.

The Business Continuity Management System is periodically checked

through:

- › testing and drills involving technological, applicative and organizational functions;
- › Disaster Recovery tests involving some customers;
- › Business Continuity tests involving organizational solutions.

Business Continuity risks and strategies

Risk analysis is designed to ensure that the program for managing business continuity complies with the company mission, with legislative requirements and with client agreements. It is manifested in the following activities:

- › **Business Impact Analysis (BIA)**: evaluation of the impact on the business of significant events that could compromise company activities and the supply of services; the BIA is periodically updated using information provided by the company departments involved and made available to the company so that Disaster Recovery plans can be produced;
- › **Risk Assessment**, designed to prevent and tackle threats that could affect company assets, leading to their unavailability for a long or short period of time, among other impacts; by undertaking Risk Assessment, SIA aims to protect company assets, pursue company objectives and manage risks that could compromise the privacy, integrity, availability and conformity of company services/processes.

Every year, SIA submits the Business Continuity Plan to the Board of Directors of the parent company. This plan encompasses the company strategy as well as actions taken and to be taken. The Business Continuity action strategies include:

› **Focus on business services and relevant support activities**

“SIA guarantees the restoration of business services and support activities relevant for the company, in compliance with the Bank of Italy Guidelines on business continuity and client contracts, keeping the technological characteristics of the systems in mind”;

› **Availability of human resources**

“SIA assumes it can count on the availability of a minimum number of human resources capable of managing services and systems, given that staff (internal and external) work in shifts, on availability and on a remote-working basis, and are distributed across various different Group sites”;

› **Availability of at least one technological site**

“We consider risk scenarios that affect facilities and processing sites as well as the risk of simultaneous blocking of the two provision sites”.

The action strategies allow for an adequate response to system requirements and customer requests.

LISTENING TO AND SATISFYING CUSTOMERS

Every two years SIA conducts a Customer Satisfaction survey to measure the level of customer satisfaction with its products and services and the existence of any critical issues. On the basis of the results, SIA implements activities designed to improve and resolve any aspects flagged up as unsatisfactory.

The latest survey was conducted in 2018, and it involved Italian and foreign

customers. The results of the interviews showed that, in a constantly evolving market, SIA is an essential **strategic provider** for its customers and a consolidated partner thanks to its expertise.

SIA is perceived as an increasingly **“international”** company, as a result of its global vision and participation in major European projects. This feature is highly appreciated by customers be-

cause it ensures the use of technologies and security mechanisms in line with European standards.

In general, SIA is recognized as showing **excellent reliability** in the ordinary management of its services, as well as **great helpfulness** during assistance. Its reactivity and flexibility in proposing solutions when problems are reported by customers are particularly appreciated.

Seeing SIA as more of a partner than

a provider, the customers interviewed have built up high expectations of SIA and identified some weaknesses where they hope to see improvement: greater proactiveness and innovation in propositions and designing and increased rapidity in designing and proposals.

The following table summarizes the main strengths and areas for improvement identified in the Customer Satisfaction survey conducted in 2018.

RESULTS OF SIA'S 2018 CUSTOMER SATISFACTION SURVEY	
STRENGTHS	AREAS FOR IMPROVEMENT
<ul style="list-style-type: none"> ✓ Reliability/solidity ✓ Prestige/leadership ✓ Tradition/experience ✓ International company/provider ✓ Availability/customer focus ✓ Professionalism ✓ Competence and in-depth knowledge of market ✓ Diversification of products and services/broad offering ✓ Constant/continuous support 	<ul style="list-style-type: none"> ✓ Increased efficiency ✓ Better flexibility and service personalization based on client needs ✓ More proactiveness in proposing new strategies and products ✓ Broaden vision from European to global

Production Control

A **Production Control** service was set up in 2017 in order to ensure maximum efficacy in the provision of services and client communications. The service has the specific role of:

- centralizing all communications while diversifying and personalizing the relevant channels and procedures;
- guaranteeing coordination of the activities among the SIA organizational units.

In 2018, the service reviewed methods and processes in the Payments area (the focus was on the Cards area in the previous year) and dealt with 28,214 requests from 617 customers.

SIA also has a **Service Desk System** which deals with all requests from cus-

tomers and end users, including simple information requests, complaints, reimbursements and penalties.

The complaints management process aims to quickly manage complaints by customers who are not satisfied with the services provided and/or products offered, implementing - where necessary - actions designed to improve the service and organizing appropriate corrective actions, in addition to preventive ones to avoid the event from repeating.

The **process for management of refunds and penalties** aims to ensure a prompt response to any such requests from customers, in accordance with the provisions of the relative contracts and of the Italian Civil Code.

RELATIONS WITH CUSTOMERS AND PARTNERS

SIA pays enormous attention to the development of dialog and consolidation of communication channels with current and potential customers and partners. To this end, as well as making visits and giving presentations to current and potential customers, SIA promotes meetings, events and conferences and regularly uses online and offline communication tools.

Within this framework, during the year SIA took part in 70 appointments in Italy and abroad, 50 of which were attended by company management as speakers.

Some of the most important events were:

› **September 12-13, 2018 - London - Sponsorship of “CordaCon”**

SIA used its appearance at the blockchain event to illustrate SIAchain, the largest private Distributed Ledger Technology (DLT) network in Europe. SIA also organized “The reality of infrastructure in the age of enthusiasm for Blockchain Apps”, focusing on the “Spunta Banca” DLT-based project which features SIA, R3 Corda, ABI Lab and NATT Data based on SIAchain.

› **October 22, 2018 - Rome - “Electronic invoicing meets utilities”**

SIA organized in Rome an event focusing on electronic invoicing for utilities companies. During the event, SIA presented solutions around the creation, sending and storage of digital invoices. The conference, whose speakers included a senior director in the Italian Revenue Agency, generated substantial interest among the many sector companies present.

› **November 07-09, 2018 - Milan - “ABI Salone dei Pagamenti”**

SIA was the main partner at the leading Italian event in the payment sector. The company positioned itself as the partner of the future, capable of working with banks, companies and Public Administration towards digital transformation and contributing to the move towards a cashless society via

innovative, hi-tech payment solutions.

The event featured numerous speakers from SIA, who participated in a dozen workshops and themed sessions over the three-day event. SIA used its stand to showcase its most innovative services, such as EMV Transit Payment, an initiative currently under development with ABI Lab for the introduction of blockchain technology in the banking sector (Spunta Banca Project), the integration of Jiffy into the new BANCOMAT Pay service and the new possibilities opened up by the introduction of the new EU Payment Services Directive (PSD2).

› **December 10, 2018 - Milan - “SIA al Teatro alla Scala”**

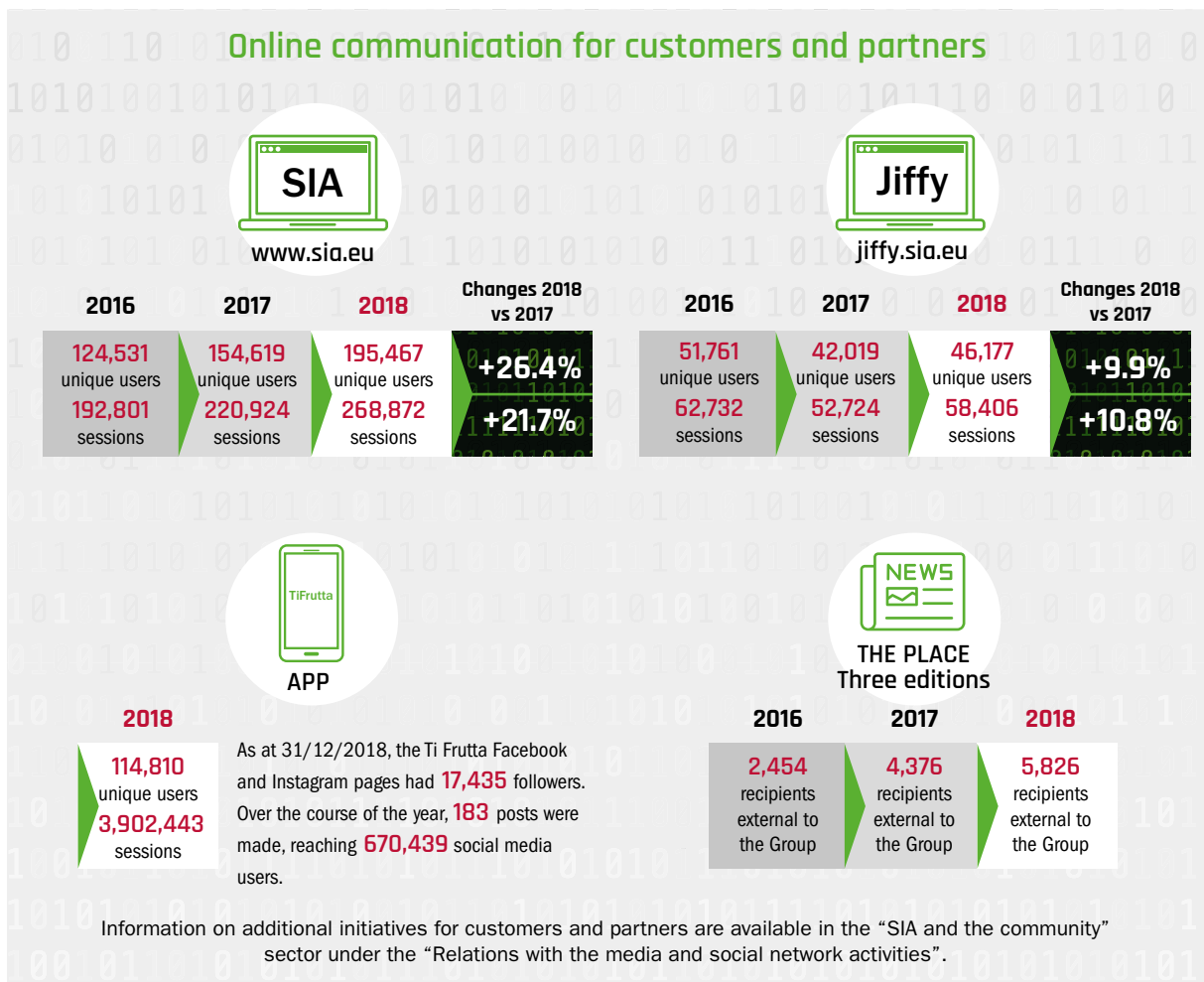
The now-traditional evening organized by SIA for the benefit of its customers, partners and prospective customers attracted 1,600 Italian and international guests from banking, finance and big business. The event featured a performance from the La Scala Philharmonic Orchestra, conducted by Manfred Honeck, including music by Beethoven and Dvorák and the participation of young cellist Edgar Moreau.

For the occasion, a custom digital ticketing system was developed which allowed all guests to access the theater without having to print out a ticket - all they had to do was show a digital, paperless barcode, encapsulating the SIA philosophy.

Digital communication

The main digital channels for communication with customers and partners are the **SIA website**, the social networks **LinkedIn** and **Twitter** and **The Place** magazine. The magazine is an on-line publication focusing on tech innovation and is released once every four months. The magazine was redeveloped in 2018 and can be accessed via PC, smartphone or tablet. It reaches over 5,800 recipients outside of the Group, as well as all 3,465 SIA employees in Italy and abroad.

The www.sia.eu website provides a wide range of information on topics such as corporate governance, geographical presence, services offered and latest news from the market. In addition to press releases, the most relevant subjects and news stories are communicated as quickly as possible and enhanced with videos and photos on social media. Consumer services such as Jiffy and Ti Frutta also use the jiffy.sia.eu spin-off website, and for Ti Frutta the App, as well as the interaction with users on **Facebook** and **Instagram**.



SIA AND THE GROUP PEOPLE

People are an essential resource for SIA and the company strives for excellence through its HR policies to lay the foundations for success. At the heart of this is the work of all our employees - and it is for this reason that the Group invests in everything from training to career development, opportunities for professional enrichment, welfare and work-life balance. SIA believes that all of these elements are vital to the effective management of human resources.

SIGNIFICANT ISSUES FOR EMPLOYEES AND COLLABORATORS AND SIA'S ANSWERS			
MATERIAL ISSUES	MAIN RISKS AND RISK MANAGEMENT STRATEGIES	POLICIES FOR THE MANAGEMENT OF MATERIAL ISSUES	ACTION TAKEN IN 2018
Protection of work and human rights	<ul style="list-style-type: none"> ✓ Reputational risk ✓ Operational risk <p>These risks are monitored and managed via adherence with all relevant legislation.</p>	<ul style="list-style-type: none"> ✓ SIA fully complies with all labor regulations and human rights in all countries in which it operates; the Group guarantees its employees a healthy, safe working environment and fights against all forms of discrimination ✓ SIA invests in people and ensures the correct and transparent management of the working relationship. 	<ul style="list-style-type: none"> ✓ Ongoing monitoring of the respect for human rights, labor laws and freedom of association in all countries where the Group operates.
Diversity and equal opportunities	<ul style="list-style-type: none"> ✓ Risk of discrimination ✓ Risk of failure to ensure equal opportunities <p>Risks are mitigated by the Code of Ethics and compliance with laws and regulations</p>	<ul style="list-style-type: none"> ✓ SIA adopts recruitment policies that uphold diversity ✓ SIA promotes a working environment based around respect for and acceptance of diversity in all its forms 	<ul style="list-style-type: none"> ✓ SIA offers flexibility, remote working, career programs, work-life balancing initiatives and parental leave without discrimination ✓ Creation of the role of caregivers to persons with disabilities.
Staff training and skill development	<ul style="list-style-type: none"> ✓ Risk of high turnover and skills gaps <p>Risk is mitigated by provision of customized training courses</p>	<ul style="list-style-type: none"> ✓ SIA provides all employees with training programs designed to improve and strengthen existing knowledge and acquire new skills, as part of a client-based strategy in line with company objectives 	<ul style="list-style-type: none"> ✓ SIA offers a comprehensive training program customized for each employee, in response to technical, managerial and linguistic needs
Development of company welfare programs	<ul style="list-style-type: none"> ✓ Risk of failure to listen to human resources/insufficient listening <p>Risk is mitigated through a periodic climate analysis whose results are used to implement new company welfare initiatives</p>	<ul style="list-style-type: none"> ✓ SIA analyzes the needs - including non-work-related needs - of its staff and promotes the implementation of programs and initiatives that allow for a better balance between work and private life 	<ul style="list-style-type: none"> ✓ Offer of flexible benefits, time- and money-saving services, health initiatives
Creation of jobs	<ul style="list-style-type: none"> ✓ Reputational risk <p>The risk refers to the potential failure of SIA to create jobs for the community</p>	<ul style="list-style-type: none"> ✓ SIA offers jobs based on internal operational needs and market performance 	<ul style="list-style-type: none"> ✓ Recruitment/maintenance within the group of all employees of acquired companies ✓ 219 new hirings in the year

EMPLOYMENT AND TURNOVER

3,465
people
70% increase
on 2017

As at December 31, 2018 the SIA Group had a total of **3,465 employees**, of whom **43% were women** and **98% of whom on open-ended contracts**. The company population has increased by 69% in comparison with the end of 2017, thanks largely to the acquisition of processing services, card pro-

duction, back-office and call centers in Greece, Slovakia, Czech Republic, Hungary, Romania, Serbia and Croatia from First Data (September 28, 2018). The agreement saw almost 1,400 employees move over from First Data. Without counting the acquisition, the company population grew by 4%.

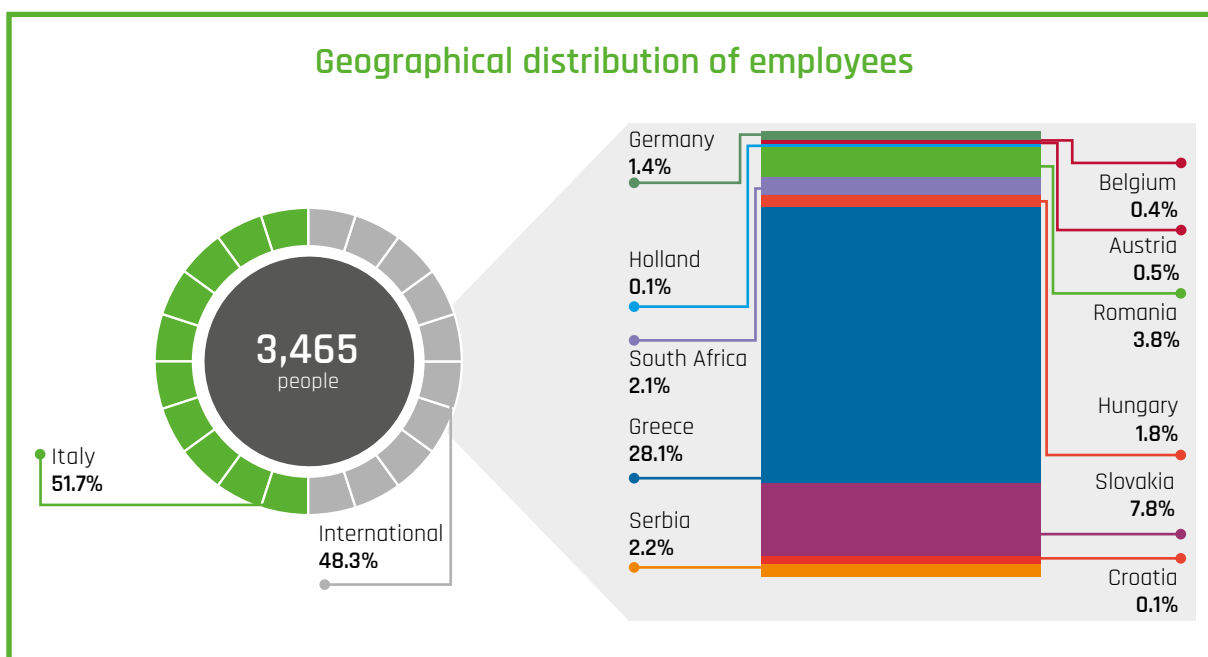
EMPLOYEES SPLIT BY GROUP COMPANY									
	12/31/2018			12/31/2017			12/31/2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
SIA S.p.A.	1,042	469	1,511	1,036	462	1,498	1,038	453	1,491
Emmecom	10	1	11	11	1	12	10	1	11
SIAadvisor ¹	12	12	24	5	9	14	5	6	11
P4cards	201	205	406	179	172	351	177	171	348
Perago FSE	47	27	74	48	28	76	44	20	64
PforCards	14	4	18	10	1	11	4	1	5
SIA Central Europe	36	10	46	41	9	50	40	12	52
SIApay ²	13	7	20	14	4	18	5	1	6
TSP ³	-	-	-	-	-	-	10	3	13
Ubiq	8	6	14	11	7	18	13	9	22
SIA Greece ⁴	374	599	973	-	-	-	-	-	-
SIA CEE ⁴	175	112	287	-	-	-	-	-	-
SIA SEE ⁴	36	45	81	-	-	-	-	-	-
Total	1,968	1,497	3,465	1,355	693	2,048	1,346	677	2,023

¹ On December 1, 2018, the company changed name to this from LM-e.

² In January 2018, the company changed name to this from Pi4Pay.

³ Company merged into Pi4Pay (now SIApay) in August 2017 with effect retroactive from January 2017.

⁴ Organizational grouping of companies bought by the SIA Group on September 28, 2018.



Over the year the Group hired **219 new employees**, while 178 employees left the company, not counting in-fra-group changes.

Hires were made to bring in key skills and boost innovation within the business, with a particular focus on **recruiting young people**. Of the 219 new hires,

104 were degree- or diploma-holders under the age of 30, with the majority training in technical or scientific fields.

During the year, **34 placements** were activated. The internship program for new graduates continued to prove a positive experience, equating into a hire rate of 60%.

HIRING AND TURNOVER RATES - 2018									
	GENDER			AGE BRACKET			GEOGRAPHIC AREA		
	Men	Women	Total	<30 years	30-50 years	> 50 years	Italy	EU	Non-EU
Total number of employees	1,968	1,497	3,465	288	2,480	697	1,791	1,524	150
Number of new recruits	121	98	219	104	110	5	84	118	17
Rate of recruitment of new employees	6%	7%	6%	36%	4%	1%	5%	8%	11%
Departing employees	104	74	178	45	92	41	67	91	20
Employee turnover rate	5%	5%	5%	16%	4%	6%	4%	6%	13%

Employer branding activities had a strong focus on relations with universities. To this end, the partnership with MIP (the Milan Polytechnic's Business School) continued, along with collaborations with the Master's in Digital Innovation & Fintech at the CeTIF (Centre of Research in Technology, Innovation and Financial Services at the Catholic University) and QTEM, the international network that brings together students, universities and companies to offer young people study and work opportunities.

For the third year running, SIA took part in the MBA Careers Day at MIP and participated in the Turin job meeting and the Milan Polytechnic recruiting day.

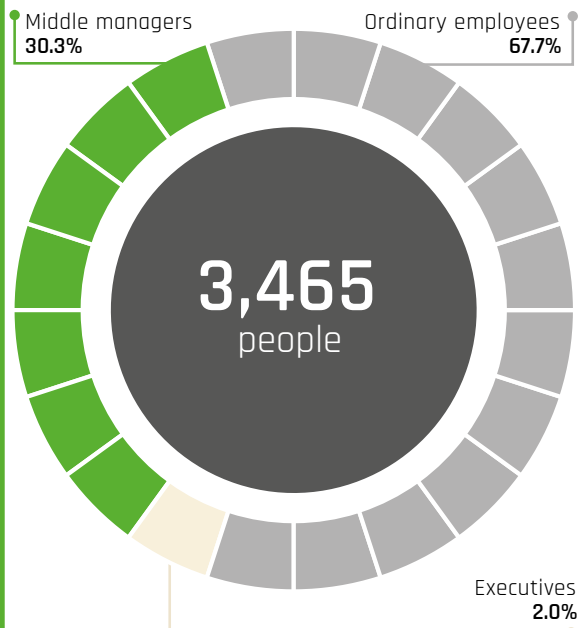
In 2018, SIA took part in the QTEM Analytics Conference, held in Oslo. It was a chance to come into contact with young people from overseas faculties with good analytical and mathematical

skills interested in undertaking a placement in Italy.

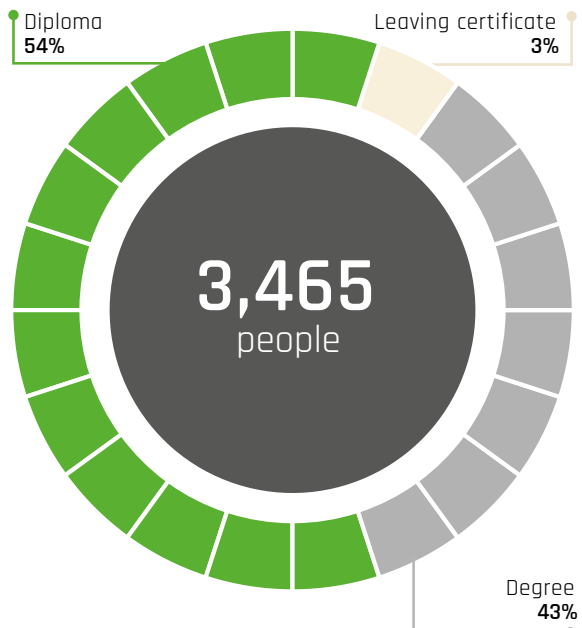
As a guest of MIP at the Polytechnic, SIA showcased its best practices to students of the Master of Science in Management Engineering and the International Master in Business Analytics and Big Data.

Together with traditional recruitment techniques and the **"Work with us"** page on the website, SIA explores new forms of relationship between the company and potential candidates, such as blind recruiting. Drawing on the principles of employer branding, this innovative approach puts young, high-potential candidates to the test with business cases which require them to channel their innovative spirit and problem solving skills.

Employees by professional category



Employees by level of education



EMPLOYEES BY TYPE OF CONTRACT

	12/31/2018			12/31/2017			12/31/2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Temporary	34	34	68	29	23	52	25	11	36
Open-ended	1,934	1,463	3,397	1,326	670	1,996	1,140	494	1,634
Total	1,968	1,497	3,465	1,355	693	2,048	1,165	505	1,670

FULL-TIME/PART-TIME EMPLOYEES

	12/31/2018			12/31/2017			12/31/2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Full time	1,941	1,280	3,221	1,340	533	1,873	1,154	397	1,551
Part time	27	217	244	15	160	175	11	108	119
Total	1,968	1,497	3,465	1,355	693	2,048	1,165	505	1,670

EMPLOYEES BY PROFESSIONAL CATEGORY

	12/31/2018			12/31/2017			12/31/2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executives	53	18	71	31	5	36	28	6	34
Middle managers	779	270	1,049	640	214	854	568	174	742
Ordinary employees	1,136	1,209	2,345	684	474	1,158	569	325	894
Total	1,968	1,497	3,465	1,355	693	2,048	1,165	505	1,670

INDUSTRIAL RELATIONS

At SIA, industrial relations are characterized by a conflict-free, collaborative and participatory atmosphere within a good market environment.

Within the Italian companies, the **National Collective Bargaining Agreement for the Banking sector** (which is the most representative) is applied to SIA, SIAPay and P4cards, and the **National Collective Bargaining Agreement for the Commercial sector** to SIAadvisor, Ubiq and Emmecom. Around 25% of the Group's employees belong to a union, with these organizations taking an active role in activities and politics. From its side, the company strives to preserve freedom of association and workers' rights.

In the management of contractual relations with employees and in its working relationships, SIA operates in such a way that the role of the Management is exercised **fairly** and **correctly** and the incentive scheme and company career structure are based on the ability of employees and their results. The company guarantees the privacy and the physical and moral integrity of its employees and

collaborators, ensuring working conditions which are respectful of their personal dignity.

Organizational modifications necessary for optimum management of company activities are implemented through intensive dialog between the Human Resources & Organization Department and the business Departments after having notified the union representatives.

The **Supplementary Company Agreement**, which was renewed on July 28, 2016 and is valid for SIA S.p.A. e SIAPay, provides for basic aspects, such as flexible working hours for all employees, family benefits (education, scholarships, disabled children, donations to children in case of premature death of employees, transport season tickets), complementary healthcare plans and complementary pension funds. In 2018, the first supplementary company agreement was signed for P4cards Italia, which provides for the same aspects as the supplementary company agreements of SIA and SIAPay.

Main points of Supplementary Company Agreement of SIA, SIAPay and P4cards



Progressive increase of company contribution for complementary welfare (up to 6% in 2020)



Healthcare insurance covering all family members, including live-in partner, with no gender discrimination



Contribution for each handicapped child up to €3,000



Contributions for childcare, scholarships, camps, student workers and summer centers



Up to €20,000 for each child in the event of the premature death of an employee, in order to cover education costs



Annually increasing contribution for costs relating to means of transport



Application of flexible working hours, including for part-time workers



Possibility to diversify the daily meal voucher value for further fiscal advantages



Up to 20 days per year of occasional remote working per employee



Possibility for formative work training for the children of employees, with no view to hiring and for the purposes of giving them initial work experience

REMOTE WORKING AND SMART WORKING

SIA S.p.A. and SIAPay offer all their employees the option to work away from the company premises: either at home (working from home) or in any other place (smart working). The available arrangements are:

- ✓ **Home working** in a stable, continuous way;
- ✓ **Remote working**, at home for one or two set days per week, decided on a yearly basis;
- ✓ **Agile working**, unplanned, up to a maximum of 20 days/year;
- ✓ **Smart working**, individual agreement that allows employees to work anywhere, without constraints or limitations on the number of days permitted.



Over the years, the employees' appreciation for and use of the flexible remote working forms have constantly increased.

In 2018, over 80% of the company's population used one of these forms of remote or smart working. The number of people using the remote working option increased to 241, a 30% increase on 2017, while the overall number of occasional remote working days taken also increased (to over 6,600, a 35% increase on the 4,900 days taken in 2017). 2018 saw the **creation of the first hub designed especially for smart working**. Inspired by innovative working methods, the hub has allowed over 200 people to explore this highly flexible approach to work for the first time in the SIA Group, backed up by a training program on managerial skills and smart capabilities.

EMPLOYEES ACCESSING REMOTE WORKING SERVICES¹

	12/31/2018			12/31/2017			12/31/2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Home working	12	18	30	12	20	32	13	19	32
Remote working	154	87	241	125	62	187	115	56	171
Agile working	487	235	722	409	195	604	314	160	474
Smart working	139	57	196	-	-	-	-	-	-
Total	792	397	1,190	546	277	823	442	235	677

¹ Data refer to SIA S.p.A. and SIAPay.

DIVERSITY AND EQUAL OPPORTUNITY

The Group offers equal employment opportunities to all employees based on professional qualifications and skills, free from discrimination. The selection, recruitment, remuneration and career development plan of each employee are based exclusively on merit and skills, without any discrimination regarding political or religious beliefs, membership of unions, race, language, gender, age, working timetable, family status or role within the company, in compliance with the current and relevant legislation, employment contract, regulations and directives.

There are 107 people belonging to protected categories in the Group. In order to ensure these people have the best possible opportunity to incorporate themselves into the company and fulfill their role, the **"Disability Officer"** role was created. The Disability Officer is responsible for helping colleagues wherever required by implementing procedures and liaising with emergency services.

Ongoing dialog with the trade union representatives offers a constant point of attention and incentive on labor topics and the prevention of any possible

form of discrimination so that practices and procedures can be monitored, any critical issues can be highlighted and improvements in terms of flexibility,

remote working, careers, work/life balance and return to work from leave can be suggested.

SALARY LEVELS BY GENDER FOR DIFFERENT PROFESSIONAL LEVELS ¹						
	12/31/2018		12/31/2017		12/31/2016	
	Men	Women	Men	Women	Men	Women
Executives	100	103	100	91	100	92
Middle managers	100	92	100	94	100	94
Ordinary employees	100	96	100	96	100	97

¹ The data are stated in percentage, 100 being the average salary level FTE (RAL) of the men in the different professional categories. 2018 data includes: SIA S.p.A., SIAPay, Emmecom, Perago FSE, SIA Central Europe, Ubiq, P4cards Italia. 2017 data do not include the German and Romanian branches of P4cards. The 2016 data refer to all Group companies.

PARENTAL LEAVE AND RETURN RATES ¹									
	12/31/2018			12/31/2017			12/31/2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
No. periods of parental leave granted	4	24	28	11	7	18	8	28	36
No. periods of parental leave ended in the period	4	23	27	21	26	47	4	23	27
Workers back at work after having taken parental leave (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%

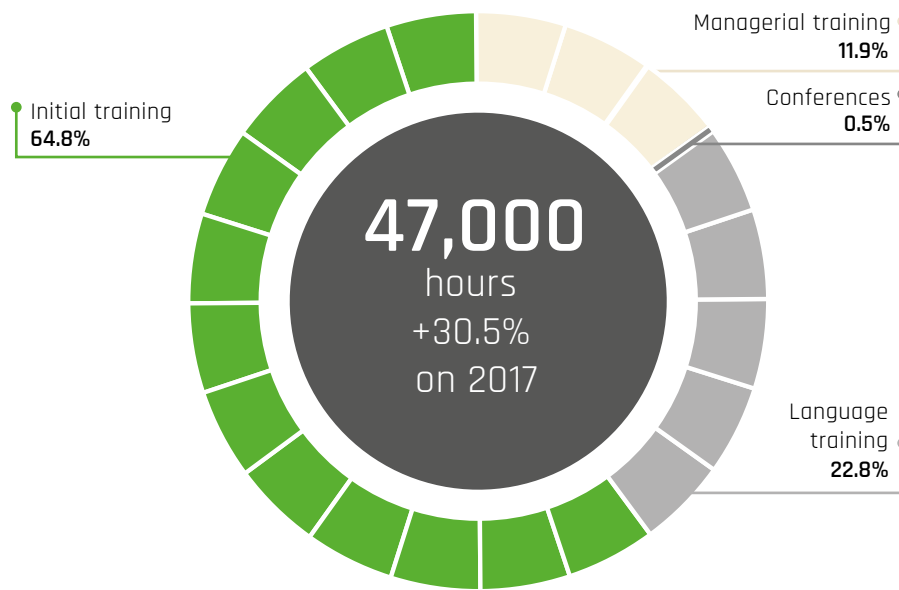
¹ Data refer to SIA S.p.A. and SIAPay.

TRAINING AND CAREER DEVELOPMENT

SIA protects and promotes the importance of human resources and is committed to safeguarding and developing professional skills, ensuring that the skills and aspirations of each worker are suitably fulfilled. Training programs aim to constantly improve working practices, increasing professionalism and promoting high standards of conduct and practice.

In 2018 an intensive training program was defined in response to technical, managerial, behavioral and linguistic requirements. In total, the **SIA Group invested €1.4 million**, with which over **47,000 training hours** were provided, equal to an average of **22 hours per capita**. The parent company provided around 35,000 hours of training (23 hours per capita).

Training activities by content type



AVERAGE ANNUAL HOURS OF TRAINING PER EMPLOYEE¹

	12/31/2018			12/31/2017			12/31/2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executives	21.6	20.5	21.4	17.2	8.4	16.0	13.0	5.5	11.6
Middle managers	23.6	26.2	24.3	18.5	30.9	20.1	21.8	25.2	22.6
Ordinary employees	23.0	18.7	21.2	18.6	9.4	15.9	15.7	14.7	15.4
Total	23.3	21.0	22.5	26.7	16.0	17.7	18.6	18.2	18.5

¹ The 2018 data include all companies in the Group, excluding SIA Greece, SIA SEE and SIA CEE. For 2017 and 2016 the data refer to the whole Group. Average hours have been calculated on the basis of the number of average employees at the company during the year.

The **internal Academy** launched a new teaching staff recruitment campaign designed to optimize knowledge sharing and enhance the company's knowledge and experience, with new tools and spaces for the training program:

- › **the “Academy online” e-learning platform**, use of which has been rolled out to the companies in the Group;
- › **over 100 online free access courses** in the areas of digital & soft skills;
- › **e-learning portal for language learning**.

The marked increase in overseas staff in 2018 saw further expansion of English-language learning initiatives, in order to support the Group's growing international presence.

During the year, the Banks and Insur-

ance Fund (FBA) unveiled and approved the **“SIA Growth and Competitiveness”** training plan, which is designed to offer support in key areas such as:

- › **internationalization**, development of the commercial, linguistic and technical skills of staff destined for roles in international front-end and Service Control Management, to strengthen the international development strategy and respond to the need to coordinate overseas supply chains;
- › **growth of the domestic market**, training focus on staff responsible for strategic customers and the construction of new partnerships;
- › **smart working and change management**, training courses focusing on the switch to smart working: smart capabilities, digital transformation, new organizational models and working

CULTURAL INTEGRATION PROGRAM

How do we get to know and integrate new colleagues from different cultural backgrounds? Is it possible to create a “team culture” after an acquisition?

These questions were the driving force behind the “Cultural Integration Program”, which was launched straight after agreement with First Data (September 28, 2018) to acquire branches in Greece, Slovakia, Czech Republic, Hungary, Romania, Serbia and Croatia. The program was initially dedicated to those people involved in the integration process. It was a chance for those involved to get to know each other and work together and an opportunity to lay the foundations upon which to successfully share SIA’s values and culture: sixty managers and professionals from all companies in the Group came together both individually and as a team in a process that will continue in 2019 with new workshops and participants. The program is being continued so that we can forge company strategy, guiding principles and values together within an increasingly multicultural and international organization.



methods, people management and digital competencies;

- › **competitiveness and quality of services**, training designed to improve the quality of services and management of IT projects, with the aim of maintaining maximum reliability in the management of mission-critical infrastructure and guaranteeing service availability in accordance with the highest market standards;
- › **management of risk and cybersecurity**, to facilitate the spread of a company culture centered around optimal risk management, providing technical

skills required for the development of software solutions capable of guaranteeing maximum levels of cybersecurity, business continuity and information processing integrity to customers;

- › **software quality and innovation**, technical training for the development of Open platforms, which are a vital step in seizing on new tech and market trends such as: the switch from cash to digital payments, the growth of mobile payment services and the new open banking scenario linked to the introduction of Payments Service Directive 2.

SMART WORKING AND CHANGE MANAGEMENT

In order to oversee the shift to smart working, SIA teamed up with MIP at Milan Polytechnic University to launch a training program for around 200 people including managers and their colleagues. The program focused on issues such as smart capabilities, digital transformation, new organizational models and working methods, people management and digital skills.

The program included a self-assessment test, classroom sessions and workshops in order to promote change across fundamental areas such as flexibility, virtuality, sense of community and taking responsibility. Starting with smart capabilities (digital awareness, design thinking, database reasoning, hacker attitude), this process of reflection made it possible to analyze and develop various aspects of the concept of a smart employee, including new work spaces, behavior and useful technology.

Many professional certificates are attained by SIA staff in order to acquire further skills and excellence in their working roles, including:

➤ PMP – Project Management Professional of the PMI Project Management Institute

➤ CISSP – Certified Information Systems Security Professional

➤ CISM – Certified Information Security Manager;

➤ CISA – Certified Information Systems Auditors;

➤ ITIL – Information Technology

SIA ALONGSIDE MIP AND CETIF



With a view to developing relations with university and postgraduate contexts, SIA became a member of MIP, the Graduate School of Business of Milan Polytechnic with the aim to set up a recruiting, training and employer branding partnership with an internationally renowned institution. MIP delivers post-graduate courses in the fields of management, economics and industrial engineering, and develops applied research projects.



SIA is also a member of the board of the Banking program of the Financial Technologies, Innovation and Services Research Center (CeTIF) of the Catholic University, which carries out studies, research and training projects on the dynamics of strategic and organizational change in the financial, banking and insurance sectors.

HIGH-LEVEL TRAINING FOR NEW GRADUATES

In order to encourage the entry and training of young people, SIA developed an “Executive Master” for new graduates holding positions as Junior Technical Analysts and Junior System Engineers, which helps them develop the technical skills required for the tasks assigned to them, with attention also paid to development of soft skills and project management methodologies.

In 2015 SIA joined the “Analytics & Business Intelligence” Master: a two-year training course organized by MIP – Milan Polytechnic and CEFRIEL, and financed by the Lombardy Region. The program was aimed at new graduates in technical and scientific subjects hired on High Level Training and Research Apprenticeship contracts by participating companies. The Master involves 15 companies and aims to develop the managerial skills necessary for the management of the entire life cycle of IT services, with the goal of furthering skills such as business intelligence, data handling and analysis, data mining and data management. CEFRIEL has been operating as a center of excellence for innovation, research and training in the sector of Information and Communication Technology since 1988.

As part of the training activities, SIA offered the possibility to several talented young people of the Group to take part in the International MBA programs (lasting two years, part-time) organized by MIP – Milan Polytechnic, the Administration Finance and Control Master at SDA Bocconi and those in Design and Innovation Management at MIP.

EMPLOYEE HEALTH AND SAFETY

The staff of SIA Group handle and interpret information and data as part of their work through the use of data handling tools and machines. For this type of activity, as well as general issues related to the business, machinery, equipment and safety directives, particular relevance is given to emergency procedures, the microclimate and the use of display screens for their health and safety.

In accordance with Legislative Decree 81/08, SIA S.p.A produces a **Risk Assessment Document (DVR)** and periodically adapts this to comply with the regulatory prescriptions and corporate structure. Every Group company applies the occupational health and safety laws in force in their respective workplaces.

Going beyond the minimum legal requirements, SIA is intensely committed to the promotion of programs and initiatives aimed at increasing **health and safety in the workplace** for its employees, as well as assessment and monitoring of work-related stress.

In terms of protecting health and safety of employees of third party companies working with SIA, and whose business could lead to interference risks, the company arranges an **Interference Risk Assessment Document (DU-VRI)** for each supplier. This document includes detailed information about the activities carried out by the supplier and illustrates the methodology used for the assessment of risk levels concerning employee health and safety, clearly identifying potential sources of danger and risks of exposure and providing an estimate of the consequent risk level.

In 2018, two minor workplace accidents were recorded across the entire Group, one of which within the parent company. Another 14 accidents, 12 of which at the parent company, occurred traveling between home and the workplace or company premises. No deaths or occupational diseases have been reported over the last three years.

ACCIDENTS AT WORK ¹									
	12/31/2018			12/31/2017			12/31/2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Number of accidents at work	10	6	16	6	11	17	6	6	12
of which in transit	9	5	14	5	11	16	6	4	10

¹ The 2018 and 2017 data refer to all companies in the Group; the 2016 data refer to SIA S.p.A., Emmecom and SIAPay.

KEY ACCIDENT INDICATORS ¹						
	12/31/2018		12/31/2017		12/31/2016	
	SIA	Sector	SIA	Sector	SIA	Sector
Rate of frequency	8.7	10.4	6.7	10.4	8.0	10.4
Gravity index (accidents in the workplace)	4.7	83.6	4.6	83.6	50.0	83.6
Gravity index (accidents in transit)	92.0	242.0	319.0	242.0	131.0	242.0

¹ Data refer to SIA S.p.A.

SIA'S COMMITMENT TO THE HEALTH OF ITS EMPLOYEES

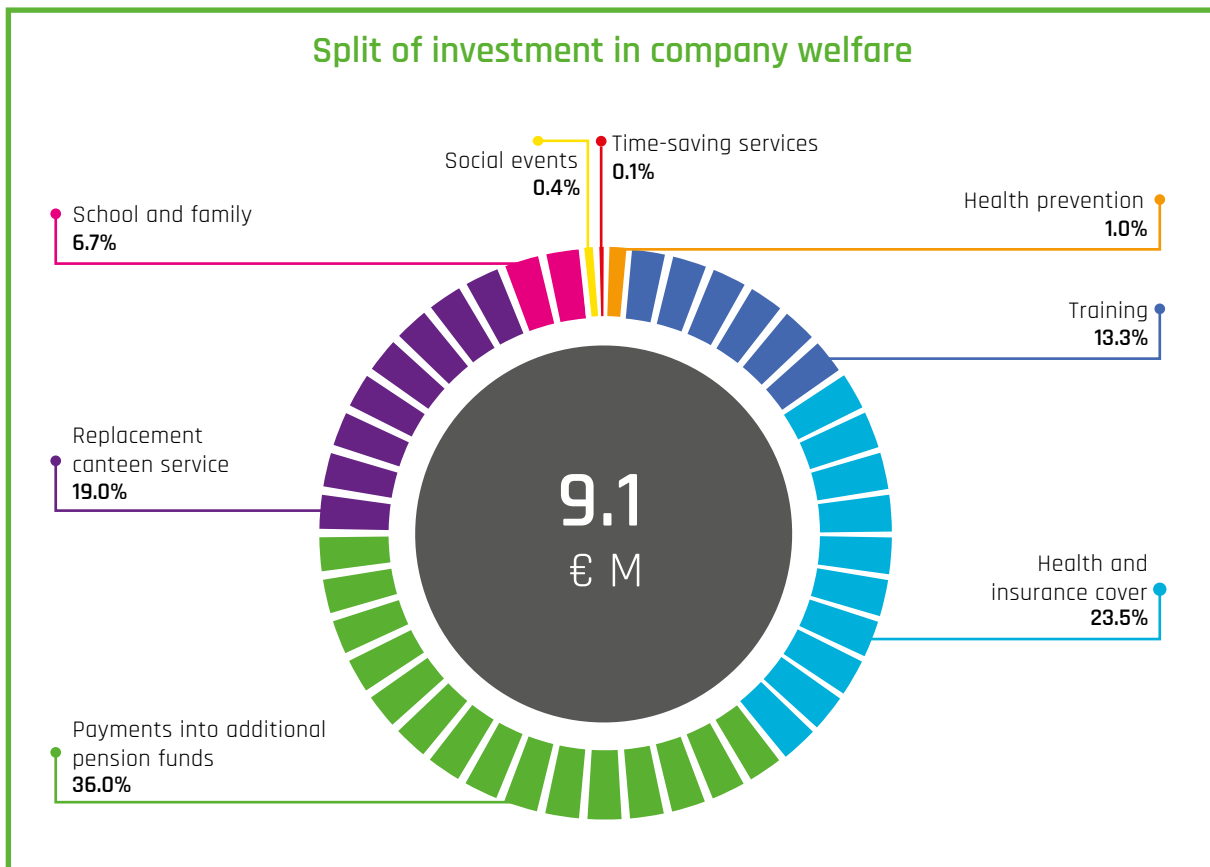
SIA believes that providing services designed to protect the health of its employees and promote prevention in the workplace is a vital part of taking care of basic personal needs. In 2018, over €108,000 was invested to give employees of SIA S.p.A., P4cards and SIAPay access to on-site services such as:

- ✓ screening for women's cancers, with gynecological testing, breast cancer screening and pap test, in collaboration with LILT Milano;
- ✓ blood tests, include 16 basic tests to check general health, possibility for women to have TSH tests and men to have PSA tests;
- ✓ cardiovascular risk checks and tests (electrocardiogram, blood pressure check, TSA Doppler ultrasound, echocardiogram) and cardiology check-up with subsequent advice on treatment or further tests;
- ✓ gastroenterology program including specific blood tests, upper abdominal ultrasound and gastroenterological check-up with subsequent advice on treatment or further tests;
- ✓ skin screening with check-up with a LILT dermatologist;
- ✓ vaccination program for seasonal flu;
- ✓ medical visits to obtain certificates to practise non-competitive sport with ECG;
- ✓ physiotherapy and massage with treatments.

COMPANY WELFARE

SIA aims to be an attractive company to work for and as such has developed a caring and rewarding welfare policy.

This is why in 2018 almost €9.1 million was invested at SIA S.p.A. and SIAPay.



“ME AND MY JOB”

In order to better address and manage welfare aspects linked to the professional and personal well-being of employees, SIA has created a collection of activities and projects aimed at constantly improving the working practices, increasing professionalism and promoting high standards of conduct and practices. The wide range of initiatives includes:

- ✓ **training sessions** on business, technical and managerial issues;
- ✓ **meetings between** the management and senior management to discuss the business plan, strategies and relevant company issues;

SIA AWARD 2018

The SIA Award - which has been rewarding the most deserving projects and initiatives within the Group for seven years - was refreshed in 2018, with new categories and ways of participation brought in to better reflect new challenges. Prizes were awarded in four categories corresponding to the guiding principles for SIA over the course of the year. From a high number of entries across the Group's companies, 42 projects were received as pre-nominations, with this list subsequently reduced to three nominated projects per category. The final selection process saw the following projects named the winners:

EFFICIENCY – “One company//One place”: this project was devised and implemented in just 18 months, drawing inspiration from the principles of Smart Working. The project made it possible to create a new facility based around the concept of flexibility, space sharing and independent choice in the workplace.

“ME AND MY PRIVATE LIFE”

SIA has developed a collection of initiatives aimed at helping staff find a balance between their working and private lives, as well as holding social and entertainment events open to employees and their family members:

- ✓ **childcare services:** company campus for children of employees during summer and winter school holidays; agreements with external childcare facilities; coding courses (IT programming) for the children of employees;
- ✓ **various benefits:** company flexibility, extension of leave, supplementary health insurance, supplementary pension scheme, flexible benefits, study grants for employees and their children, income support (for families with children at nursery or attending summer schools or children with disabilities), temporary shop and agreements for the purchase of school textbooks and school supplies and, during Christmas, temporary online shop;

- ✓ **prompt information** on all relevant internal and external notifications via the press review (available also via smartphone) and Intranet portal;
- ✓ **company awards;**
- ✓ **risk culture programs** aimed at creating a healthy culture of risk management;
- ✓ **articles in the company magazine “The Place”,** available online, to provide a 360° overview on progress and new frontiers in the fields of science and technology;
- ✓ **change management processes** to manage organizational changes;
- ✓ **smart working** and remote working.

INNOVATION – “Contactless payments for transport operator”: the first step along the way to the concepts of Smart City and Mobility as a Service. This project made it possible to use a contactless debit or credit card for payment on the Milan metro without buying a ticket or choosing the correct fare for the destination in advance.


















INTEGRATION – “The new integrated system for the Central Bank of Egypt (CBE)”: this strategic project aimed at boosting the economic development of the entire country was set up at the end of 2016, when SIA won the CBE tender from European Bank for Reconstruction and Development (EBRD) for the design, development and implementation of a new integrated CSD, CMS and CBE Auction System.

INTERNATIONALIZATION – “Budapest Bank”: this project - launched with one of the largest credit card providers in Hungary - outsourced management of card issuing and front-end authorization to SIA, with the company also dealing with the integration and migration of the entire cards portfolio.

- ✓ **on-site and on-demand time-saving services and discounts at stores:** in addition to the recent tax consulting and social welfare assistance services, the new time-saving services include the possibility for employees to pay pre-marked postal payment orders directly at the main office in Milan using the MultiPAY POS developed by the Corporate Division;
- ✓ **health:** supplementary health insurance, check-ups, company doctor, prevention programs;
- ✓ **promotion of healthy lifestyles:** weekly organic food market, changing rooms and showers for employees who do sport during the lunch break, partnerships with Fondazione Theodora Onlus charity for employees participating in the Milan City Marathon;
- ✓ **community and inclusion:** sports events open to families;
- ✓ **social and environmental responsibility initiatives:** charity dinners, fundraising, reusing and recycling materials.

Time-saving services

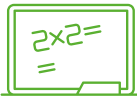




Employees and their families have access to a wide range of time- and money-saving services at the company, either on set days or by request:

					
PHARMACY	DYEING TAILORING	SHOE REPAIR	MECHANIC VEHICLE ELECTRICIAN	PARCEL RECEPTION POSTAL SERVICES	REFRESHMENTS
					
INSURANCE ADVICE	BANKING ADVICE	ADVICE ON TAX AND FLEXIBLE BENEFITS	TRAVEL AGENCY	BUILDING CONSULTANCY	PENSION CONSULTANCY
					
SCHOOL BOOKS AND STATIONERY	PARKING AT REDUCED COSTS	ORGANIC FOOD MARKET	CHARITY BANQUETS	PAYMENT OF PRE-MARKED FORMS WITH POS	

So many advantages thanks to flexible benefits

The Flexible Benefits plan enables employees of SIA S.p.A. and SIAPay to allocate a portion of the company bonus to a wide range of services.

This choice offers a key advantage because the percentage of the bonus allocated to Flexible Benefits is not considered as income and, therefore, is not subject to tax or deductions.

				
EDUCATION AND CHILDREN	HEALTH	ADDITIONAL PENSIONS AND LOANS	MOBILITY	RECREATIONAL SERVICES, SPORT AND FREE TIME
Reimbursement of costs relating to education, childcare, nursery school, study trips, summer camps and school books	Reimbursement for specialist visits, check-ups, dental visits and treatment, glasses, contact lenses, medicines	Additional contribution, additional pension fund, reimbursement of portion of interest in excess of the official interest rate.	Direct purchase of annual public transport passes and reimbursement of transport passes for dependent family members.	Spas, gyms, cinemas and trips

LISTENING TO AND INVOLVING EMPLOYEES

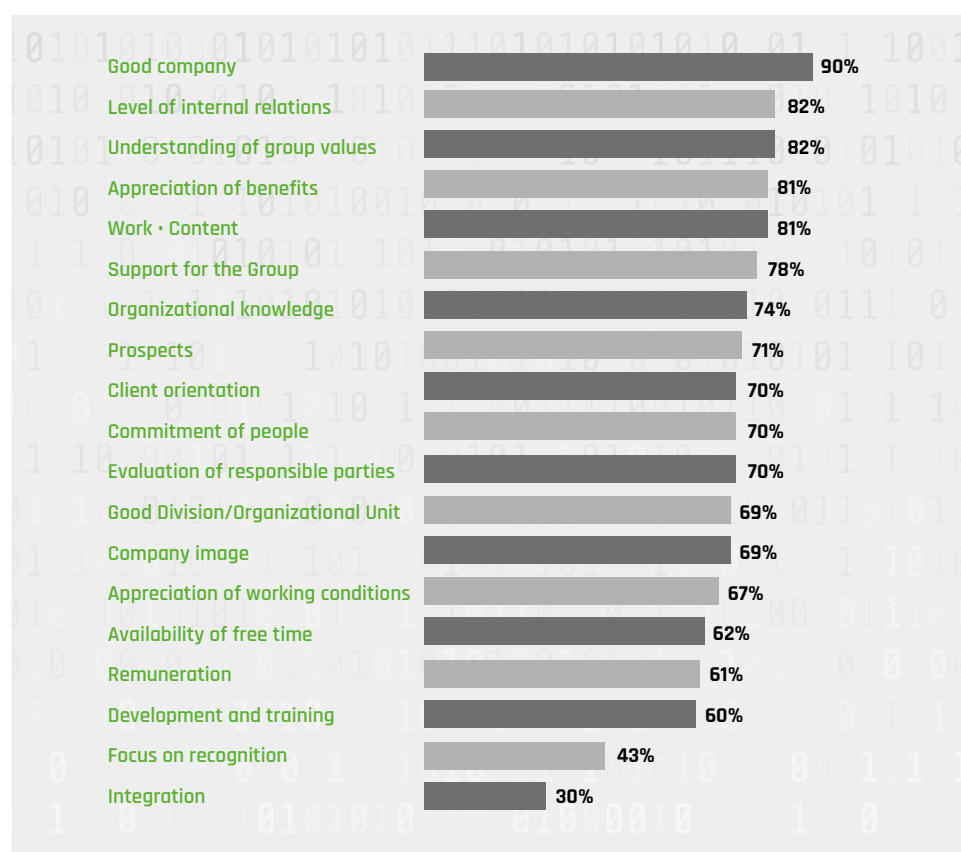
Guaranteeing its employees a working environment as positive and stimulating as possible is a constant commitment for SIA. As such, every two years the company carries out an assessment to evaluate the company climate in order to identify areas for possible improvement.

The most recent assessment carried

out in 2017 for the first time involved all Group companies, with 72% of the company workforce participating.

This assessment looked into specific issues including: young people, top management's perception of corporate climate, organizational knowledge, the presence of corporate values in the culture, personal prospects and integra-








Climate analysis 2017: Group results



tion.

Communication within the company is one of the aspects to which SIA has always dedicated particular atten-

tion, using multiple channels to inform, involve and update all employees on events, facts and notifications regarding the Group.

 <p>COMPANY INTRANET</p> <p>General information, procedures, forms, facilities, company applications</p>	 <p>PRESS REVIEW</p> <p>Daily press review of articles on the SIA Group and its markets.</p>	  <p>MAIL AND BULLETIN BOARDS</p> <p>For the launch of internal communication initiatives.</p>
 <p>MEETINGS AT START AND END OF YEAR</p> <p>CEO presents results and strategic plan to around 550 of the Group's managers and middle managers, who watch the event using a live stream across five company premises.</p>	 <p>THE PLACE</p> <p>Employees involved in producing content of the digital magazine, which is then distributed to all employees.</p>	  <p>PRESS AGENCIES</p> <p>Main news stories published by industry press agencies distributed to top and middle managers on a daily basis.</p>

INTRANET EVOLUTION

Following the acquisition of new companies which joined the Group in 2018, the company Intranet played an important role in welcoming the new people and helping them to integrate easily and quickly within the Group, thanks to the creation of the “Welcome to SIA” section, which provided all necessary information for them to become operative straight away.

Alongside this, a personalized Intranet site was created for SIAPay, SIA Central Europe and P4cards. In addition to the design, development and launch of the new dedicated Intranet sites, a number of training sessions were also delivered in order to enable staff to work with as much autonomy as possible, allowing them to produce and publish news stories, some in their local languages. This made the Intranet sites a useful, flexible tool for information sharing which could be updated in real time.



OUR VALUES BUILD THE FUTURE

In 2018, following new company acquisitions, a communication campaign was launched to boost knowledge and understanding of the SIA corporate values, in order to strengthen the Group's identity and facilitate the integration of those persons operating in the newly acquired companies.

In order to encourage knowledge of the values, the company opted for an informal, fun visual style that would appeal to both younger people and older employees. As part of the campaign, special sections were created on the Intranet pages of all companies in the Group, emails were sent, screensavers were installed and posters were put up

in communal areas of company premises to raise awareness of the Guiding Principles and values behind the conduct of individuals and the company as a whole - and how this translates into everyday behavior.



SIA AND ITS SUPPLIERS AND PARTNERS

SIGNIFICANT ISSUES FOR SUPPLIERS AND PARTNERS AND SIA'S ANSWERS			
MATERIAL ISSUES	MAIN RISKS AND RISK MANAGEMENT STRATEGIES	POLICIES FOR THE MANAGEMENT OF MATERIAL ISSUES	ACTION TAKEN IN 2018
Responsible procurement and supplier assessment	<ul style="list-style-type: none"> ✓ Risk of choosing an unsuitable supplier <p>This risk is mitigated by on-site supplier assessment activities and performance appraisals on contracts over the value of €75,000</p>	<ul style="list-style-type: none"> ✓ SIA promotes fairness and transparency in the supply chain, in compliance with the criteria of procurement profitability and ethics. ✓ SIA promotes good social and environmental responsibility practices with suppliers 	<ul style="list-style-type: none"> ✓ Activation of the contract form on the "Procurement" platform ✓ Extension of use of the platform to companies acquired in 2018

PURCHASING AND SUPPLIERS

The aim of the SIA Group purchasing policies is to **ensure effective and efficient processes for procurement** and for controlling procured goods and services, by implementing lean procedures that can ensure that the requirements demanded of suppliers are met, and for seeking the best quality to price ratio for each supply. Profitability is pursued in **observance of ethical principles** that prohibit attaining maximum competitive advantage using suppliers that are not in line with the same principles that the SIA Group declares and observes. For all companies within the Group, this objective is achieved through Group procurement and contracts based on technical and economic evaluation metrics

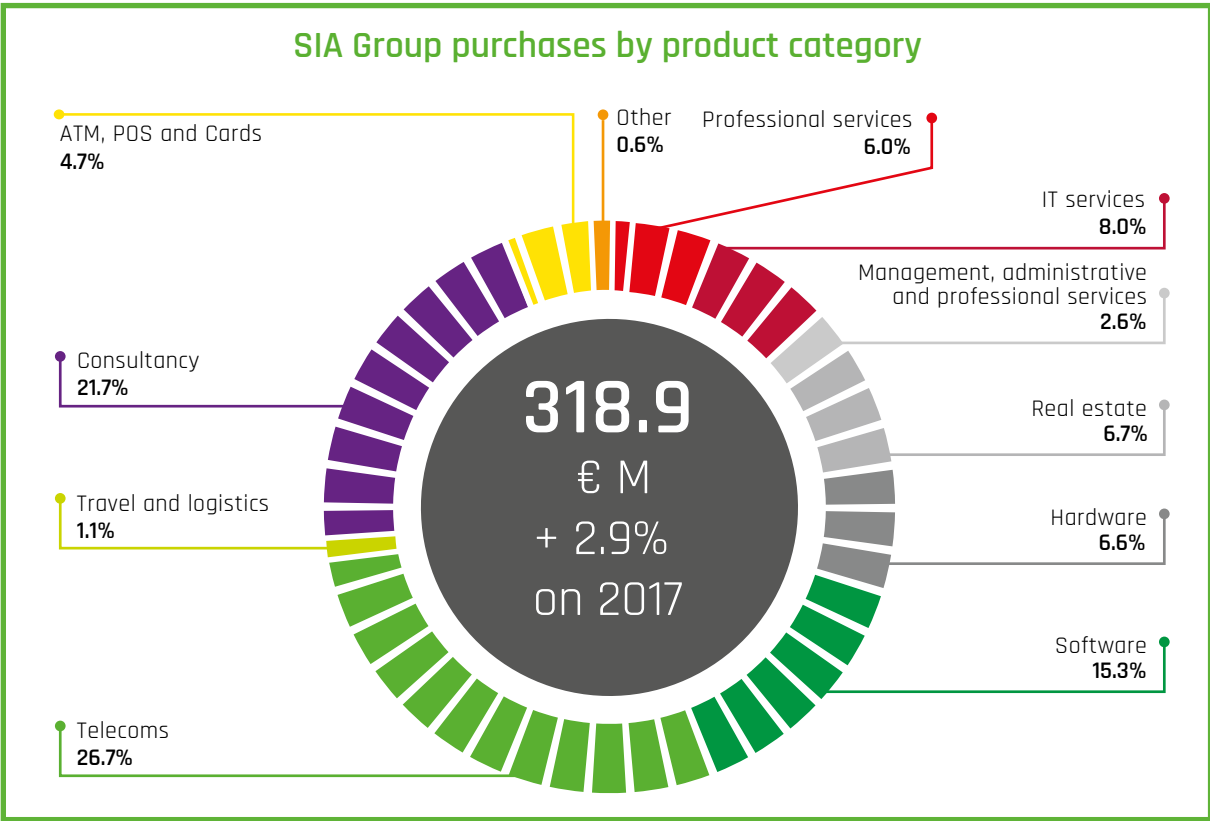
in terms of budgets and existing costs.

In 2018, the SIA Group's total **purchases in Italy and overseas was equal to around €319 million** (a 2.9% increase on the previous year), of which over €150 million from Italian suppliers.

There were **1,077 suppliers** on the Group's register, of which 941 were Italian companies.

As at December 31, 2018 the sample size for the collection of data on suppliers included all Group companies, with the sole exception of SIAadvisor, SIA Greece, SIA CEE and SIA SEE.

SIA GROUP PURCHASES BY PRODUCT CATEGORY	2018	%
Professional services	19,130,750	6.0
IT services	25,595,010	8.0
Management/administrative and professional services	8,291,817	2.6
Real estate	21,490,368	6.7
Hardware	20,994,277	6.6
Software	48,704,542	15.3
Telecoms	85,044,497	26.7
Travel and logistics	3,558,355	1.1
Consultancy	69,121,181	21.7
ATM, POS and Cards	15,150,072	4.7
Other	1,797,122	0.6
Total	318,877,991	100.00



TENDER PROCEDURES AND SUPPLIER QUALIFICATION

A **strict procurement procedure** that regulates the purchase of all goods and services is in force at SIA. The procedure describes and regulates the entire purchasing cycle in detail. In addition to this, the Purchasing organizational structure draws up a **“procurement plan”** based on the requirements stated by the various Budget stakeholders, through which it defines the purchasing strategies implemented with suppliers and the market.

As the SIA Code of Ethics states, “the company prepares appropriate procedures in order to guarantee adequate competition for every purchasing process and maximum transparency of the supplier selection operations and the purchase of goods and services”.

In 2015, a **Procurement platform** was introduced to make it possible to manage the entire procurement process, from initial inquiries right through to the performance analysis.

The platform, which has been made available to the other companies that have joined the Group over the years, is

currently composed of **three main work modules**, which made the procurement process transparent and traceable:

- **Vendor**, to manage qualifications and assessments;
- **Sourcing**, to manage negotiations through RfIs (Requests for Information), RfPs (Requests for Proposal), Tenders and Auctions;
- **Contract**, to manage contracts and their expiration dates.

Entry to the SIA Suppliers Register on the portal and the criteria followed to select them for the assignment of contracts are subordinate to **objective and transparent assessments** of the quality, price, methods of carrying out the service and delivery, and the availability of organizational means and structures, in compliance with current corporate procedures in force.

The portal also allows foreign suppliers to be managed and to introduce questionnaires both general in nature and specific according to product category so that every supplier can be correctly added to the list.

In 2018, 32 Requests for Quotation (RfQs) and 14 Requests for Information (RfIs) were managed by the companies in the Group using the Procurement platform.

SIA's strategy requires, whenever possible, that offers be requested from multiple suppliers in order to maximize profitability, again in observance of the principles of the Code of Ethics.

SUPPLIER ASSESSMENT

In 2018, the Supply Governance structure worked with the Risk Governance structure to further improve the risk checking and management methods on SIA's critical suppliers. This job led to performing on-site assessments at six supplier companies classified as critical for the Group's business.

SUSTAINABLE MANAGEMENT OF THE SUPPLY CHAIN AND REQUIRED CERTIFICATIONS

SIA **requires its suppliers to comply with the corporate Code of Ethics**. It is brought to their attention at the time they qualify as suppliers and when the contracts and/or orders are executed.

SIA's suppliers have to present a number of **general and specific certifications** by product category through the portal.

Not all certifications are a mandatory requirement, but they contribute to proper monitoring of the suppliers.

The list (extracted from the portal) of

the certifications for which SIA requests confirmation follows:

- › ISO 14001 certification
- › ISO 22301 certification
- › ISO 27001 certification
- › ISO 9001 certification
- › OHSAS 18001 certification
- › PCI DSS certification
- › Specific certifications
- › Albo Nazionale Gestori Ambientali (National Register of Environmental Operators) certification.

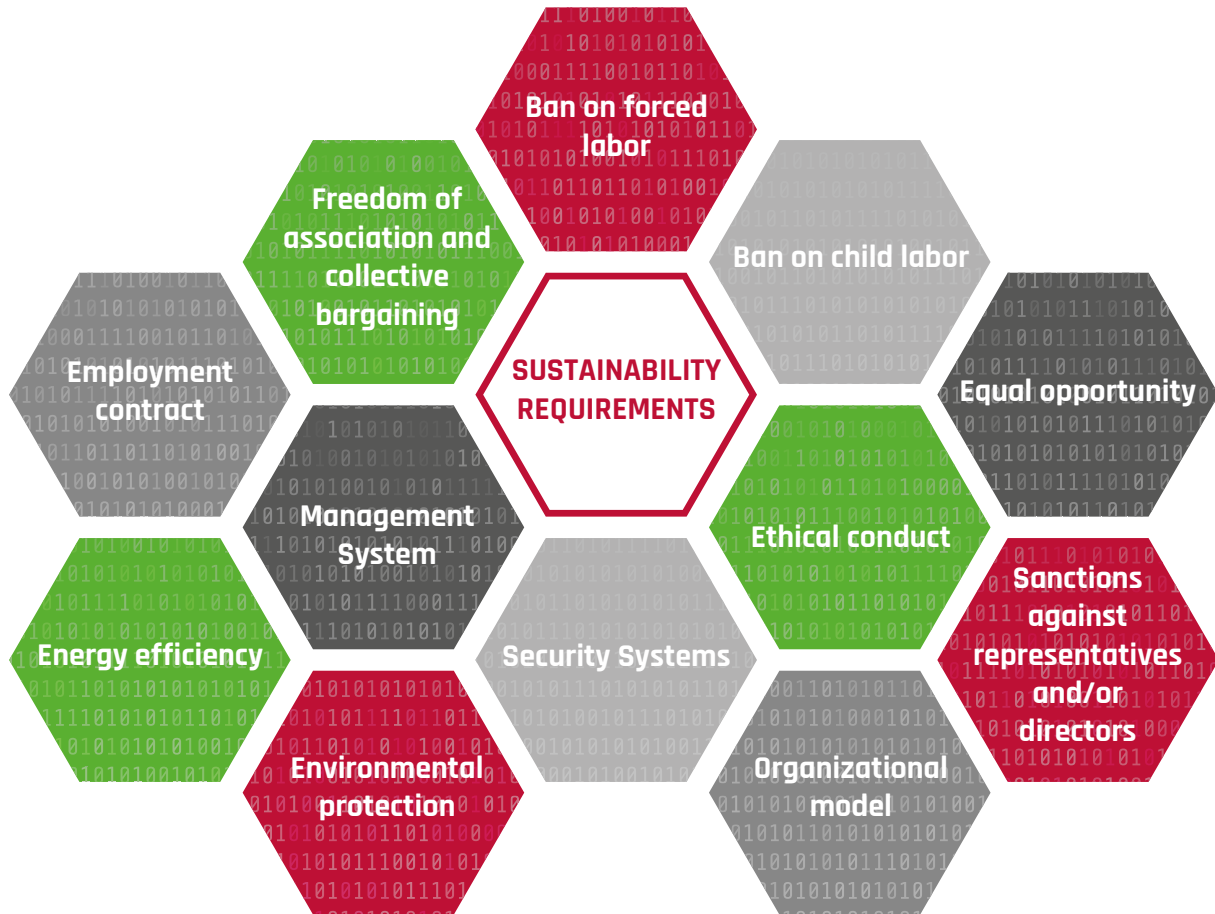
QUALIFICATIONS IN THE POSSESSION OF SUPPLIERS¹

QUALIFICATIONS	NUMBER OF SUPPLIERS IN POSSESSION OF QUALIFICATIONS		
	12/31/2018	12/31/2017	12/31/2016
ISO 9001 (quality management)	374	307	193
ISO 14001 (environmental management standard)	31	20	16
OHSAS 18001 (occupational health and safety)	49	34	26
Legislative Decree 231/01 (administrative responsibility)	315	183	137
Code of Ethics	369	208	178
Environmental certifications	10	11	7

¹ The 2018 data refer to SIA S.p.A., P4cards and Emmecom. The 2017 data refer to SIA S.p.A., Emmecom and SIAPay. The 2016 data refer to SIA S.p.A. only.

The Suppliers Portal also includes a section for **checking social and environmental sustainability and responsi-**

bility requirements met by the suppliers with specific reference to the aspects shown in the figure below.



In 2018, the Group companies that use the Procurement platform qualified 119 suppliers using social criteria (e.g. factors relating to contracts and work),

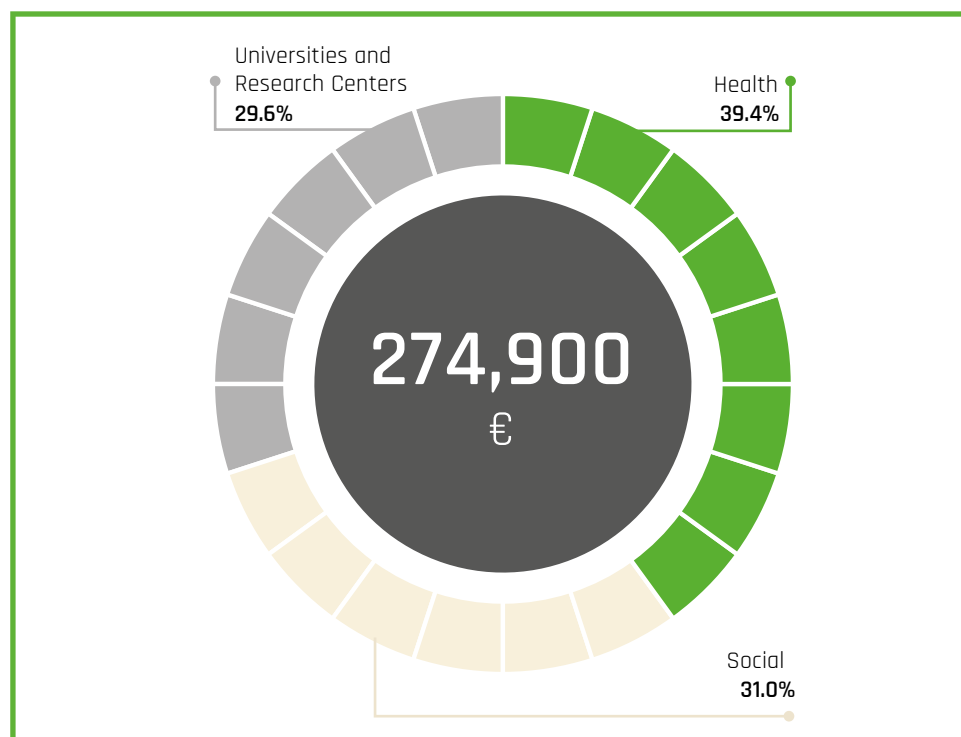
environmental criteria and criteria linked to human rights. Of these, 109 were registered and qualified for the first time.

SIA AND THE COMMUNITY

SIGNIFICANT ISSUES FOR THE COMMUNITY AND SIA'S ANSWERS			
MATERIAL ISSUES	MAIN RISKS AND RISK MANAGEMENT STRATEGIES	POLICIES FOR THE MANAGEMENT OF MATERIAL ISSUES	ACTION TAKEN IN 2018
<p>Indirect economic impacts</p>	<ul style="list-style-type: none"> ✓ Operational risk ✓ Reputational risk ✓ Social risk <p>Risks are linked to a lack of interaction with the local community and mitigated by an ongoing process of dialog designed to gauge the needs of the community</p>	<ul style="list-style-type: none"> ✓ SIA supports local communities and contributes to the growth of the economy and society in areas/countries in which it operates 	<ul style="list-style-type: none"> ✓ Support given to local projects and philanthropic donations for the communities
<p>Support for social activities</p>	<ul style="list-style-type: none"> ✓ Reputational risk ✓ Failure to support important activities or support for activities whose mission is not clearly defined <p>The risk is managed through meticulous checks that actions reflect the Group's principles</p>	<ul style="list-style-type: none"> ✓ SIA supports social activities and projects in order to respond to the needs of the local community, generate shared value within the communities in which the company operates and stimulate the development of people and local areas 	<ul style="list-style-type: none"> ✓ Actions in favor of medical and scientific research, prevention of illnesses and aid for the sick. ✓ Actions in favor of people in poor and vulnerable conditions. ✓ Partnerships with Universities and Research Centers

SIA plays an active role in **generating concrete value for the community**. In line with its own mission, it engages in constant dialog with public and pri-

vate bodies in the region and supports social development projects in partnership with non-profit organizations.



ACTIONS FOR AND DONATIONS TO HEALTH AND SOCIAL PROJECTS

SIA's donations are a tool of corporate responsibility, which is used in accordance with the principles and rules of conduct set out in the Code of Ethics to **promote and support the implementation of concrete and measurable projects.**

The projects and the parties (Associations, Foundations, non-profit institutions, NGOs, etc.) that receive the donations are selected according to the following criteria:



- › social relevance and innovative nature of the project;
- › sustainability of long-term and ongoing projects;
- › feasibility and practicality;

- › possibility of verifying results;
- › compliance with SIA's social commitment objectives.
- › reliability and reputation of non-profit partners;
- › possibility for employees to participate as economic supporters or volunteers.


Following on from recent years, in 2018 SIA once again decided to focus its actions in support of wider society on two specific areas:

- › **health**, in terms of support for research, prevention and care;
- › **social**, in terms of a contribution to fight social and economic inequality.

Health

AREA OF INTEREST	BODY/ASSOCIATION	SIA ACTION
 SCIENTIFIC MEDICAL RESEARCH	Istituto Mario Negri (Milan)	Oncology Renewal of annual study grant "Pharmacogenetics of ovarian tumors"
	Ospedale San Raffaele (Milan)	Neurodegenerative Illnesses Renewal of annual study grant "Regeneration of the nervous system"
 PREVENTION AND CARE	ASST Santi Paolo e Carlo Milan	Neonatology department Purchase of a pediatric fibroscope
	LILT – Lega Italiana per la Lotta ai Tumori (Italian Cancer Research Association) Provincial section of Milan	Oncological care Purchase of medical aids for cancer patients returning home after hospitalization
	Fondazione TOG (Together To Go) Milan	Children's healthcare One year's rehabilitation therapy for a child affected by lesions of the nervous system
	Fondazione Opera San Francesco (OSF) Milan	Prevention for people living in poverty Purchase of a cystoscope (for the diagnosis of urological illnesses) for persons in need who reach out to the OSF in Milan
	VIDAS Milan	Children's healthcare Coverage of cost of a pediatric nurse for three months at the Casa Sollievo Bimbi

Social

AREA OF INTEREST	BODY/ASSOCIATION	SIA ACTION
 <p>FIGHT AGAINST POVERTY</p>	Associazione Seneca Milan	Elderly people living in poverty Purchase of food vouchers for elderly people with reduced pensions
	Fondazione Casa della Carità Milan	Homeless people Shower and wardrobe service for 690 homeless people
	Progetto ARCA Onlus Milan	Less advantaged 3,000 hot meals for 300 guests of reception centers during the Christmas period
	Laboratorio di Quartiere Giambellino Lorenteggio Milan	Less advantaged students "Fondo Diritto allo Studio" to guarantee access to school education for disadvantaged children and teenagers aged between 11 and 18 (for the purchase of books and school materials and for subscription fees for workshops, sports activities and training courses).
	I Bambini delle Fate Milan	Social integration "Banca del Tempo Sociale" to forge contacts between autistic and disabled youngsters and secondary school students (student training, book vouchers, electronic devices)
	Il Castello dei Sorrisi Onlus Verona	Support for infant schools Project to ensure the compliance (security and energy saving) of a nursery school
	ABE - Associazione Bambino Emopatico Onlus Verona	Support for families with sick children Meal vouchers for the parents of hospitalized children
	PRO VITA Association Bucharest	Support for victims of domestic violence "The social establishment for victims of domestic violence" project: completion of a refuge and supply of basic goods

CLOUD4CARE, the project designed by SIA in collaboration with Intesa Sanpaolo and UniCredit that makes available an advanced technological infrastructure made up of networks and data centers to **IRCCS Istituto di Ricerche Farmacologiche Mario Negri** in order to conduct research on ovarian cancer with greater speed and calculation power, continued in 2018.

Last year, the development of this IT resource allowed the Istituto Mario Negri to open up a new area of research whereby a liquid biopsy is used to analyze the molecular characteristics of tumors.

For more information, please follow the link:
www.sia.eu/it/innovazione/cloud4care.

PARTNERSHIPS WITH UNIVERSITIES AND RESEARCH CENTERS

SIA promotes and sponsors **initiatives and study and research projects** in the fields of IT, finance and economics in partnership with Universities and qualified Research Centers, and also supports the activity of many Observatories.

In the context of the partnership with the Milan Polytechnic, also in 2018 the Group sponsored and contributed to important studies in key areas of **Digital Innovation in companies and Public Administration** conducted by the Digital Innovation Observatories of the School of Management.

Observatory for the Digital Agenda

Offers Decision Makers interpretative models, tools and areas for discussion to implement the opportunities offered by digital innovation in terms of the key issues which affect national competitiveness: efficiency of Public Administration, fight against tax evasion, development support, etc.

Observatory for Big Data Analytics & Business Intelligence

Aims at highlighting the strategic value of Business Intelligence and Big Data Analytics methodologies in companies and Public Administration, shedding light on the potential advantages in terms of competitiveness, profitability, timeliness and increased effectiveness in decision-making processes.

Observatory for Blockchain & Distributed Ledger

Aims to increase knowledge of the Blockchain phenomenon, on Distributed Ledger systems (systems that allow nodes in a network to achieve consensus on modifications to a distributed ledger in the absence of a central administrator) and, more generally, on the Internet of Value (i.e. digital networks of nodes that transfer digital assets, without trust, via a system of algorithms and encrypted rules that makes it possible to achieve consensus on modifications to a distributed ledger), thus contributing to the proper development of the Italian market and creating opportunities for the main players in the industry to meet and share experiences.

Observatory for Fintech & Insurtech

An ongoing point of reference for digital innovation within Italy's finance and insurance industry. Aims to oversee changes within the sectors.

Observatory for the Internet of Things

Investigates the real opportunities presented by the IoT, combining future technology with management prospects to overcome the current lack of clarity about Apps, possible benefits and the expected evolution of the market.

Observatory for Mobile Payment & Commerce

Studies innovative payment systems for consumers, concentrating in particular on how Mobile (i.e. smartphones) can support the activation of Mobile Payments or other phases of the purchasing process (Mobile Commerce).

Observatory for Smart Agrifood

Point of reference in Italy for understanding the digital innovations (process, infrastructural, application, HW and SW) in-depth. These innovations are transforming the farming and agrifood supply chain by standardizing the key skills necessary: economic/management, technological, agricultural.

Observatory for Digital Innovation in Retail

Studies the main digital innovations that have the potential to redesign processes for retailers, with the aim of sharing knowledge and building a culture; on-the-ground research involves the main market players: top retailers, small- to medium-sized retailers and players in the sector.

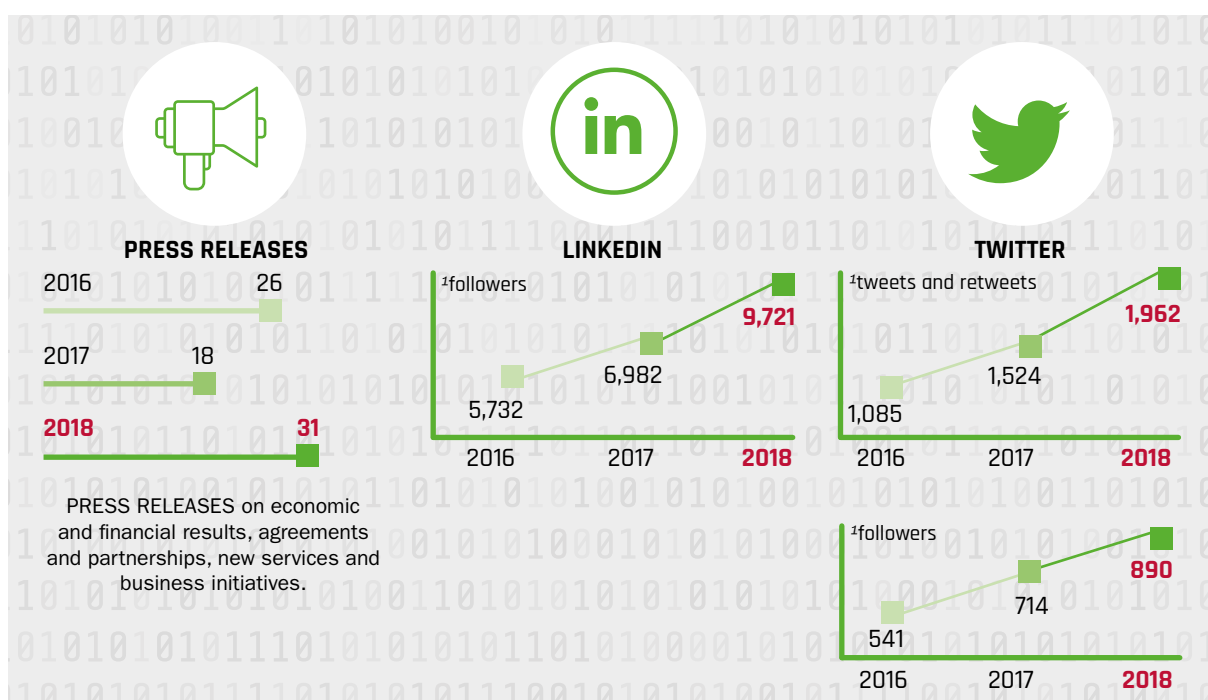
RELATIONS WITH THE MEDIA AND THE SOCIAL NETWORK ACTIVITIES

SIA dedicates significant attention to **relations with the national and international media**, maintaining continuous and transparent relations in the spirit of dialectic collaboration.

In 2018, communications activities with Italian and international media channels were further expanded to new European countries such as Greece, where the SIA Group is now present following last year's acquisition of a card processing company. Media activities continued to comprise in-depth features and interviews, including through TV and the web, in addition to live tweeting during the major trade events (EBADay, Salone dei Pagamenti, Politecnico Observatories).

SIA also carries out **communication activities on social media** through two official accounts:

- ✓ job opportunities and internships within the Group are published on **LinkedIn**, along with a selection of the major company news stories mainly addressed to the University, Institutional and Corporate area.
- ✓ the **Twitter** channel, particularly dedicated to journalists and figures in the Italian and foreign media, is where they can obtain information on the company, its activities, services and business initiatives, and live updates on the events in which SIA and the Group companies participate.



¹ Data valid as at December 31 of the year in question.

RELATIONS WITH TRADE ASSOCIATIONS

SIA has relations with many trade associations within a well-organized system of relations, also institutional in nature. A list of the trade associations is provided here.

ABE/EBA - ASSOCIAZIONE BANCAIRE POUR L'EURO - EURO BANKING ASSOCIATION

A neutral and supranational European banking association which addresses the payment system industry with a pan-European vision and mentality. Supports banks in the migration process to the SEPA systems and in other initiatives requiring European cooperative leverage.

ABI - ASSOCIAZIONE BANCARIA ITALIANA (ITALIAN BANKING ASSOCIATION)

Promotes initiatives for the growth of the banking and financial systems, with a competitive approach consistent with national and EU regulations.

ABI LAB

ABI laboratory that offers itself as an operational tool supporting the interpretation of the benefits derived from using technologies to optimize internal processes and preparing new products and services for customers, which the banks may use autonomously in full preservation of the competitive environment.

ACMI - ASSOCIAZIONE CREDIT MANAGERS ITALIA (ITALIAN ASSOCIATION OF CREDIT MANAGERS)

Promotes the professional development of Credit Management activities and, in particular, disseminates the role of Credit Managers and safeguards and promotes the growth of their profession.

ADACI - ASSOCIAZIONE ITALIANA DI MANAGEMENT DEGLI APPROVVIGIONAMENTI (ITALIAN ASSOCIATION OF SUPPLY MANAGEMENT)

Promotes the development and knowledge of buying processes and supply chain management in order to smoothly integrate the various players of the economic system, to contribute to the development of both domestic and international trade, and to foster the growth and professional recognition by operators of market demands.

AICOM - ASSOCIAZIONE ITALIANA COMPLIANCE (ITALIAN COMPLIANCE ASSOCIATION)

Promotes compliance and respect of the regulations of the financial system, of industrial sectors and of the Public Administration.

AIEA - ASSOCIAZIONE ITALIANA PER L'INFORMATION SYSTEMS AUDITORS (ITALIAN ASSOCIATION FOR INFORMATION SYSTEMS AUDITORS)

Italian association acknowledged by the American ISACA (Information Systems Audit and Control Association & Foundation). It gathers and certifies professionals that carry out Auditing and Control activities of ITC systems, either individually or as associates, partners or employees of a company. Raises awareness at all corporate organizational levels of the need to establish appropriate criteria for monitoring the organization's reliability and the security of systems.

AIGI - ASSOCIAZIONE ITALIANA GIURISTI D'IMPRESA (ITALIAN ASSOCIATION OF CORPORATE LAWYERS)

Recognizes and affirms the figure and professional role of Corporate Lawyers within the context of the social and business world, and provides rules on their activities according to the principles of the Association's Articles of Association and Code of Conduct and to any regulations established by national and EU laws and regulations.

AIIA - ASSOCIAZIONE ITALIANA INTERNAL AUDITORS (ITALIAN ASSOCIATION OF INTERNAL AUDITORS)

Benchmark association in Italy for Corporate Governance and Control issues. It provides guidelines on internal control as a management tool for the governance of company operations in order to balance company and individual economic objectives.

AIIC - ASSOCIAZIONE ITALIANA ESPERTI IN INFRASTRUTTURE CRITICHE (ITALIAN ASSOCIATION OF CRITICAL INFRASTRUCTURE EXPERTS)

Founded to build and support a cross-disciplinary culture for the development of strategies, methodologies and technologies capable of properly managing critical infrastructures, especially in times of crisis, during exceptional events or following terrorist acts.

AIIP - ASSOCIAZIONE ITALIANA ISTITUTI DI PAGAMENTO (ITALIAN ASSOCIATION FOR PAYMENT INSTITUTIONS)

Spreads and promotes the development, awareness and knowledge of payment institutions and services, and promotes related cultural activities in this field.

AITI - ASSOCIAZIONE ITALIANA TESORIERI D'IMPRESA (ITALIAN ASSOCIATION OF CORPORATE TREASURERS)

Gathers Corporate Finance professionals involved in Company Treasury procedures and management techniques, aimed at expanding and updating their knowledge.

AMBROSETTI COMMUNITY CASHLESS SOCIETY

Its goal is to create a full-scale constructive, permanent study platform on the subject of electronic payments. The Community's mission is to reinforce dialog and relations between the payment industry players, the entrepreneurial community and the institutional community and produce knowledge and proposals to promote the "cashless society" and growth and modernization opportunities for the Italian System.

AMBROSETTI THE EUROPEAN HOUSE

An association whose purpose is to create ongoing value for the Customer by ensuring professional Management Consulting, Continuous Updating, Research, Summit, Workshop and Forum solutions by exploiting its European culture in an age of acceleration, global competition and discontinuity.

ANALYSIS

An association working in the field of integrated, web-accessible software solutions dedicated to the world of finance and wealth management.

ANORC - ASSOCIAZIONE NAZIONALE PER OPERATORI E RESPONSABILI DELLA CONSERVAZIONE DIGITALE (NATIONAL ASSOCIATION FOR DIGITAL PRESERVATION OPERATORS AND MANAGERS)

A non-profit association founded in 2007 that puts companies, public entities, professionals and experts with different roles in Digitalization and Digital Preservation in touch with each other and channels their knowledge and needs.

ADDV - ASSOCIAZIONE DEI COMPONENTI ORGANISMI DI VIGILANZA (ASSOCIATION OF SUPERVISORY BODIES)

Its aim is to study on-field application of the Decree and evaluate the implications of the organizational model and how an SB should and can carry out its duties while avoiding obstruction of business. The Association also develops solutions for common problems which may turn into guidelines and best practices for the sector.

ASSINTEL - ASSOCIAZIONE NAZIONALE IMPRESE ICT (NATIONAL ASSOCIATION FOR ICT COMPANIES)

Offers a wide range of services across two main areas: the ICT area for a complete and well-structured overview of the sector in order to guide companies in their businesses through market surveys, conferences and seminars, round tables, special projects, professional training and information. And then services designed to provide concrete support to company management: legal, fiscal and tax assistance, a complete coverage of all trade union issues, social welfare and supplementary healthcare tools, helpdesks dedicated to loans.

ASSOCHANGE - ASSOCIAZIONE ITALIANA CHANGE MANAGEMENT (ITALIAN ASSOCIATION FOR CHANGE MANAGEMENT)

Assochange's mission is to raise awareness in senior management of the need for change in order to foster growth and increased innovation in Italy.

ASSOSIM - ASSOCIAZIONE ITALIANA DEGLI INTERMEDIARI MOBILIARI (ITALIAN ASSOCIATION OF SECURITY DEALERS)

Represents operators on the Italian Securities market towards Institutional Bodies and Public Administration. It was founded in 1991 and in 2007 membership was extended to Legal Firms, Companies dealing with Consultancy and with the Development of IT Solutions, as well as to parties providing services to Securities Dealers.

BCI - BUSINESS CONTINUITY INSTITUTE

Its main purpose is to promote high standards of professional expertise and business ethics in the supply and maintenance of ongoing continuity services.

CETIF - CENTRO DI RICERCA SU TECNOLOGIE, INNOVAZIONE E SERVIZI FINANZIARI (CENTER FOR RESEARCH INTO FINANCIAL TECHNOLOGY, INNOVATION AND SERVICES)

Part of the Catholic University of Milan, the center was set up in 1990 and promotes and develops studies and research into technological and organizational innovation in the financial sector; subscription to the association allows us to participate in the Catholic University of Milan's research programs and take part in workshops (four people max).

CLUB ITALIA - CONTACTLESS TECHNOLOGIES USERS BOARD ITALY

The purpose of this non-profit Association is to promote use of payment and access systems based on smart cards (with microchip) with contactless validation integrated with the infomobility systems.

CLUSIT - ASSOCIAZIONE ITALIANA PER LA SICUREZZA INFORMATICA (ITALIAN ASSOCIATION FOR IT SECURITY)

Promotes awareness, training, continual professional updating and exchange of information in the area of IT security.

CMG ITALIA - COMPUTER MEASUREMENT GROUP

Seeks to assess IT system performances and the deep impact that they have on the management of corporate IT systems and on cost-efficiency.

CONSORZIO CBI (CUSTOMER TO BUSINESS INTERACTION)

Defines the regulations as well as the technical and legal standards of the CBI, CBILL and Nodo services in a cooperative manner. It also manages the technical infrastructural connections between members to facilitate connection and dialog with customers, promoting interoperability on a national and international level for the delivery of the above services.

CREDIMPEX

Founded in 1985, this association brings together Italian banking specialists with expertise in international commerce. It also works with logistic firms, legal firms and businesses who operate overseas and therefore must deal with international exchange regulations.

EACHA - EUROPEAN AUTOMATED CLEARING HOUSE ASSOCIATION

This technical forum brings together the 22 main European Clearing Houses. Its aim is to promote the harmonious development of European policies designed to encourage interoperability based on "open" standards.

EMVCo

An association born through the collaboration of the leading international payment circuits (Europay, MasterCard, Visa), which defined a working platform for the development of technical specifications for electronic payment applications based on smartcards.

EUROFI

The main objective of this association is to help the industry and the public authorities reach a common understanding of the possible developments in the regulation and supervision of financial services and to open the path to legislative or sectorial solutions that might improve the security and effectiveness of the financial sector of the European Union and its contribution to economic growth.

EUROPEAN ATM SECURITY TEAM

Focuses on security issues regarding ATMs at European level.

EUROPEAN CARDS STAKEHOLDERS GROUP

Multi-stakeholder association that promotes the harmonization of cards in the Single Euro Payments Area (SEPA).

GSE - GUIDE SHARE EUROPE

Founded in 1959, it is now the leading IBM User Group in Europe. This non-profit, pan-European association is split into 11 regions and represents over 1,300 IBM customers. The customers participate in over 150 work groups across Europe. It is a member of the International User Group Council (IUGC), which brings together 23,000 companies around the world. In Italy, it is represented by Guide Share Italia.

HRC - HUMAN RESOURCES COMMUNITY

Its mission is to offer an exclusive, international and high-standard professional environment that allows HR Directors and CEOs to create intercompany synergies, develop high value solutions and increase network visibility and size.

ISFS - INTERNATIONAL FORECOURT STANDARDS FORUM

Forum for international retailers and suppliers operating in the oil industry.

ISACA - INFORMATION SYSTEMS AUDIT AND CONTROL ASSOCIATION

Centralized association providing information and guidance on IT auditing controls (such as governance, security, risks and audits) in the field of IT systems.

ISC2 - INTERNATIONAL INFORMATION SYSTEMS SECURITY CERTIFICATION CONSORTIUM

Global leader for the training and certification of IT security professionals throughout their career.

ITASFORUM - CENTRO STUDI DI SICUREZZA (CENTER FOR SECURITY STUDIES)

A non-profit association that acts autonomously and independently to increase and develop the culture of physical security in the company environment.

NEXO

This association promotes the interoperability of card payments, ensures the development, evolution and use of common rules and protects the interests of its member organizations.

OPENPEPOL

This association was established in September 2012, following completion of the pan-European electronic procurement project (PEPPOL), with the aim of solving interoperability problems of e-procurements among the various European countries.

OSSF - CENTRO DI RICERCA SULLA SICUREZZA ANTICRIMINE (CENTER FOR RESEARCH INTO ANTI-CRIME SECURITY)

Its mission consists of supporting banks in choosing effective anti-crime strategies, whose definition takes into account current legislation, the degree of exposure to predatory risks, technological innovations and experience gained in Europe and on an international scale.

THE RULING COMPANIES

A non-profit association that seeks to promote business culture. It currently has 120 member companies belonging to different sectors and of varying size. The association deals with the following issues: management, strategy and the socio-economic scenario.

SIA AND THE ENVIRONMENT

SIGNIFICANT ISSUES FOR THE ENVIRONMENT AND SIA'S ANSWERS			
MATERIAL ISSUES	MAIN RISKS AND RISK MANAGEMENT STRATEGIES	POLICIES FOR THE MANAGEMENT OF MATERIAL ISSUES	ACTION TAKEN IN 2018
Respect for the environment	<ul style="list-style-type: none"> ✓ Environmental risk <p>Risk is mitigated via constant actions designed to reduce the environmental impacts of company activities</p>	<ul style="list-style-type: none"> ✓ SIA respects the environment, in accordance with environmental sustainability principles, and strives to contain/reduce the environmental impacts of its activities 	<ul style="list-style-type: none"> ✓ Purchase of renewable energy ✓ Voluntary separated waste collection ✓ Incentivization for sustainable mobility
Efficient management of energy resources	<ul style="list-style-type: none"> ✓ Environmental risk <p>Risk is mitigated via constant actions designed to reduce the environmental impacts of company activities</p>	<ul style="list-style-type: none"> ✓ SIA respects the environment, in accordance with environmental sustainability principles, and uses energy resources responsibly as it strives to achieve energy efficiency objectives 	<ul style="list-style-type: none"> ✓ Optimization of energy consumption/saving ✓ Production of clean energy through photovoltaic panels

SIA'S APPROACH TO THE ENVIRONMENT

SIA acts in the firm belief that the environment is a **heritage to protect in everyone's interest** and even though it operates in a sector having low critical impact on the environment, it is inspired by principles of eco-sustainability and applies the best technologies available in order to minimize the impacts of its activities on the environment. The Group operates in compliance with the national and regional regulations of the countries hosting its operations in this area as well in order to protect the natural environment for the benefit of the generations to come.

Its corporate environmental management strategy is founded on the following principles:

- **safety**
- **savings**
- **reusing and recycling**

The main areas around which SIA's commitment to reducing the environmental impact of its activities is focused are:

- **energy and water**
- **consumption of materials**
- **sustainable mobility**

A NEW SITE IN MILAN: VIA LORENTEGGIO, AN EXAMPLE OF A GREEN OFFICE

The SIA Group's increased focus on sustainability and energy efficiency was a guiding principle behind the redevelopment of the offices at Via Lorenteggio 257, Milan (leased by SIA in a larger real-estate complex). The project included design solutions centered around low environmental impacts and energy efficiency, together with efforts to ensure a healthy, comfortable working environment for all occupants. The following aspects were considered as part of the real-estate redevelopment:

- ✓ **insulation**, in order to avoid heat dispersion vertically (roof) and through the facades (doors and windows with good thermal and solar characteristics), with energy savings in terms of heating and air-conditioning;
- ✓ **energy efficient lighting**, using exclusively LED bulbs and a digital control system that operates the artificial light, guaranteeing optimum energy efficiency. Light intensity is regulated via sensors, which gauge the quantity of natural light and identify whether or not there are people in the offices (the lights only come on if at least one person is in the office);
- ✓ **reduction of water consumption**, with installation of flow regulators on the sink taps and in toilets;
- ✓ **air-conditioning**, using a high-efficiency system powered exclusively by electricity, which releases no emissions into the atmosphere. All-in-one units are capable of producing both warm fluid for heating and cold fluid for cooling at the same time, reusing the by-products of production of both liquids;
- ✓ **building management system**, optimization of energy consumption thanks to the adoption of a system of supervision that makes it possible to monitor and govern the various systems, including air-conditioning, electric and UPS systems, fire detection and alarm systems and lighting. This makes it possible to identify and pursue opportunities for energy saving, optimize operating costs, increase the life cycle of systems, ensure business continuity and guarantee a comfortable environment, including remotely;
- ✓ **acoustic comfort**, through the use of hi-tech sound-absorbing panels designed to optimize sound-proofing despite their low thickness. The panels are Greenguard Gold certified and made with 30% recycled materials. They can also be fully recycled at the end of the life cycle.

ENERGY AND WATER CONSUMPTION

The **rational use of energy** and **utilization of renewable energy sources** are the core components of sustainable usage of energy sources.

To this end, SIA ensures its IT platforms are up to date in order to guarantee **energy saving** and provides hi-tech servers which not only deliver solutions with better performance and greater reliability, but also ensure significantly improved levels of **energy efficiency** in comparison with previous models. The use of cloud-based solutions (particularly as regards corporate applications) also significantly reduces resource consumption, given that such service models are intrinsically centered around sharing resources and reusing shared infrastructure.

In the same way, in terms of software, the use of virtualization, contain-

erization (docker) and software-defined solutions enables us to make full use of installed hardware infrastructure and reach higher and higher usage levels.

In terms of buildings, the SIA S.p.A. headquarters in Milan fall under energy class B and have a 60 kW system consisting of 323 silicon photovoltaic/ solar panels for a total of 630 m², thanks to which in 2018 **over 70,000 kWh of clean electricity was produced.**

The lighting system is able to cut electric consumption by regulating itself according to the contribution of natural light, which is measured by special sensors. The DALI (Digital Addressable Lighting Interface) Control System also automatically switches off the areas not used for more than 20 minutes, thus minimizing the energy consumption of the lighting.

A **system made up of 8 solar panels** produces thermal energy for heating some floors and the domestic hot water. The system is able to produce up to 11,150 kWh/year with significant savings in non-renewable energy resources.

In 2015, the SIA Group carried out a process of Energy Diagnosis at some of its headquarters, including the parent company's main headquarters, in order to comply with Legislative Decree 102/2014. Energy Diagnoses make it possible to assess the current energy

consumption of the buildings and identify areas for improvement or where efficiency measures can be implemented.

Regarding **water consumption**, in 2018 49.5% of the SIA Group's collections (SIA Italia, P4cards Italia and Romania) were from groundwater and the remaining 50.5% from the water mains, for a total consumption of 23,821 m³, a 19.7% decrease on the previous year. The total volume of water collected is equal to the total volume of water discharged.

ENERGY CONSUMPTION ¹						
	2018		2017		2016	
	GJ		GJ		GJ	
Electricity² (kWh)	16,662,133	59,983.68	16,385,652	58,988.35	14,124,780	50,849.21
Natural Gas (m³)	115,354	4,052.85	118,826	4,635.41	44,882	1,750.85
Diesel fuel³ (l)	4,365		1,750		1,750	
Diesel fuel³ (t)	3.71	157.21	1.47	63.03	1.47	63.03
Total	4,193.74		63,686.79		52,663.09	

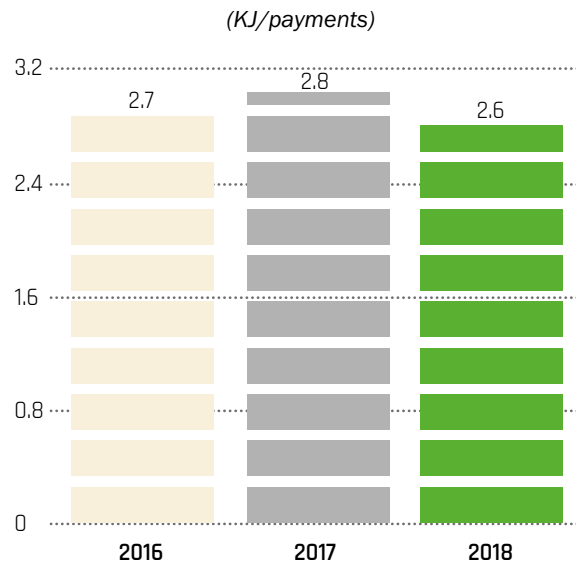
¹ 2018 data refer to the SIA Group, excluding PforCards, SIA Greece, SIA CEE and SIA SEE. 2017 data refer to the SIA Group, excluding LM-e (now SIAAdvisor) and PforCards. 2016 data refer to the SIA Group, excluding LM-e (now SIAAdvisor).

² The 2017 figure reflects the actual consumption of a Data Center managed by third parties. For 2016, consumption has been estimated on the basis of the name plates of the installed machinery.

³ The figure refers to the generators and does not include fuel consumption for haulage.

Energy eco-efficiency index

Energy consumption is constantly monitored at SIA. To summarize its trend and measure its efficiency, the company has defined an index - established as the ratio between energy consumption and the number of payments managed - in accordance with GRI principles (KJ/number of payments during the same period). The trend for the last three years is summarized in the following chart. The improvement of the 2018 figure compared with previous years illustrates SIA's ongoing commitment to make its services more and more efficient, including from an energy perspective.



ENERGY IS GREEN AT SIA

Starting from 2016, SIA has chosen to use green energy - particularly wind and geothermal - to cover the electricity consumption of its main Italian offices in order to reduce the environmental impact of its business.

This reduces carbon dioxide emissions by about 6,100 tonnes a year, considering an emission factor of the Italian electricity mix to distribution of about 0.53 kg of carbon dioxide for each kWh generated (source: Italian Ministry of the Environment).

The renewable origin of the sources used is certified by the Guarantee of Origin certificates on electricity put into the network, issued by the Energy Services Operator in compliance with Directive 2009/28/EC.

EMISSIONS

A new generation air conditioning system at the headquarters of SIA S.p.A. in Milan ensures a **low CO₂ emission level** (so-called “greenhouse gas”) and is equipped with a smart system that manages the requests arriving from different areas of the building in a targeted manner, in this way avoiding waste and with efficiency four times greater than that of a traditional system.

The attention that it pays to the environment has led SIA to embark on an initiative to raise awareness of various pollution issues and to also test new methods of organizing work and of traveling back and forth between home and office. This has made positive impacts on polluting phenomena due to mobility, such as **reducing exhaust gases and noise emission**, not to mention fuel consumption.

Advantageous agreements with ATM and Trenord make it possible to pay for public transport season tickets in installments, thus encouraging employees to use it.

The table below summarizes greenhouse gas emissions attributable to the internal and external activities of the SIA Group, split by scope:

- **Scope 1**, includes direct emission of greenhouse gases (GHG) from installations owned or controlled by the SIA Group (e.g. natural gas, diesel fuel, continuous leasing fleet);
- **Scope 2**, includes indirect emissions from energy consumption, that is, GHG emissions from electricity, heat and steam imported and consumed by the Group (e.g. electricity);
- **Scope 3**, includes emissions from products and services not controlled by the SIA Group (e.g. business trips).

INTERNAL AND EXTERNAL GREENHOUSE GAS EMISSIONS ¹			
TYPE OF CONSUMPTION	2018	2017	2016
Scope 1 (t CO₂e)²	838.85	939.87	670.87
Scope 2 (t CO₂e)²	5,442.01	6,311.41	4,640.50
Scope 3 (t CO₂e)³	1,692.27	703.83	523.33
Total	7,973.13	7,955.11	5,834.70

2018 data refer to SIA S.p.A., Perago FSE, SIA CEE, Ubiq, P4cards Italia, Romania and Germany. 2017 data refer to the SIA Group, excluding PforCards and SIAadvisor. 2016 data refer to the SIA Group, excluding SIAadvisor.

² Data calculated on the basis of the coefficients provided by the Institute for Environmental Protection and Research for Electricity.

³ Data refer to business trips of SIA S.p.A. and the estimates regarding CO₂ emissions are calculated on the basis of DEFRA coefficients for air travel and of the Italian Railways for train travel.

EMISSIONS OF OTHER GREENHOUSE GASES¹

TYPE OF CONSUMPTION	2018	2017	2016
CH ₄ (kg)	498.38	480.87	n.a.
N ₂ O (kg)	7,910.74	7,724.38	n.a.

¹ Data include SIA S.p.A., SIAPay and P4cards Italia and Romania. 2018 data also includes SIA Greece, SIA SEE and SIA CEE from September 28.

SIA FOR MORE SUSTAINABLE MOBILITY

SIA encourages its employees to adopt environmentally sustainable conduct and habits, especially when it comes to mobility.

To encourage employees to reach the company offices by public transport, **agreements with the Milan transport company ATM and the railway company Trenord** were stipulated for discounted passes, with payment directly withheld from the payslip for several months. Starting from January 1, 2017, SIA pays an annual contribution to employees who purchase a public transit pass lasting at least 5 months.

In 2018, the company contributed toward the subsidized purchase of 245 urban and extra-urban ATM passes and 124 Trenord or Io Viaggio in Lombardia passes, resulting in about €50,000 being disbursed to its employees.

The cost for the annual local home-work transport passes is also reimbursable with flexible benefits. In June 2017, SIA provided two **electric cars** for employees to use for work-related purposes. The cars have driven around 5,000 kilometers. The charging points can be used by employees for their own electric cars. During the year, just under 3,200 kWh of charge was dispensed.

RESPONSIBLE MANAGEMENT OF RESOURCES

In the offices in Milan, where the majority of SIA S.p.A. and SIAPay employees work, some materials are voluntarily collected separately by placing special containers on every floor at easy to see points.

The collection of paper (which SIA then entrusts to the social cooperative Spazio Aperto Onlus) led to the recovery and recycling of **16,937 kg of paper and cardboard** in 2018 with an estimated saving of around **84 trees saved from being cut down**.

The Group's paper purchases were equal to nearly 57 tonnes, of which around 5 tonnes of paper with Forest Stewardship Council (FSC) certification,

meaning it comes from forests managed according to strict environmental, social and economic standards.

Adopting new printers concentrated in dedicated and shared areas, greater use of the front/back printing and scanner functions and implementing the Equitrac software procedure led to a change in people's conduct to achieve a reduction in paper and toner consumption.

Plastics, mainly used by P4cards, amounted to about 400 tonnes. Metallic materials - used to create card micro-chips - amounted to 225 kg.

Voluntary collection of recycle materials in 2018 produced the following results (across the SIA Group, excluding P4cards):

Separated waste collection



16,937 kg
of paper



8,300 kg
of plastic



3,620 kg
of glass



645 kg
of plastic caps



350 kg
of used clothing

IT'S ALWAYS A GOOD TIME FOR GOOD HABITS

In line with SIA's efforts in the field of sustainability, the company strives to raise environmental awareness among all those who work in or for the Group, by promoting the adoption of conduct guided by the principles of resource-saving, critical consumption and separated waste collection.

This is why it launched the communication campaign "Make the difference!" in 2018. The goal is to encourage conduct designed to increase and improve separate waste collection and to extend this good practice to the personnel of all Group companies.

F  **LA DIFFERENZA!**
sempre di più con la raccolta della plastica

WASTE MANAGEMENT

SIA complies with all legal provisions on the subject of waste disposal and separately collects the following materials:

- › packing of computers and miscellaneous goods;
- › electric and electronic equipment out of use (LCD monitors, electric condensers, etc.);
- › waste from buildings or demolitions connected with restorations;
- › waste produced in the healthcare environment following vaccinations and/or health campaigns;
- › used oil;
- › lead batteries used in UPSs;
- › fluorescent tubes;
- › batteries;
- › gases coming from air conditioner chilling circuits;
- › gases used to automatically extinguish fires.

TOTAL WEIGHT OF THE WASTE BY TYPE AND DISPOSAL METHOD¹

Type (t)	2018				2017				2016			
	Hazardous	Non-hazardous	Total	%	Hazardous	Non-hazardous	Total	%	Hazardous	Non-hazardous	Total	%
Reuse	-	0.014	0.014	0.03	-	0.028	0.028	0.07	-	0.05	0.05	0.4
Recycle	0.992	48.896	49.888	98.92	1.947	29.095	31.042	82.42	1.862	12.015	13.877	99.6
Incineration	-	0.266	0.266	0.53	-	0.276	0.276	0.73	-	-	-	-
Landfill	0.001	0.262	0.263	0.52	0.051	6.268	6.319	16.78	-	-	-	-
Total	0.993	49.438	50.431	100	1.998	35.667	37.665	100	1.862	12.065	13.927	100

¹ The 2018 data include all companies in the Group, excluding PforCards. 2017 data refer to the SIA Group, excluding SIAAdvisor and PforCards. 2016 data refer to the SIA Group.

METHODOLOGICAL NOTE

AND GRI STANDARD TABLES

Reporting on the social and environmental performance of the companies that fall within the SIA Group's consolidation scope for the year ending December 31, 2018 is in accordance with the GRI Standards from the Global Reporting Initiative (GRI). This reporting allows us to clearly set out the integration between the Group's economic sustainability and its social and environmental sustainability, as shown in company decision-making processes, strategy, governance and business model.

In this way SIA has decided to follow - although not required to do so by law - the most important instructions of Italian Legislative Decree 254/2016, which introduced the "Consolidated non-financial statement" (DNF) to corporate reporting.

A special interfunctional work group managed the process of collecting data and checking them using a data collection sheet sent to the managers of all corporate functions, of the local offices and of the Italian and overseas companies within the Group.

The **perimeter of reference** comprises all companies belonging to the SIA Group as at the date of December 31, 2018:

- SIA S.p.A. (parent company)
- Emmecom S.r.l.
- P4cards S.r.l.
- Perago FSE Ltd.
- PforCards GmbH
- SIAPay S.r.l.
- SIA Central Europe Zrt.
- Ubiq S.r.l.

Except where specified, **the following companies are not included:**

- SIAadvisor
- SIA CEE (where this name is used, this company comprises the following four organizations):
 - SIA Slovakia, s.r.o.
 - SIA Czech Republic, s.r.o.
 - SIA Hungary Kft. (SIA Magyarország Kft.)
 - SIA Romania Payment Technologies S.r.l.
- SIA SEE (where this name is used, this company comprises the following two organizations):
 - SIA RS d.o.o. Beograd
 - SIA Croatia d.o.o.
- SIA Greece (where this name is used, this company comprises the following organization):
 - New SIA Greece S.A. (full name: Processing Services Sia Greece Societe Anonyme).

The term SIA in the document refers to the entire Group perimeter as defined above.

The document is subject to voluntary auditing by an external company, according to the criteria indicated by the "International Standard on Assurance Engagement 3000" ("ISAE 3000"), which issued the report annexed hereto when the work was completed.

Based on the current coverage of the Topic Specific Standards indicators associated with the material aspects and summarized in the GRI Index, the level of compliance with the GRI Standards is "In Accordance - Core".

TABLE OF GRI STANDARD INDICATORS

GRI Title Standard	Number GRI disclosure	GRI Disclosure Title	Page number and indications
GRI 102: General Disclosures 2016 - Organizational Profile	102-1	Name of the organization	7
	102-2	Activities, trademarks, products and services	33, 44, 61-62
	102-3	Location of the main offices	14
	102-4	Countries where it operates	14
	102-5	Ownership structure and legal form	7
	102-6	Markets served	14, 17, 44-54
	102-7	Size of the organization	17-18, 39-43, 72, 224
	102-8	Information on employees and workers	223
	102-9	Supply chain	241
	102-10	Significant changes in the organization and in its supply chain	241
	102-11	Method of application of the prudential principle or approach	208-211-223-241-245-254
	102-12	Initiatives outside the company	245
	102-13	Participation in associations	250
GRI 102: General Disclosures 2016 - Strategy	102-14	Statement of top management	4, 5
	102-15	Main impacts, risks and opportunities	65-69
GRI 102: General Disclosures 2016 - Ethics and integrity	102-16	Values, principles, standards and rules of conduct	15, 26
	102-17	Mechanisms for reporting issues relating to ethics	Initial table, chapter on customers
GRI 102: General Disclosures 2016 - Governance	102-18	Governance structure	13
	102-20	Responsibility for economic, environmental and social issues	206
	102-21	Consultation of the stakeholders on economic, environmental and social issues	207
	102-22	Composition of the highest governance body and of its committees	13
	102-23	Chairman of the highest governance body	13
	102-24	Processes for appointing and selecting members of the highest governance body and of the committees	23-25
	102-25	Conflicts of interest	26-27
	102-26	Role of the highest governance body in developing goals, values and strategies	24
	102-30	Effectiveness of the risk management process	63-64
GRI 102: General Disclosures 2016 - Stakeholder Engagement	102-40	List of stakeholder groups	207
	102-41	Collective Bargaining Agreement	227
	102-42	Process for identifying and selecting stakeholders	207
	102-43	Approach to stakeholder engagement	207
	102-44	Key topics and problems that have emerged	207
GRI 102: General Disclosures 2016 - Reporting Practice	102-45	List of companies included in the Consolidated Financial Statements	260
	102-46	Definition of the content of the report and of the perimeter of each aspect	260
	102-47	List of material aspects	207
	102-48	Changes compared to the previous financial statements	206
	102-49	Significant changes in reporting activity	206
	102-50	Reporting period	2018
	102-51	Date the most recent report was published	2018
	102-52	Reporting frequency	Annual
	102-54	Statement on the reporting option according to the GRI Standards	260
102-55	Table containing GRIs	261	
102-56	External certification	265	

TABLE OF GRI STANDARD INDICATORS

GRI Title Standard	Number GRI disclosure	GRI Disclosure Title	Page number and indications
GRI 103: Management Approach 2016	103-1	Specification of the consolidation scope for each material aspect	260
	103-2	Managerial approach to management and its components.	208-211-223-241-245-254
	103-3	Assessment of the management approach	208-211-223-241-245-254
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	209
GRI 203: Indirect economic impacts 2016	203-1	Development and impact of investments in public utility infrastructures and services	245
GRI 205: Anti-corruption - 2016	205-1	Transactions assessed for risk of corruption	Anti-bribery policies are governed by the Code of Ethics of SIA S.p.A.
	205-3	Episodes of corruption found and corrective actions implemented	In 2018 no corruption incidents were identified
GRI 206: Anti-competition behavior 2016	206-1	Legal actions for anti-competition, antitrust and monopolistic conduct	In 2018 no corruption incidents were identified
GRI 301: Materials 2016	301-1	Materials used, divided by weight and volume	258
GRI 302: Energy 2016	302-1	Energy consumption within the organization	256
	302-3	Energy intensity ratio	256
GRI 303: Water 2016	303-1	Water collections by source	256
GRI 305: Emissions 2016	305-1	Direct greenhouse effect gas emissions (scope 1)	257-258
	305-2	Emissions of greenhouse effect gas for energy generation (scope 2)	257-258
	305-3	Other indirect greenhouse effect gas emissions (scope 3)	257-258
GRI 306: Effluents and waste 2016	306-2	Waste products by type and method of disposal	259
GRI 307: Environmental Compliance 2016	307-1	Non-observance of environmental laws and regulations	In 2018, no incidents of non-compliance with environmental laws and regulations were identified
GRI 308: Supplier Environmental Assessment 2016	308-1	New suppliers that have been assessed according to environmental criteria	243
GRI 401: Employment 2016	401-1	Personnel hiring and turnover rate	225
	401-2	Benefits provided to full-time employees not provided to temporary or part-time employees	236
	401-3	Parental leave	229
GRI 403: Occupational Health and Safety 2016	403-2	Type and rate of accidents, occupational diseases, work days lost and absenteeism and number of fatal accidents connected with work	234
GRI 404: Training and education 2016	404-1	Average hours of training per year per employee	230
	404-2	Programs for upgrading employee skills and transition assistance programs	229
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	13, 224-225
	405-2	Ratio of basic salary and remuneration of women to men	229

TABLE OF GRI STANDARD INDICATORS			
GRI Title Standard	Number GRI disclosure	GRI Disclosure Title	Page number and indications
GRI 406: Non Discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	In 2018, no discrimination incidents were identified
GRI 413: Local Communities 2016	413-1	Operation area with implementation of programs for the involvement of the local community, assessment of impact and development	245
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria	243
GRI 415: Public Policies 2016	415-1	Total value of political contributions	SIA's activities do not provide for funding political parties
GRI 416: Occupational Health and Safety 2016	416-2	Examples of non-compliance regarding health and safety of impacts of products and services	In 2018 no corruption incidents were identified
GRI 417: Marketing and labeling 2016	417-2	Examples of non-compliance regarding health and safety of impacts of products and services	In 2018 no corruption incidents were identified
	417-3	Incidents of non-compliance concerning marketing communications	In 2018, no cases of intentional non-compliance with regulations and codes related to marketing and labeling were identified
GRI 418: Consumer Privacy 2016	418-1	Substantiated complaints regarding breaches of customer privacy and loss of customer data	In 2018, no complaints were filed about privacy and management of customers' data
GRI 419: Socioeconomic compliance 2016	419-1	Non-compliance with laws and regulations in the social and economic area	In 2018, no significant penalties were imposed for non-compliance with laws and regulations

All indicators have been reported without any omission.

TABLE REPORTING THE SCOPE OF THE ORGANIZATION'S MATERIAL ASPECTS

MATERIAL ASPECTS OF GRI STANDARDS	MATERIAL ASPECTS BOUNDARIES	
	CATEGORIES	INTERNAL
Economic - Institutional		
✓ Positive economic results	SIA Group	
✓ Ethics, integrity and compliance	SIA Group	
✓ Relations with the Institutions	SIA Group	
✓ Governance and transparent management	SIA Group	Customers
Customers and users		
✓ Ease of access to services	SIA Group	Customers
✓ Business continuity	SIA Group	Customers
✓ Privacy and security of customers' data	SIA Group	Customers
✓ Innovation capability	SIA Group	Customers
✓ Efficient complaints management	SIA Group	Customers
✓ Effective and responsible communication	SIA Group	Customers
✓ Customer intimacy	SIA Group	Customers
✓ Growth of business in international markets	SIA Group	Customers
Relationships with personnel		
✓ Labor practices and human rights	SIA Group	Employees
✓ Staff training and skill development	SIA Group	Employees
✓ Safety and wellbeing of employees and their families	SIA Group	Employees
Suppliers and partners		
✓ Responsible procurement and supplier assessment	SIA Group	Suppliers
Community		
✓ Indirect economic impacts	SIA Group	
✓ Support for social activities	SIA Group	
✓ Creation of jobs	SIA Group	
Environment		
✓ Respect for the environment	SIA S.p.A.	
✓ Efficient management of energy resources	SIA S.p.A.	

INDEPENDENT AUDITORS' REPORT



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Independent auditors' report on the "Non financial disclosure" 2018

To the Board of Directors of
SIA S.p.A.

We have performed a "limited assurance engagement" on "Non-financial disclosure" of SIA Group (the "Group") as of December 31, 2018.

Directors' responsibility on Non-financial disclosure

The Directors are responsible for the preparation of the Non-financial disclosure in accordance with the "GRI Standards" issued in 2016 by the GRI - *Global Reporting Initiative*, as stated in the paragraph "Methodological note and GRI Standard tables" of the Non-financial disclosure, and for such internal control as they determine is necessary to enable the preparation of a Non-financial disclosure that is free from material misstatement, whether due to frauds or unintentional behaviours or events. The Directors are also responsible for defining the Group's objectives regarding the sustainability performance and the reporting of the achieved results, for the identification of the *stakeholders* and the significant aspects to report.

Auditors' responsibility

Our responsibility is to issue this report based on the procedures performed. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information*" ("*ISAE 3000 Revised*"), issued by the International Auditing and Assurance Standards Board for limited assurance engagements. The standard requires the compliance with ethical principles, including independence requirements, and that we plan and perform the engagement to obtain limited assurance whether the Non-financial disclosure is free from material misstatement.

These procedures included inquiries, primarily with the Group's personnel responsible for the preparation of the Non-financial disclosure, analysis of documents, recalculations and other evidence gathering procedures as appropriate.

The procedures performed on the Non-financial disclosure consisted in verifying its compliance with the principles for defining the content and quality set out in the "GRI Standards", and are summarised as follows:

- comparing the economic and financial information and data with those reported in the Management Report and in the Financial statements as of 31 December 2018 of SIA Group, on which another auditor issued the auditors' report (pursuant to articles 14 and 16 of Legislative Decree no. 39 of 27 January, 2010), dated March 25, 2019;
- analysing, through interviews, the governance system and the management process of the matters related to sustainable development regarding the strategy and operations of the Group;
- analysing the process relating to the definition of material aspects disclosed in the Non-financial disclosure, with reference to the methods used for the identification and prioritisation of material aspects for stakeholders and to the internal validation of the process results;

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Potenza, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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- analysing how the processes underlying the generation, collection and management of quantitative data of the Non-financial disclosure operate. In particular, we have performed:
 - interviews and discussions with the management of SIA S.p.A. to gather information about the accounting and reporting systems used in preparing the Non-financial disclosure, as well as on the internal control procedures supporting the gathering, aggregation, processing and transmittal of data and information to the department responsible for the preparation of the Non-financial disclosure;
 - analysis, on a sample basis, of the documentation supporting the preparation of the Non-financial disclosure, in order to gather the evidence of processes in place, their adequacy, and that the internal control system correctly manages data and information in connection with the objectives described in the Non-financial disclosure;
- analysing the compliance and the internal consistency of the qualitative information disclosed in the Non-financial disclosure, in relation to the guidelines identified in the paragraph “Directors’ responsibility on Non-financial disclosure”;
- analysing the stakeholders engagement process, in terms of methods applied, through the analysis of the minutes of the meetings or any other available documentation about the main topics arisen in the discussion with them;
- obtaining the representation letter signed by the Chief Executive Officer of SIA S.p.A. and by the Communication Director responsible for the preparation of the Non-financial disclosure, on the compliance of the Non-financial disclosure with the guidelines identified in the paragraph “Directors’ responsibility on Non-financial disclosure”, as well as the reliability and completeness of the data and information disclosed.

The procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised (“*reasonable assurance engagement*”), and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the Non-financial disclosure of SIA S.p.A. as of December 31, 2018 is not prepared, in all material respects, in accordance with the “*GRI Standards*” issued in 2016 by the GRI - *Global Reporting Initiative*, as stated in the paragraph “*Methodological note and GRI Standard tables*” of the Non-financial disclosure.

Milan, March 25, 2019

BDO Italia S.p.A.

Claudio Tedoldi
Partner

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



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