



Interim Management Report  
at 30<sup>th</sup> September 2018

*This document has been translated into English for the convenience of readers outside of Italy.  
The original Italian version remains the definitive and authoritative document.*

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## BOARD OF DIRECTOR AND AUDITORS

### BOARD OF DIRECTORS <sup>(1)</sup>

PAOLO DAL CORTIVO  
*Chairman and Managing Director*

GIULIA DAL CORTIVO  
*Vice Chairman and Managing Director*

DEBORA CREMASCO <sup>(2)</sup>  
*Director and lead independent director*

FLAVIO PIVA <sup>(2)</sup>  
*Independent Director*

LAMBERTO LAMBERTINI <sup>(2)</sup>  
*Director*

CECILIA ROSSIGNOLI  
*Director*

LUIGI MARCO LIBROIA  
*Independent Director*

### STATUTORY AUDITORS <sup>(3)</sup>

MARIATERESA DIANA SALERNO  
*Chairman of the Statutory Auditor*

CHIARA BENCIOLINI  
*Statutory Auditor*

BRUNO ANTI  
*Statutory Auditor*

### AUDITORS: PKF ITALIA S.p.A.

- (1) Appointed on 27 April 2018; office expires with the shareholders' meeting for the approval of the 2018 financial statements.
- (2) Member of the Control and Risk Committee; member of the Nominating and Compensation Committee.
- (3) Appointed on 27 April 2018; office expires with the shareholders' meeting for the approval of the 2020 financial statements.

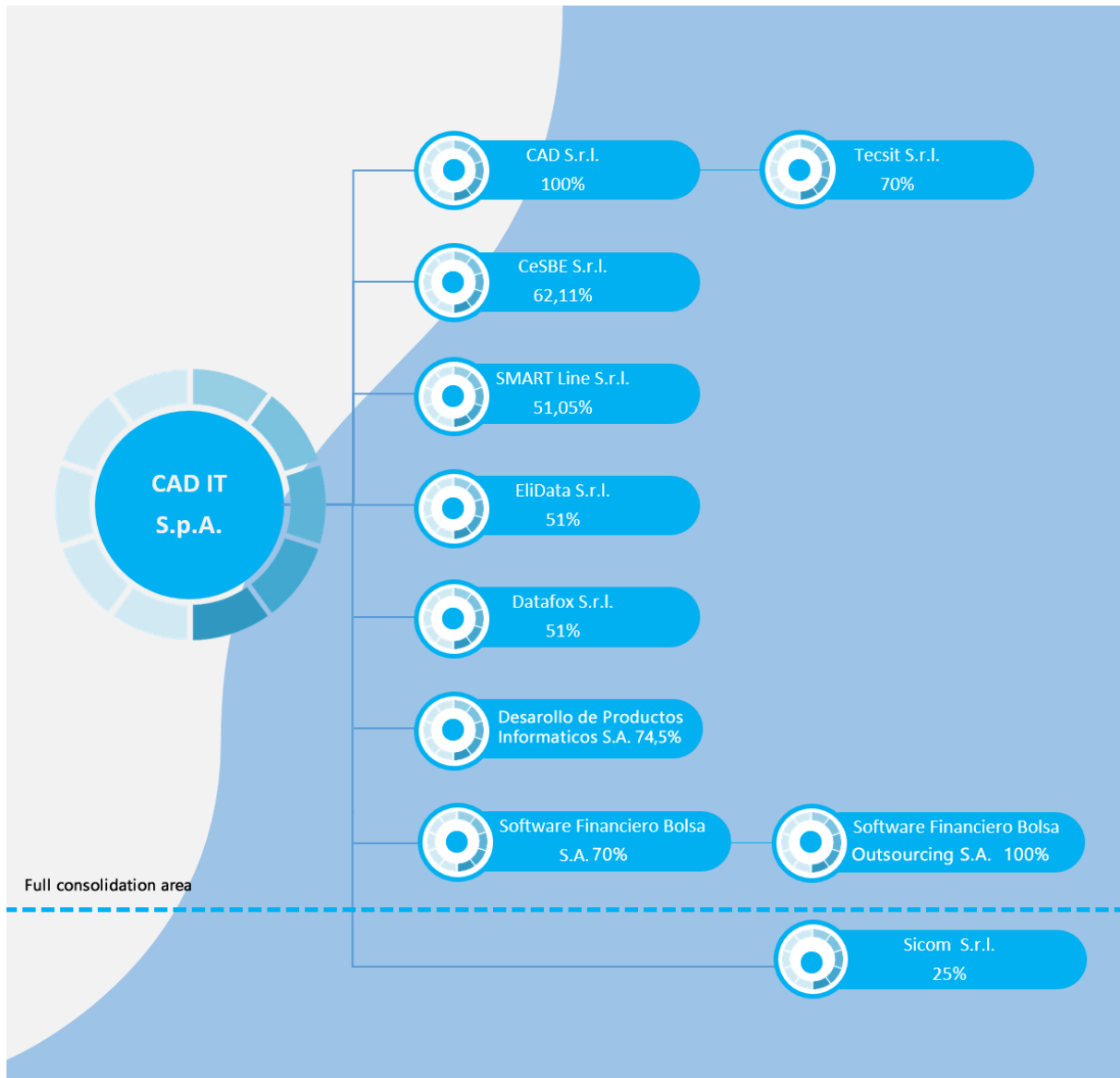
*The main powers reserved in the statute to the Board of Directors are the examination and approval of the strategic, industrial and financial plans of the company; the purchase, sale, exchange or transfer of fixed assets and real estate rights; the granting of collateral on fixed assets; the set up of new subsidiaries and the take-over, acquisition or sale of corporate investments; the acquisition, sale, exchange or transfer of the whole company or of business lines; the underwriting of obligations, commitments and responsibilities which, either singularly or jointly with other connected negotiations, come to more than Euro 4,000,000; the nomination of managing directors; the release of warranties and real or personal guarantees of any kind to the sum of more than Euro 2,000,000 for each individual transaction and, if in the interest of subjects other than the Company and its subsidiaries, to any sum whatsoever; the examination and preventive approval of significant transactions including those with company related parties and company subsidiaries; verification of the appropriateness of the administrative and organisational structure and the general accounting, the internal control system and any conflicts of interest.*

*As foreseen by art. 22 of the Company Statute, the President is responsible for the Company's legal representation and has signing authority on behalf of the Company, either towards third parties or in legal matters, with the faculty to promote legal and administrative actions and disputes at all levels of jurisdiction, including appeals to the Supreme Court and appeals to overturn sentences.*

*The Managing Director Paolo Dal Cortivo, has full ordinary and extraordinary administrative power, excluding only those which can not be delegated by law and/ or by the company bylaws, with the power to act alone, for each individual transaction, for the amount of Euro 4,000,000 (four million).*

*The Vice-Chairmen, pursuant to article 20 of the company by-laws, carries out vicarious functions to those of the President in case of his absence or impediment.*

*The Managing Director Giulia Dal Cortivo has full ordinary administrative power, excluding only those which can not be delegated by law and/ or by the company bylaws, with the power to act alone, for each individual transaction to the amount of Euro 4,000,000 (four million).*



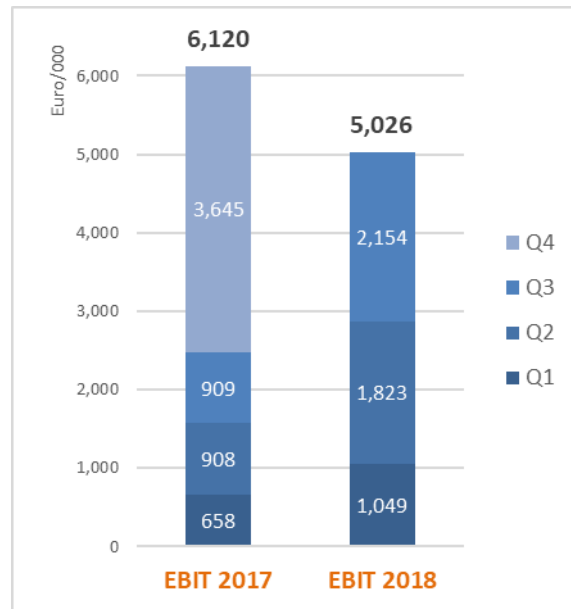
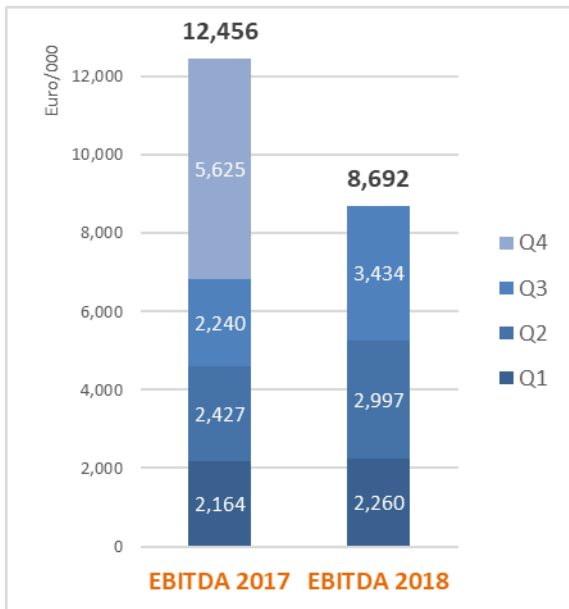
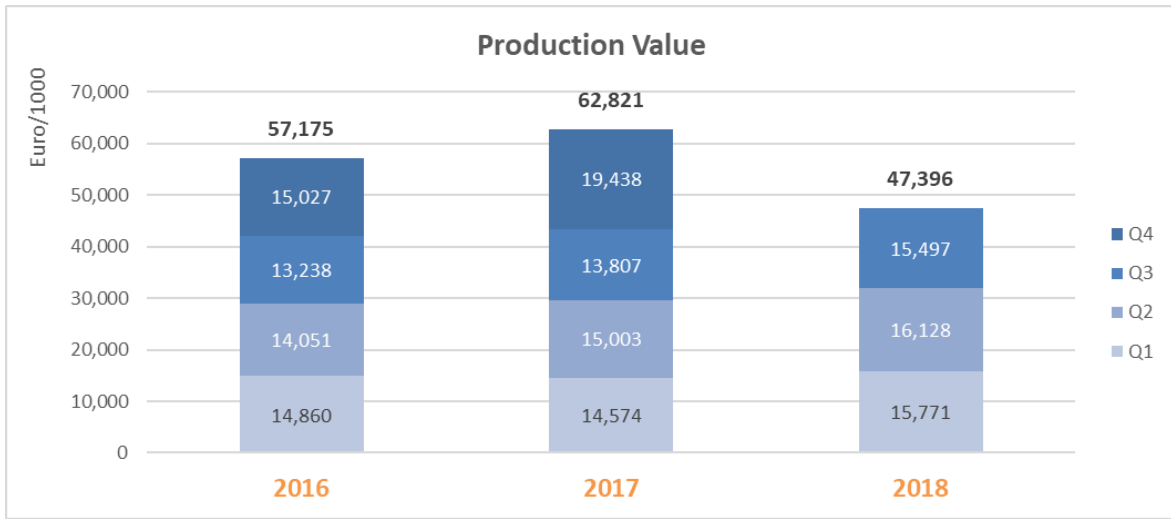
CAD IT Group at 30/09/2018

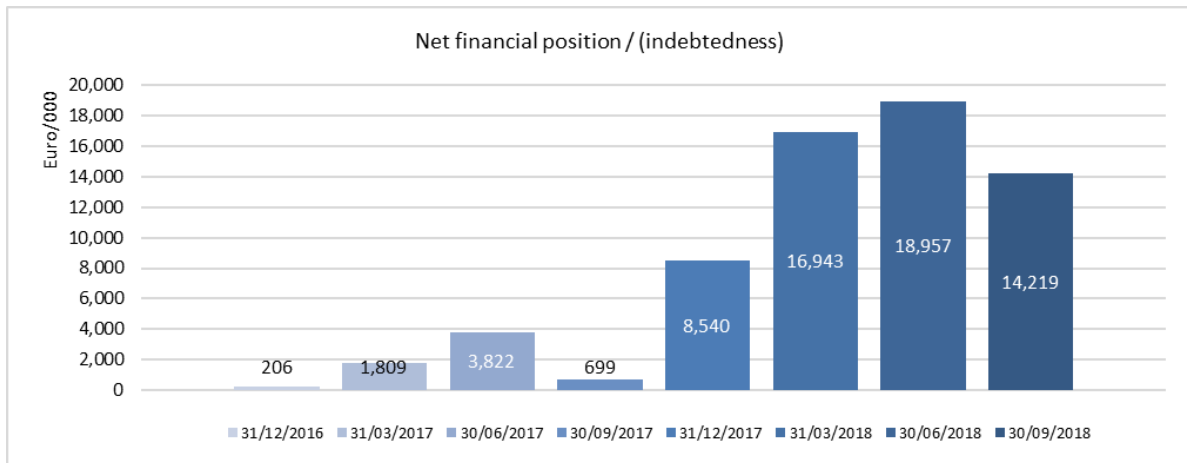
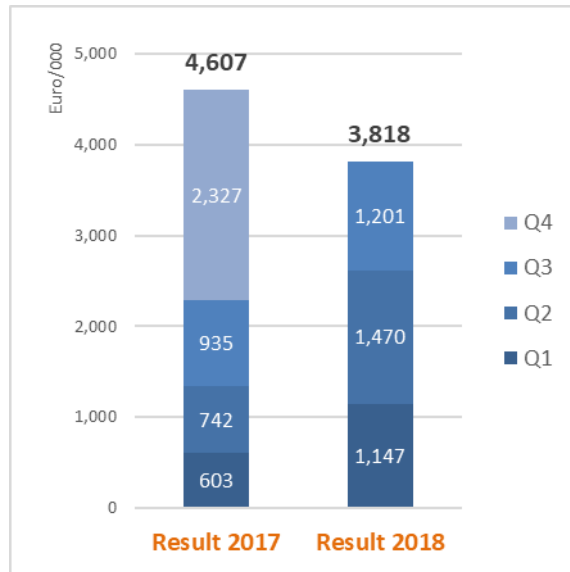
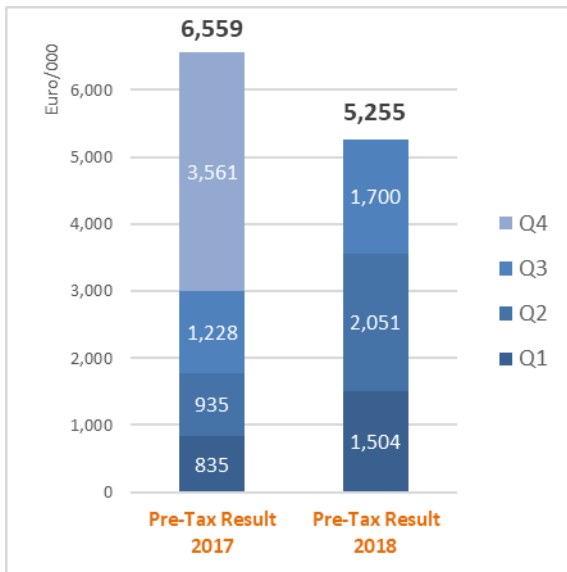
## SUMMARY OF THE GROUP'S RESULTS AND DATA

|  | 30/09/2018   |             | 30/09/2017   |             | Variations   |                |
|--|--------------|-------------|--------------|-------------|--------------|----------------|
|  | €/000        | % PV        | €/000        | % PV        | €/000        | %              |
| Production value   | 47,396       | 100.0%      | 43,384       | 100.0%      | 4,013        | + 9.2%         |
| Gross operational result (EBITDA)  | 8,692        | 18.3%       | 6,831        | 15.7%       | 1,861        | + 27.2%        |
| Operational result (EBIT)  | 5,026        | 10.6%       | 2,475        | 5.7%        | 2,551        | + 103.1%       |
| Pre-tax result   | 5,255        | 11.1%       | 2,998        | 6.9%        | 2,257        | + 75.3%        |
| Income taxes   | (1,437)      | (3.0%)      | (718)        | (1.7%)      | (719)        | - 100.2%       |
| Profit (loss) for the period   | 3,818        | 8.1%        | 2,280        | 5.3%        | 1,538        | + 67.4%        |
| <b>Profit/(loss) for the period attributable to owners of the parent</b> | <b>3,582</b> | <b>7.6%</b> | <b>1,878</b> | <b>4.3%</b> | <b>1,704</b> | <b>+ 90.8%</b> |
| Total comprehensive income   | 3,968        |             | 2,514        |             | 1,454        | + 57.9%        |
| Total comprehensive income attributable to owners of the parent          | <b>3,693</b> |             | <b>2,082</b> |             | <b>1,611</b> | <b>+ 77.4%</b> |

|  | III Quarter 2018 |             | III Quarter 2017 |             | Variations |                |
|--|------------------|-------------|------------------|-------------|------------|----------------|
|  | €/000            | % PV        | €/000            | % PV        | €/000      | %              |
| Production value   | 15,497           | 100.0%      | 13,807           | 100.0%      | 1,691      | + 12.2%        |
| Gross operational result (EBITDA)  | 3,434            | 22.2%       | 2,240            | 16.2%       | 1,194      | + 53.3%        |
| Operational result (EBIT)  | 2,154            | 13.9%       | 909              | 6.6%        | 1,245      | + 137.1%       |
| Pre-tax result   | 1,700            | 11.0%       | 1,228            | 8.9%        | 472        | + 38.4%        |
| Income taxes   | (499)            | (3.2%)      | (293)            | (2.1%)      | (206)      | - 70.4%        |
| Profit (loss) for the period   | 1,201            | 7.7%        | 935              | 6.8%        | 266        | + 28.4%        |
| <b>Profit/(loss) for the period attributable to owners of the parent</b> | <b>1,150</b>     | <b>7.4%</b> | <b>696</b>       | <b>5.0%</b> | <b>454</b> | <b>+ 65.2%</b> |
| Total comprehensive income   | 1,201            |             | 935              |             | 266        | + 28.4%        |
| Total comprehensive income attributable to owners of the parent          | <b>1,150</b>     |             | <b>696</b>       |             | <b>454</b> | <b>+ 65.2%</b> |

|  | 30/09/2018 | 31/12/2017 | 30/09/2017 |
|--|------------|------------|------------|
| Total Assets                                     | 98,958     | 91,838     | 87,859     |
| Total Equity                                     | 61,646     | 58,021     | 55,973     |
| Equity attributable to owners of the parent      | 58,618     | 54,939     | 53,320     |
| Net short-term financial position/(indebtedness) | 20,912     | 10,203     | 1,800      |
| Net financial position / (indebtedness)          | 14,219     | 8,540      | 699        |
| Employees at the end of the period (number)      | 698        | 624        | 640        |
| Employees (average number in the period)         | 660        | 642        | 645        |





## SUMMARY SCHEDULES

### Consolidated income statement

(in thousands of Euro)

|  | III Quarter<br>2018 | III Quarter<br>2017 | Period 2018<br>01/01 – 30/09 | Period 2017<br>01/01 – 30/09 |
|--|---------------------|---------------------|------------------------------|------------------------------|
| Income from sales and services             | 14,256              | 12,876              | 44,741                       | 39,809                       |
| Asset increases due to internal work       | 665                 | 906                 | 1,819                        | 3,072                        |
| Other revenue and receipts                 | 576                 | 24                  | 836                          | 503                          |
| Purchase costs                             | (92)                | (81)                | (272)                        | (224)                        |
| Service costs                              | (2,043)             | (2,212)             | (7,820)                      | (6,183)                      |
| Other operational costs                    | (243)               | (195)               | (639)                        | (645)                        |
| Labour costs                               | (9,203)             | (8,567)             | (28,513)                     | (27,915)                     |
| Other administrative expenses              | (482)               | (513)               | (1,461)                      | (1,586)                      |
| Allocation to fund and credit depreciation | (29)                | (30)                | (95)                         | (78)                         |
| Intangible fixed asset amortization        | (1,089)             | (1,153)             | (3,059)                      | (3,842)                      |
| Tangible fixed asset amortization          | (163)               | (149)               | (512)                        | (436)                        |
| Financial income                           | 1                   | 0                   | 5                            | 2                            |
| Financial expenses                         | (30)                | (11)                | (65)                         | (35)                         |
| Revaluations and depreciations             | (425)               | 330                 | 290                          | 556                          |
| <b>Pre-tax result</b>                      | <b>1,700</b>        | <b>1,228</b>        | <b>5,255</b>                 | <b>2,998</b>                 |
| Income taxes                               | (499)               | (293)               | (1,437)                      | (718)                        |
| <b>Profit (loss) for the period</b>        | <b>1,201</b>        | <b>935</b>          | <b>3,818</b>                 | <b>2,280</b>                 |

**Profit (loss) for the period attributable to:**

|                             |              |            |              |              |
|-----------------------------|--------------|------------|--------------|--------------|
| Non-controlling interests   | 50           | 239        | 236          | 402          |
| <b>Owners of the parent</b> | <b>1,150</b> | <b>696</b> | <b>3,582</b> | <b>1,878</b> |

Weighted average number of ordinary shares: 8,980,000

|                                 |       |       |       |       |
|---------------------------------|-------|-------|-------|-------|
| Basic earnings per share (in €) | 0.128 | 0.078 | 0.399 | 0.209 |
|---------------------------------|-------|-------|-------|-------|

### Consolidated statement of comprehensive income

(in thousands of Euro)

|  | III Quarter<br>2018 | III Quarter<br>2017 | Period 2018<br>01/01–30/09 | Period 2017<br>01/01–30/09 |
|--|---------------------|---------------------|----------------------------|----------------------------|
| <b>Profit (loss) for the period</b>  | <b>1,201</b>        | <b>935</b>          | <b>3,818</b>               | <b>2,280</b>               |
| <b>Other comprehensive income that will not be reclassified subsequently to profit or loss</b> |                     |                     |                            |                            |
| Actuarial gains/(losses) on defined benefit liabilities  | -                   | -                   | 150                        | 233                        |
| <b>Total Comprehensive income (loss)</b>   | <b>1,201</b>        | <b>935</b>          | <b>3,968</b>               | <b>2,514</b>               |

Comprehensive income (loss) attributable to:

|                               |              |            |              |              |
|-------------------------------|--------------|------------|--------------|--------------|
| - Non- controlling interests  | 50           | 239        | 274          | 431          |
| - <b>Owners of the parent</b> | <b>1,150</b> | <b>696</b> | <b>3,693</b> | <b>2,082</b> |





## Consolidated Statement of financial position

(in thousands of Euro)

| 31/12/2017    | ASSETS   | 30/09/2018    | 30/09/2017    |
|---------------|--|---------------|---------------|
|               | <b>Non-Current Assets</b>                        |               |               |
| 18,139        | Property, plant and equipment                    | 18,361        | 18,231        |
| 16,625        | Intangible assets                                | 14,846        | 17,616        |
| 8,309         | Goodwill   | 14,772        | 8,309         |
| 2,500         | Investments                                      | 990           | 2,758         |
| 89            | Investments at fair value recorded in the income | 89            | 39            |
| 326           | Other non-current financial assets               | 730           | 322           |
| 825           | Credits due to deferred taxes                    | 652           | 702           |
| <b>46,813</b> | <b>TOTAL NON-CURRENT ASSETS</b>                  | <b>50,440</b> | <b>47,978</b> |
|               | <b>Current Assets</b>                            |               |               |
| 53            | Inventories                                      | 20            | 9             |
| 29,606        | Trade receivables and other credits              | 22,159        | 32,514        |
| 1,216         | Tax credits                                      | 2,618         | 1,699         |
| -             | Other current financial assets                   | 1,075         | -             |
| 14,150        | Cash on hand and other equivalent assets         | 22,647        | 5,660         |
| <b>45,025</b> | <b>TOTAL CURRENT ASSETS</b>                      | <b>48,518</b> | <b>39,881</b> |
| <b>91,838</b> | <b>TOTAL ASSETS</b>                              | <b>98,958</b> | <b>87,859</b> |

| 31/12/2017    | EQUITY AND LIABILITIES                                   | 30/09/2018    | 30/09/2017    |
|---------------|--|---------------|---------------|
|               | <b>Equity</b>  |               |               |
| 4,670         | Company capital  | 4,670         | 4,670         |
| 35,246        | Reserves   | 35,246        | 35,246        |
| 15,023        | Accumulated profits/losses                               | 18,702        | 13,404        |
| <b>54,939</b> | <b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b> | <b>58,618</b> | <b>53,320</b> |
| 2,175         | Capital and reserves of third parties                    | 2,792         | 2,251         |
| 907           | Profit (loss) of third parties                           | 236           | 402           |
| <b>3,082</b>  | <b>Non-controlling interests</b>                         | <b>3,027</b>  | <b>2,653</b>  |
| <b>58,021</b> | <b>TOTAL EQUITY</b>                                      | <b>61,646</b> | <b>55,973</b> |
|               | <b>Non-current liabilities</b>                           |               |               |
| 1,663         | Financing  | 6,693         | 1,101         |
| 2,520         | Deferred tax liabilities                                 | 2,527         | 2,520         |
| 7,837         | Employee benefits and quiescence provisions              | 7,594         | 7,666         |
| 160           | Expense and risk provisions                              | -             | -             |
| <b>12,180</b> | <b>TOTAL NON-CURRENT LIABILITIES</b>                     | <b>16,814</b> | <b>11,287</b> |
|               | <b>Current liabilities</b>                               |               |               |
| 5,800         | Trade payables   | 7,743         | 7,077         |
| 4,540         | Current tax payables                                     | 3,448         | 2,838         |
| 3,948         | Short-term financing                                     | 2,810         | 3,860         |
| 7,350         | Other liabilities  | 6,499         | 6,824         |
| <b>21,637</b> | <b>TOTAL CURRENT LIABILITIES</b>                         | <b>20,499</b> | <b>20,599</b> |
| <b>91,838</b> | <b>TOTAL LIABILITIES AND EQUITY</b>                      | <b>98,958</b> | <b>87,859</b> |



## Consolidated Cash Flow Statement

(in thousands of Euro)

| <i>Cash Flow Statement of CAD IT Group</i>                         | <i>Period 2018<br/>01/01-30/09</i> | <i>Period 2017<br/>01/01-30/09</i> |
|--|------------------------------------|------------------------------------|
| <b>A) OPERATING ACTIVITIES</b>                                     |                                    |                                    |
| Profit (loss) for the period                                       | 3,818                              | 2,280                              |
| Amortisation, revaluation and depreciation:                        |                                    |                                    |
| - Property, plant and equipment depreciation                       | 512                                | 436                                |
| - Intangible fixed asset amortisation                              | 3,059                              | 3,842                              |
| - revaluation of investments                                       | (608)                              | (556)                              |
| - depreciation of investments                                      | 333                                | -                                  |
| Allocations (utilization) of provisions                            | (194)                              | 13                                 |
| Financial performance:   |                                    |                                    |
| - Net financial receipts (charges)                                 | 61                                 | 33                                 |
| - Profit/(loss) on foreign exchange                                | (2)                                | (3)                                |
| Other working capital variations                                   | 4,421                              | (21)                               |
| Income taxes paid  | 0                                  | (225)                              |
| Interest paid  | (63)                               | (32)                               |
| <b>A) - Cash flows from (used in) operating activities</b>         | <b>11,336</b>                      | <b>5,767</b>                       |
| <b>B) INVESTMENT ACTIVITIES</b>                                    |                                    |                                    |
| Investments in activities  |                                    |                                    |
| - purchase of property, plant and equipment                        | (426)                              | (254)                              |
| - purchase/production of intangible assets                         | (1,963)                            | (3,157)                            |
| - purchase of investments in subsidiaries net of cash availability | (3,814)                            | -                                  |
| - increase in other non-current financial assets                   | (163)                              | (20)                               |
| Disinvestment activities   |                                    |                                    |
| - transfers of property, plant and equipment                       | 31                                 | -                                  |
| - transfers of assets available for sale                           | 724                                | 11                                 |
| - decrease in other non-current financial assets                   | 13                                 | 23                                 |
| Cashed Interest  | 5                                  | 2                                  |
| Cashed dividends   | 150                                | -                                  |
| <b>(B) - Cash flows from (used in) investment activities</b>       | <b>(5,441)</b>                     | <b>(3,395)</b>                     |
| <b>C) FINANCING ACTIVITIES</b>                                     |                                    |                                    |
| Medium/long term financing repayment                               | (1,208)                            | (576)                              |
| Medium/long term financing opening                                 | 6,237                              | -                                  |
| Allocation of profits to directors of subsidiary companies         | (27)                               | -                                  |
| Minority owners payments in subsidiary companies                   | -                                  | 30                                 |
| Dividends paid   | (1,263)                            | (1,910)                            |
| <b>(C) - Cash flows from (used in) financing activities</b>        | <b>3,740</b>                       | <b>(2,456)</b>                     |
| <b>(A+B+C) - Total cash and other equivalent assets flows</b>      | <b>9,634</b>                       | <b>(84)</b>                        |
| Opening cash balances and equivalents                              | 10,203                             | 1,883                              |
| <b>Closing cash balances and equivalents</b>                       | <b>19,837</b>                      | <b>1,800</b>                       |

## EXPLANATORY NOTES

### 1. Foreword

This Interim Management Report is provided as an additional periodic financial information and has been drafted, in accordance with article 2.2.3, paragraph 3, letter a) of the Borsa Italiana Rules, according to the provisions of the paragraph 5 of Article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998.

In accordance with this regulation, this interim management report gives:

- a) a general description of the Group's financial standing and financial trend in the reference period;
- b) an outline of the significant events and transactions that occurred in the reference period and their effect on the Group's financial standing.

This report is not an interim management statement drafted in accordance with IAS 34 "Interim Statements".

The interim report includes balance charts in reference to the following periods:

- profit and loss account for the interim period in question and trend compared to the same interim period (period and trend) of the previous financial year;
- statement of financial position at the end of the interim period concerned, in comparison to the statement of financial position of the last annual financial statement;
- cash flow statement at the interim period closure date compared to the figures for the same period of the previous financial year.

The figures representing the net financial position, compared with the figures of the previous quarter and the previous year end, and tables showing investments in intangible and tangible assets, installations and machinery relating to the intervening period between the beginning of the financial period and the closing date of the quarter, are also supplied.

This document shows the quarterly figures required on a consolidated basis, since CAD IT S.p.A is obliged to draft a consolidated balance.

Unless otherwise indicated, the monetary sums in the accounting tables and those in the notes are shown in thousands of Euro. The totals and subtotals of the statements presented are determined by rounding the sum of the point data. The percentage figures shown are calculated using the non-rounded off figures.

The Interim Management Report is not subject to auditing by the auditing company.

### 2. Information on CAD IT S.p.A.

CAD IT is the leader of a group that is one of the most dynamic organizations in the Italian information technology sector.

CAD IT was set up as a joint stock company under Italian law. The registered office and the administrative and main operating offices are in Via Torricelli 44/a, Verona. The company is registered in the Verona Company Register under no. 01992770238. Share capital amounts to € 4,669,600, fully subscribed and paid-in, and comprises 8,980,000 ordinary shares. There are no other action categories. These shares are nominal and cannot be divided. Each of them entitles to one vote in the ordinary and extraordinary meetings of the company and to the execution of all other corporate and property rights in accordance with the law and the company's by-laws. The company is listed on the Italian Stock Exchange since 2000 and is included in the STAR segment of the MTA Market, segment conceived for mid size companies that voluntarily comply with requirements of excellence in terms of information transparency, communication, liquidity of free float and Corporate Governance, in line with best international standards.

CAD IT S.p.A. is subject to the control of Quarantacinque S.p.A., as provided by article 2359 of the Italian Civil Code.

CAD IT S.p.A. manages and coordinates its own subsidiaries.

The CAD IT Group operates in Italy with its own branches and companies in Verona, Milan, Rome and Prato and in Spain in Madrid with its subsidiaries DPI and SFB.

### **3. Activities of the Group**

#### ***A dynamic and innovative company ...***

The group philosophy is that every customer situation is unique and for each of them will be sought specific solution. For this reason group's technology solutions are established on component-based architectures that allow for secure, phased and progressive implementation.

With over 600 highly trained operators with specific expertise in innovative technologies, the Group aims to promote the success of its customers.

#### ***... with a broad and impressive customer base***

CAD IT serves demanding market-leading organisations across Europe.

Its customer base includes banking groups, national authorities, local authorities, consumer goods companies, insurance companies, outsource service providers and foundations.

Each day, its technology solutions support over 200,000 end-users in: Italy, Switzerland, Germany, UK, Czech Republic, Spain, Portugal, Austria, Saudi Arabia and China.

#### ***... operating through a dedicated company network***

During the years it has widened its product range through the continual increase in new skills, a careful strategy of acquisitions and partnerships, considerable investment in research and development and constant market trend monitoring, that has always favored the issue of products in line with the changing needs and anticipating needs.

The founding of new companies and other strategic purchases have enabled the Group to improve synergies and to enter new markets, e.g. business intelligence and control and management systems for banks, insurance companies, private and public institutions, innovative solutions to interconnect financial markets, SIM (securities brokerage firm) and SGR (company asset management), ERP applications and solutions for local tax collection agencies.

#### ***... with market leading products based on reliable and flexible technology***

CAD IT has proven and functionally-rich technology solutions and offers its customers true expertise in technology.

With the gained experience and consistent R&D in technology design and application development, the group has the expertise to build reliable, user-friendly and highly scalable application architecture.

Based on an independent model platform, service oriented its architectures offer customers the flexibility of phased implementation within a technology framework that is designed for today and can evolve around their changing needs. The "lego" methodology, coupled with a broad range of services, facilitates the tailoring of common technological solutions to the customer's situation.

#### ***... combining with a comprehensive set of services***

The services offered are related to developed solutions in the following areas:

- project management;
- system integration;
- consultancy and training;
- customisation and change management activities;
- application monitoring & support through agreed SLA;
- multi-lingual, 24x7 Help Desk;
- regulatory support;
- application development;
- application maintenance;



- private cloud;
- business processing.

### *... and a laser focus on customer service*

Guidelines, frameworks and specific toolsets are in place to ensure every aspect of work is linked to these needs from requirements and service planning, through solution development to deployment and support.

Software Development Centre of CAD IT supports all software releases, documentation and materials that allow to simplify the operation activities of its customers.

The Group developed a special single-point-of-contact (SPOC) Customer Support Framework for the management of support and maintenance activities including Service Desk, Incident and Problem Management, Change and Release Management.

Its main purpose is:

- to act as a single point of contact for the CAD IT software end-user;
- to manage the life cycle of user generated issues and service requests;
- to guarantee pre-agreed service levels;
- to organise and prioritise requirements;
- to keep end-users updated on progress.

### *... innovating together with a wide network*

CAD IT invests heavily in R&D for its technology solutions.

Its capacity to innovate together with its clients is a compelling advantage. For many years now CAD IT adopted a collaborative research and development approach with customers, universities, regulatory authorities, consultancies, communities and technological and business partners.

With a growing user community of over 200,000 end-users, where customer demands and requirements constantly evolve, Group's strength is the ability to deliver solutions that respond to our client's needs and adapt to the changing market environment.

### *... offering constant improvement*

The CAD IT Group offers solutions based on the know-how of a vast community of users and supports customers in achieving their own specific objectives with a personalised approach based on granular software components and tailor-made modular services.

Due to the inspiration we receive from our customers and believing firmly in creating stable and lengthy relations, we aim to evolve constantly by making every effort to find new methods, innovate our technology and support the professional growth of our own resources through training and experiential courses.

The commitment to understanding the customers' needs and to providing increasingly more efficient solutions is the true reason behind the managing to maintain customer satisfaction rate extremely high.

Innovation does not simply end with the supply of a state-of-the-art technological solution, but is a continual process of customer support to provide solutions that evolve and adapt to changing market conditions. This is why the Group continues to provide support for all the releases and, although invites its customers to evolve, never obliges them to replace their software with updated versions.

By offering holistic services like system integration, training, consultancy, assistance and constant support, the Group is continually enriching its own know-how by increasing the added value of the solutions it offers to the customers.

## **FINANCE**

Area Finanza, flagship product, is viewed as the gold standard on the Italian market, with about a 90% share of the Italian securities processing market, according to the estimate of the company.

Since 2006, with continuing product development, Area Finanza has now been implemented successfully internationally, at leading financial institutions in Switzerland, Germany, UK and the Czech Republic.

Area Finanza offers total automation of all processes relating to derivatives and securities in the following macro areas: Position Keeping, Custody and Administration, Corporate Actions, Order Management, Trading Rooms, Securities Master Database, Settlement, Asset Management, Reconciliations, REPOs, Know Your Customer, Financial Advice and Reporting.

Customers are banks, banking groups, insurance companies, global custodians, brokers, asset managers, IT and BPO service providers, finance companies, trust companies and banking foundations.

According to company estimates within Europe, applications for Area Finanza are the following:

- 1.5 trillions of euro of AUM – Asset Under Management;
- 200,000 users;
- 25,000,000 security deposit accounts.

### **PUBLIC ADMINISTRATION**

The Group holds a leading position in providing software solutions for Tax Collection in Italy.

Our SET suite for tax collection is the National IT solution being used by the Institutions that manage public tax collection.

Activity in this sector began in the 1980s and has been developed by constantly keeping up with the legal and functional evolutions in the management of both "voluntary" and "compulsory" tax collection.

Since 2006, in view of the ongoing decentralisation of local tax collection, CAD IT has made considerable investments in developing its FE suite for managing Taxation for Public Authorities, capitalising on its experience in Tax Collection at a central level.

FE offers avant-garde tools at the service of all types of central and local Authority for managing tax collection, from preparing "loading lists" up to payment collection and settlement. Furthermore, the FE suite includes planning and control solutions that improve the Authority's internal management, so that Public Administration can accompany the citizen through all the most important events of the public service lifecycle: from information services to the various payment means.

Customers are Authorities, Licensed Companies, Tax Collection Agents and Banking Groups that carry out Treasury and Tax collection services.

### **INDUSTRY**

In addition, the Group boasts a long-standing activity in the industrial and the financial sectors and can count on the capacity to offer solutions for e-business, credit and industrial companies in constant evolution.

CAD IT is a reference point for companies producing the most famous "made in Italy" products: fashion and food. In these sectors, CAD IT aims at providing specific IT and business skills through software packages and services with high added value that ensure immediate benefits for its customers.

Customers are hundreds of companies dotted all over Italy with branches abroad and with a strong potential for internationalization. Companies that have grown with the collaboration of CAD IT in terms of modernising and reviewing their company procedures. With them were created organizational models so that decisions can be taken quickly and within economically sustainable time periods.

CAD IT, with the support of its strategic partners, as INFOR, is able to provide the customers with a complete range of solutions so that they can make the decisions that lead to creating advanced systems supported by the very best specific skills available on the market.

## **4. Hot topics**

### **MiFID II – MiFIR**

Banks and other investment companies operate in an environment with strict, complex and hard-to-interpret regulations. Several regulations (e.g. EMIR, BASEL III, CRD IV, IFRS 9, Market Abuse) affect the same operating processes.

In this context, the new European Union directives, MiFID II and MiFIR, came into force as of 2018. This new

regulation regards various operational processes and impacts on income sources such as commissions, incentives and financial product distribution.

The banks and investment companies need a comprehensive and modular MiFID II/MiFIR compliant solution that has a lesser impact on processes and which allows large volumes of data to be managed efficiently and centrally. CAD IT's solution for managing MiFID II and MiFIR obligations is flexible and covers all the regulatory areas: "customer protection", "markets" and "compliance".

CAD IT's solution is solid because it is based on existing products and founded on regulatory requirements shared by a work group that comprises all CAD IT's customers.

### **IFRS 9**

In July 2014, the IASB issued the new IFRS 9 accounting standard that legislates financial instrument classification, measurement, impairment and hedge accounting in replacement of the IAS 39 accounting standard. The IFRS 9 application range involves all debt and equity financial instruments that were already included in the IAS 39 scope. The new standard came into force as of 01/01/2018.

The IFRS 9 will have a number of new aspects compared to the current IAS 39 standard:

- new Business Model concept;
- new binding rules for classifying financial instruments in terms of the SPPI test ("Solely Payments of Principal and Interest");
- new balance categories;
- new ways to measure financial instruments;
- new ways to calculate impairment.

These new entries in IFRS 9 have a significant impact on Financial Institute Balances and, above all, have many consequences on organisational procedures and company information technology systems.

In this context, CAD IT, thanks to its consolidated experience in developing IT solutions for financial instrument management, evolved Finance Area in order for it to be IFRS 9 compliant, also through sharing with a work group made with leading Italian financial institutions that had the purpose of sharing the impacts of the new regulation as well as the relative solutions.

Today, Finance Area offers compliant solutions relating the Master Data Portfolios, Master Data Securities, the First Time Adoption, Assessments and Accounting, Impairment, Hedging and Controls on dispositive and administrative functions.

### **Master Data**

After meticulous international market research into best practices and best available technologies, and following years of research and development in collaboration with a leading banking group, CAD IT has created Master Data, a robust, dynamic and pro-active product that is able to rapidly evolve and adapt its own processes, designed to meet the needs of a banking group which, in total autonomy, wants to configure, manage and monitor processes and the specificities of each Entity.

Master Data is user-oriented thanks to an active graphic interface, fitted with dynamic module loading, real-time validation, self-completion, contextual help windows and timely messaging, that also supports the user during every data process phase, thus increasing concentration and zeroing error percentages.

Master Data is quality-centric, based on an intrinsic data quality system that enables the constant data management, offering definition and configuration autonomy in:

- data acquisition processes through workflow definition and form design;
- data checking through data dictionary;
- proper usage of the data.

Moreover Master Data is migration-oriented, a unique product that brings with it the experience of a sustainable migration process which allows:

- new and "old" data to be constantly aligned thanks to a two-directional synchronisation process;
- applications that access "old" data to progressively migrate to the new data.



### ***Cash & Liquidity Management - Basilea III compliant***

Constant evolution in the Payment System world, globalisation and high market volatility make Treasury activities more and more complex and Treasury is forced to face difficult challenges on a daily basis: risk management, uncertainties concerning the quality of information gathered, processing of reliable forecasts and satisfying the current regulatory requirements set by institutional entities (like, for example, the Basel Committee of Banking Supervision, BCBS).

Underestimating these scenarios can lead to high risk in terms of wasting resources in activities with poor added value, running into pointless expenses linked to interest rates and not achieving cash flow objectives. It is therefore necessary to find a solution that would offer the greatest number of benefits and advantages to the user. A solution that would be able to respond, at any moment, to the most important questions in terms of liquidity management. CAD IT aims at determining factors to achieve this objective, in other words: detailed collection and management (also in real-time if possible) of all the necessary information, check functions that guarantee the quality of the data used, product adaptation to all possible operative configurations, maximum usability in order to reduce errors and increase user action effectiveness.

Built on the CAD IT SPIKE framework technology, Cash & Liquidity Management supports the Treasury in managing the liquidity needed for all the bank's or financial institute's activities. Adaptable to the organisational structure in terms of security/enablement and operative workflow, the product interfaces with the systems (internal or external) that operate on liquidity, providing an overall and detailed view of the cash trend: End of Day, Intraday and Forecast, all supported by graphics and parameterisable alert functions. There is a funding functionality which also acts automatically, processing transaction "proposals" (giros and transfers) on the basis of rules linked, for example, to balance and average stock. The user can modify and/or confirm these proposals which, if sent to the Systems of reference, will immediately be used by the application to calculate forecasts.

Report management is an important advantage that SPIKE offers to the treasurer in order to meet accounting needs at all organisational levels as well as everything foreseen by the regulations (e.g. Central Banks, BASILEA 3, etc.). Print-outs can be produced automatically or on command by the user who, starting from all the information in the database, can manage reporting through pre-defined models or in a personalised manner. The reports can be edited on the basis of all the most commonly used layouts (pdf, csv, xls, txt, etc.).

### ***KID per PRIIPs***

The introduction of KIDs for all PRIIPs comes fully within the host of post-crisis European provisions aimed at strengthening retail investor protection.

PRIIPs "packaged retail investment and insurance-based investment products", are "pre-assembled" investment and insurance products sold by the financial industry to retail customers.

KIDs "key information documents", refer to 3-page documents, which every issuer will be obliged to submit to the customer, containing key information on the product sold.

Every issuer is obliged to provide the KIDs relating to products of their own issue and supply the customers with a copy, in order to be able to sell the products. The information therein should be standardized and comparable and an average retail investor should be able to understand them easily.

The KID has not only be prepared for new products, but also for those of older issue and moreover must be constantly monitored and, if necessary, updated and published on multiple channels.

Issuers are now realizing that the KIDs are not just simple reports but do, in fact, contain quantitative and qualitative information that is hard to assemble, implying an in-depth knowledge of the regulation and the technical standards to be applied.

In order to meet the needs of its clientele, CAD IT, in collaboration with «Fairmat», a company that has been working for years on themes regarding PRIIPs, has created a software solution that will allow issuers to rapidly structure the KIDs in relation to all product types involved in the regulation.

The platform is extremely flexible and can be integrated with the necessary general data for automating the process.

Finally, the solution provides the possibility of simulating scenarios to test the final result of the KID for the new products created by the issuer.



### **BitFinder**

Bitfinder is a full text search engine that searches contents that may be present in any application, system, network or platform. BitFinder replaces the various tools that provide vertical search services on single applications with one single system able to carry out searches and group information and content from the most varied internal and external sources.

A powerful syntax allows specialised and personalised searches to be carried out for different contexts through the use of words, phrases, proximity operators, logic operators, regular weights and expressions.

Third party applications therefore have the chance to enrich their own functions by integrating BitFinder search services through the use of the API web service.

A security system based on Roles, ensures that only those effectively authorised will be able to see the information returned by the search.

The web administration module provides simple and complete management and parameterisation of all the functionalities.

### **Anti-Money Laundering**

The software procedure was created in order to comply with the anti-money laundering regulation introduced into the Italian system with law no. 197 of 5th July 1991, subsequently integrated and modified by various decrees and regulations up until the last Banca d'Italia Provision issued on 3rd April 2013, published in ordinary supplement no. 35 of Official Gazette no. 105 of 7th April 2013, and to put the provisions outlined in Directive 2015/849/CE (IV European Anti-money Laundering Directive) into effect.

The regulation involves a large number of subjects, especially bank and financial intermediaries in general and imposes the setting up of a Single Electronic Archive in which to record:

- continuous relations installed with the clientele;
- transactions of an equal or higher amount than a set threshold;
- transactions of a lower amount than the set threshold but made by the same subject within a defined timeframe and whose totals amount to the registration limit.

The Archive respects precise technical standards defined by the regulation both in terms of structure and data coding.

CAD IT's Anti-money laundering solution allows the customer to comply with all these obligations through easy-to-learn functions that not only make loading data and their subsequent management simple, but also data inquiries, should the controlling authorities need to carry out investigations. The solution is available in both the mainframe and departmental versions.

### **SOS**

Banca d'Italia has reviewed the entire collection and management system for suspicious transaction alerting. This new system aims at improving the quality of the alerts by ensuring greater uniformity and completeness as well as shortening the analysis and investigation procedures. An important new factor in the way that information flows with alerting parties are exchanged is the introduction of the standard XBRL format and the use of the Banca d'Italia portal.

The SOS system is natively integrated within CAD IT's "Anti money laundering" module but can also be independently interfaced with the bank's internal systems.

CAD IT's SOS system aims at making it easier to collect and integrate the data required for executing an alert by providing access to external files such as General Data, the Single Computerised File and the "unexpected" lists in the "Gianos" procedure.

An alert follows a route that generally starts from the branch in which the minimal data is collected, then goes to the central offices responsible for inserting other additional elements and ends with the production of files in the XBRL format, ready to be sent to the UIF.

The SOS software is able to memorise each individual stage, thus ensuring that the entire operation is archived.

### ***TDOC@Web***

In a world that is becoming increasingly submerged by information, constant attention to digitalisation issues is now necessary with a view to a simple and effective re-organisation of know-how. It is therefore essential to have the tools that are able to favour data and information exchange in a structured yet flexible manner.

TDOC@Web is CAD IT's tool that allows Bank, PA Office and Company users to quickly, safely and automatically transfer large volume data flows between different platforms and, more generally, between environments where controlled flow exchanges are essential for carrying out their service.

The instrument uses standard methods like MQ Series, Thema Spazio, Posta Elettronica Certificata, Web Services, etc.

Specific additional modules manage functionalities connected to "Digital Signatures" for user identification through Smart Cards, to verify documents that have been signed digitally and to affix Digital Signatures.

The system foresees functionality through the Internet/Intranet for checking, supervising and managing the users and for standard or personalised operative flows.

### ***Market Abuse Sensing***

Market Surveillance Authority regulations are becoming increasingly more severe and extensive. Applying them effectively while limiting the impact in terms of cost and application complexity, is a challenge that can be faced with automation.

CAD IT has developed a tool for Market Abuse Sensing (compliant with Italian and European laws) that is able to identify suspect transactions of market manipulation and information abuse (insider trading). The application also manages a register of interest conflicts.

The platform totally automates the processes for acquiring data for processing and has automatic search functions with a high number of variables to find potentially suspect transactions. The effectiveness of investigation into automatically identified transactions, in order to establish the soundness of the suspicion and to notify any transactions to the market surveillance authorities, is supported by a vast information workflow that allows the user easy and fast management of investigation activities.

### ***Local Authority Treasuries***

Local Authority Treasuries: software procedure for the total automated management of Local Authority Treasury and Funds for which the law imposes the figure of Treasurer or Receiver (Local Authority, Balances, documental and non-documental cash collection and payment management). The application can be integrated with Teso@Web, a product that, through Internet and by using special consultation functions, allows Local Authorities to swiftly access their own data. The SIOPE and Unified Telematic Public Treasury procedures are available for Banca d'Italia reporting.

## **5. Corporate Governance**

The system of corporate governance adopted by CAD IT SpA is the traditional one.

CAD IT adheres to the Code of Conduct for listed companies issued by the Italian Stock Exchange (the "Codice di Autodisciplina"), available on the website of the Italian Stock Exchange.

In compliance to the legal obligations, the Board of Directors annually approves the Corporate governance and property asset report, in accordance with articles 123 bis and 124 ter TUF and 89 bis Consob Issuer Regulations, in order to provide an adequate description of the corporate governance system adopted, information on property assets and adhesion to Corporate Governance regulations. The report is published and is available for public viewing in the Investor Relations sector of the company's Internet site: [www.caditgroup.com](http://www.caditgroup.com). Please refer to this document for further details on governance and the Internal Control System of CAD IT and of the Group.

## 6. Accounting standards and consolidation criteria

The economic, patrimonial and financial information has been drafted in accordance with the evaluation and measurement criteria as established by the International Financial Reporting Standard (IFRS), issued by the International Accounting Standards Board (IASB) and approved by the European Commission according to the procedure in art. 6 of the European Parliament and Council Regulation (EC) no. 1606/2002 of 19th July 2002.

The accounting standards adopted are the same as those used for drafting the last annual balance with the exception of the items described in the paragraph below – Accounting Standards paragraph, amendments and interpretations applied since 1st January 2018.

The accounting standards adopted have been applied in the same manner throughout the periods shown and for all the Group's companies, amending the respective Financial Statement drafted in accordance with Italian accounting standards to consolidate.

Interim Management Report has been drafted in the assumption that the company will continue.

Inside the Report is included the profit and loss account drafted in scalar form, highlighting the intermediary results as follows:

- Production revenues: this is the value of services and goods produced and sold by the Group, including internal assets and other income and earnings from the traditional offer.
- Added value: obtained by subtracting the operative costs for service and asset purchases from production revenues, this measures how much of the internal production and distribution of goods and services is due to company productive factors.
- Gross Operational Result (EBITDA): this figure is obtained by subtracting from the added value all of the costs that can be put down to staff and other administrative expenses. It highlights the result based on the traditional offer including depreciations, financial management, revaluations or devaluations and taxes.
- Operational Result (EBIT): this figure is obtained by subtracting the depreciation and funding amounts from the gross operational result.
- Ordinary Result: this includes the financial management result.
- Pre-tax result: obtained by including revaluations and devaluations in the ordinary Result.

In this report are not used more alternative performance indicators with the exception of the net financial position, shown in the Financial Statement notes, for which no reclassifications have been made in terms of Financial Statement figures and relative explanations are supplied and linked to the patrimonial status entries concerned, as defined in the CESR Recommendations.

### *Use of estimates*

The drafting of the Interim Management Report requires the company management to the formulation of evaluations, estimates and hypotheses to apply the accounting standards which affect the amounts of credit and debit and the costs and revenues found. Estimates and their relative hypotheses are based on past experience and factors considered reasonable for the case. Since they are estimates, the results obtained are not necessarily the same as the results portrayed.

The estimates and hypotheses are reviewed on a regular basis. Any variations deriving from an accounting estimate review are shown in the period in which the review was made if such review only affects that period. If the review affects the current and future periods, the variation is recorded in the period in which the review is made and in the relative subsequent periods.

### *Accounting standards, amendments and interpretations applied since 1st January 2018*

The accounting standards and evaluation criteria applied are consistent with those used for drafting the Consolidated Financial Statements as at 31<sup>st</sup> December 2017 with the exception of the two new international accounting standards applicable from 1<sup>st</sup> January 2018:

- IFRS 9 "Financial instruments", which replaces IAS 39 and
- IFRS 15 "Revenue from contracts with customers", which replaces IAS 18.

The application of the new accounting standards did not entail adjustments to data and results of previous years

and therefore it was not necessary to recalculate comparative information. It should be noted that as from 1 January 2018, as a result of the first application, the items in the consolidated statement of financial position have been modified according to the following schedule:

| <i>Items of assets from 1st January 2018</i>               | <i>Items of assets as of 31st December 2017</i> |
|--|---|
| Investments at fair value recorded in the income statement | Other financial assets available for sale       |
| Other non-current financial assets                         | Other non-current credits                       |

The "Other financial assets available for sale", entirely formed by investments in other companies at 31<sup>st</sup> December 2017, had not undergone changes in *fair value* and therefore the reclassification in the item "Investments at fair value recorded in the income statement" did not entail adjustments to assets.

No standards approved by the European Union, the application of which will be compulsory in the future, have been adopted in advance.

## 7. Consolidation area

The fully consolidated companies included in the financial schedules of CAD IT Group are the following:

| <i>Company name</i>   | <i>Registered office</i> | <i>Share/ Quota capital Euro</i> | <i>Percentage of investment</i> | <i>Percentage of investment of the Group</i> |
|---|--------------------------|----------------------------------|---------------------------------|--|
| <i>Consolidated using the integral method</i>   |                          |                                  |                                 |  |
| CAD IT S.p.A.   | Verona                   | 4,669,600                        | Parent company                  |  |
| CAD S.r.l.  | Verona                   | 350,000                          | 100.00%                         | 100.00%                                      |
| CeSBE S.r.l.  | Verona                   | 10,400                           | 62.11%                          | 62.11%                                       |
| Elidata S.r.l.  | Castiglione D'Adda (LO)  | 20,000                           | 51.00%                          | 51.00%                                       |
| Smart Line S.r.l.   | Verona                   | 102,700                          | 51.05%                          | 51.05%                                       |
| Datafox   | Verona                   | 99,999                           | 51.00%                          | 51.00%                                       |
| Tecsit S.r.l. <sup>(1)</sup>  | Roma                     | 75,000                           | 70.00%                          | 70.00%                                       |
| Desarrollo de Productos Informaticos S.A. <sup>(2)</sup>  | Madrid                   | 60,101                           | 75.25%                          | 75.25%                                       |
| Software Financiero Bolsa S.A.  | Madrid                   | 5,110,140                        | 70.00%                          | 70.00%                                       |
| Software Financiero Bolsa Outsourcing S.A. <sup>(3)</sup>   | Madrid                   | 100,000                          | 100.00%                         | 70.00%                                       |
| <sup>(1)</sup> Held through CAD S.r.l.  |                          |                                  |                                 |  |
| <sup>(2)</sup> The percentage of investment is calculated net of own shares held by DPI (1% of the share capital) |                          |                                  |                                 |  |
| <sup>(3)</sup> Held through Software Financiero Bolsa S.A.  |                          |                                  |                                 |  |

In April, CAD IT S.p.A. acquired 74.5% of the capital of the Spanish company, Desarrollo de Productos Informaticos S.A. (DPI).

In July an additional 40% of the Spanish company Software Financiero Bolsa S.A. (SFB), already associated company of the group, of which CAD IT held 30%, was acquired.

Since the date of acquisition of control, the companies have been included in the full consolidation area and therefore the consolidated profit and loss account values and consolidated cash flow statement include the operations carried out since the acquisition date to 30th September 2018, while the consolidated patrimonial and financial situation values include the payments at 30th September 2018.

Shares in associates, in which the Group has significant influence, have been evaluated using the equity method and reduced accordingly where the asset value has decreased.

| Company name | Registered office | Date of reference | Quotaholders' equity | Profit 01/01-30/09 | Percentage of investment | Investment value of the Group |
|--------------|-------------------|-------------------|----------------------|--------------------|--------------------------|-------------------------------|
| Sicom S.r.l. | Viadana (MN)      | 30/09/2018        | 3,960                | 2,430              | 25.00%                   | 990                           |

## 8. The short-term situation and trend of ICT market

Growth remains solid in the main advanced economies, though world trade has slowed significantly and financial and currency tensions have surfaced in the most vulnerable emerging countries. Global risks have increased, stemming from the possible repercussions of protectionist measures on corporate investment and from the potential increase of financial tensions in the emerging economies.

Economic activity in the euro area continues to expand, though more slowly. Inflation has remained at around 2.0 per cent, but core inflation is struggling to gain ground. The ECB's Governing Council reduced its net asset purchases in October and confirmed its intention to cease them at the end of 2018; it also reasserted the need to maintain an ample degree of monetary accommodation as long as necessary.

In Italy in the second quarter economic activity continued to expand at a moderate pace, somewhat slower than in the previous quarter. Strong growth in investment more than offset the negative contribution of foreign trade. The latest cyclical indicators suggest that in the third quarter, GDP growth slowed to about 0.1 per cent compared with the previous quarter, reflecting the stagnation in industrial production, continued growth of services and a moderately positive contribution from the construction sector.

For the banking groups classified as significant in the first half of 2018, the operating profits grew by 11.4 per cent compared with the same period of the previous year. Gross income rose by 2.0 per cent owing both to the increase in interest income and in net fee income. Operating costs fell by 2.6 per cent, benefiting from the reduction in staff costs (-4.4 per cent). Loan loss provisions fell by 58.0 per cent. The annualized return on equity amounted to 7.1 per cent, up from 6.2 per cent in the first half of 2017 (1.5 per cent net of extraordinary components in the first half of last year).<sup>1</sup>

The global technology scenario continues to develop along the digital transformation trajectories of recent years although at a speed that has been made possible by the convergence of three conditions: the availability of increasingly more intelligent devices at diminishing prices, the spread of more advanced network infrastructures, the multiplication of content and applications that make the digital experience of citizens, workers and consumers even more real. Developments are increasingly favouring the adoption of Digital Enabler principles and new business strategies, nurturing a sustained growth of the digital market even over the next few years, even if at a different speed and intensity, depending on the segments and application environments concerned. The Italian digital market confirms a recovery thanks to the latest components. In 2017, the Italian digital market grew by 2.3%, promising even greater growths in the medium term. It is the effect of a profound change in demand in all the main sectors, from Finance to Industry, to Distribution to Utility. The overall value of the market has exceeded 68,700 million Euros and the forecasts for the 2018-2020 three-year period are optimistic, with an annual yearly growth rate of 2.7% due to the effect of progressive increases from 2.3% in 2018, to 2.8% in 2019 and to 3.1% in 2020. The ICT industry – ascribable to products and solutions that do not belong to the more recently introduced innovative lines – is forecast to grow at a lower rate, equal to an average 1.2% a year over the next three years. Nevertheless, it also appears to be oriented towards better dynamics compared to the recent past.

In the first six months of 2018, the Italian Digital Market reached 33,830 million Euros with a growth of 2.5%, in line with the dynamics of the first six months of the previous year. This increase is attributable to the constant growth in innovative IT services – like those associated to Cloud Computing, IoT and Web applications – and to the substantial endurance of traditional IT services which have more than compensated for the drop in mobile

<sup>1</sup> Source: Banca d'Italia, Economic Bulletin no. 4, October 2018.



network services.

The Software and ICT Solution market grew, again in the first six months of 2018, by 8.4% to 3,292 million Euros with points that are still more significant in segments relating to IoT platforms (+21.9%) and Web application management (+14.3%).

The ICT Service market grew in the first six months of 2018 by 4.5% to 5,612.8 million Euros. Increases in the Cloud Computing (+22.8%) and Data Centre service (+3%) segments have been amply confirmed. The industry also showed a slight increase in segments relating to both infrastructure and application System Integration (+1.8%) and to Outsourcing services (+0.3%). Thanks to ongoing project activities and an increase in the demand for Outsourcing, Consultancy (+2.5%) and Training (+2.3%) services also grew.<sup>2</sup>

## **9. Significant events of the period**

On 3rd January 2018, the chairman and executive director, Giampietro Magnani, passed away suddenly. The chairman's position was taken on, in accordance with Article 20 of the company's by-laws and board deliberation of 29th April 2015, by vice-chairman and executive director Luigi Zanella until 19th January 2018, when the board of directors appointed the managing director Paolo Dal Cortivo as chairman of the board. At the same time, the Board of Directors nominated for co-option, pursuant to art. 18 of the company Statute and art. 2386 of the Italian Civil Code and on the favourable opinion of the Board of Auditors and the Remuneration and Nomination Proposal Committee, Cecilia Rossignoli as Non-executive Director, who then was confirmed to the office by the shareholders' meeting of 27 April 2018.

On February 2018, the company Quarantacinque S.p.A. notified its decision to promote a public offer of voluntary acquisition, pursuant to articles 102 and 106, paragraph 4 of the TUF, concerning the entire amount of CAD IT S.p.A. company shares, equal to about 85.766% of the CAD IT company capital, less the overall number of shares held by the subjects concerned in the offer (Paolo Dal Cortivo, Giulia Dal Cortivo and Liliana Lanza). The offer was promoted with the aim of acquiring the whole corporate capital of CAD IT, in any case, at obtaining the delisting of the Issuer's ordinary Shares from the MTA, without restoring, should this be the case, a sufficient free float to ensure the normal trading. On 20<sup>th</sup> April 2018, the offer was completed and Quarantacinque S.p.A. has reached 66.292% of the capital of CAD IT.

On 24<sup>th</sup> April 2018 acquired 74.5% of the capital of the Spanish company Desarrollo de Productos Informaticos S.A. (DPI). Founded in 1991, with registered offices in Madrid, DPI is the market leader in Spain for the supply of software solutions to about 60 Financial Company customers. DPI closed its 2017 financial period with revenues equal to 3.45 million euros, a net profit of 0.37 million euros and a Net Financial Position in credit for 1.54 million euros.

The cost of acquiring 74.5% of the DPI capital comes to about 3.8 million Euros of which Euro 3,040 thousand was provided at the date of acquired, while payment for the remaining Euro 760 thousand will be made on 30th April 2020. In order to meet the investment, CAD IT opened a specific bank financing for the duration of five years.

On 27<sup>th</sup> April 2018, the Ordinary Shareholders' Meeting of CAD IT S.p.A. approved the Annual Financial Statements at 31st December 2017 and resolved to set aside the year's net profit in the available reserves of undivided profits.

The Shareholders' Meeting also approved the first section of the Remuneration Report ex article 123-ter of Leg. Dec. 58/1998 (available in the Company's website), has nominated the Board of Directors, whose office will expire with the shareholders' meeting for the approval of the 2018 financial statements and the Board of Auditors, whose office will expire with the shareholders' meeting for the approval of the 2020 financial

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<sup>2</sup> Source: Anitec-Assinform e NetConsulting cube - Il Digitale in Italia 2018.



statements, determining their remuneration.

On 2nd May 2018 the Board of Directors granted powers to the directors, setting the executive directors' remuneration and has set up the Control and Risks Committee and the Nominating and Remuneration Committee.

On the same date, the Board of Directors also started the merger process between CAD IT S.p.A. and its controlling company Quarantacinque S.p.A., extraordinary procedure subsequently blocked and revoked in July, also in consideration of the discordant indications received from its financial advisor and the expert nominated by the Court.

In July believing however it appropriate to prosecute company share delisting from the "Mercato Telematico Azionario" (MTA) in order to ensure cost savings, greater managerial flexibility, organizational simplification and therefore a consequent acceleration in strategic decision-making, the Board of Directors began the procedure for the Company's merger into its own 100% subsidiary, CAD S.r.l., issuing a mandate to call an extraordinary CAD IT shareholders' meeting on 10th September, 2018. On 27 July the Boards of Directors of CAD IT and CAD S.r.l. resolved upon the approval of the "reverse" merger plan. The civil effects of the Merger will start from the last registration referred to in art. 2504-bis of the Italian Civil Code or from a later date, as determined in the Merger deed.

In the context of the Merger, CAD is expected to be converted in a joint stock company and to increase its corporate capital by means of a free share capital increase up to Euro 4,669,600 (or the lower amount following the possible annulment of the CAD IT shares which will not be purchased during the offer provided for by art. 2437-*quater* of the Italian Civil Code, as provided for by the Merger plan) with a corresponding split in a number of shares with no par value and equal to the number of shares of CAD IT.

As a consequence, all the shares representing the entire corporate capital of CAD following the Merger will be assigned to all shareholders of CAD IT, in the exact number of the CAD IT shares owned by them, net of the CAD IT shares in relation to which any withdrawal rights will have been exercised and not purchased before the Merger deed. The newly-issued shares of CAD will provide the same rights to their owners.

Taking into account that the Merger between CAD IT and CAD is a transaction between related parties (more precisely, a most relevant related parties transaction pursuant to letter (a)(i) of "Related Parties" definition included in Annex 1 of the CONSOB Regulation no. 17221/2010), the CAD IT Risk and Control Committee (acting as Related Parties Transactions Committee) has been involved during the preliminary phases of the transaction and has released a favorable opinion regarding the existence of an interest for CAD IT in completing the Merger, as well as on the convenience and substantial fairness of the terms and conditions set forth in the Merger plan. The opinion is attached to the informative document on the most relevant related parties transactions.

The Merger shall be considered as significant pursuant to art. 70 of the CONSOB Regulation no. 11971/99 (the "Issuers Regulation"); however, CAD IT exercised the right, provided for by art. 70, paragraph 8, to opt out from the obligations provided for by art. 70, paragraph 6. Therefore, the informative document to be drafted in accordance with Annex 3B of the Issuers Regulation will not be published.

On 7<sup>th</sup> and 10<sup>th</sup> September 2018, the extraordinary shareholder meetings of CAD and CAD IT respectively, approved the merger project and the relative deliberations were recorded in the Verona Company Register on 14<sup>th</sup> September 2018. Therefore, pursuant to art. 2437-*bis* of the Italian Civil Code, the shareholders who did not take part in the deliberation to approve the merger, were able to exercise their right of withdrawal by 29<sup>th</sup> September 2018, deriving from the merger deliberation the elimination of the list vote mechanism in accordance with art. 147-*ter* of Legislative Decree no. 58/1998, as well as the exclusion of CAD IT shares being quoted on Borsa Italiana's MTA.

In July, a further 40% share in the capital of the Spanish associated Software Financiero Bolsa (SFB), was acquired. In April 2016, CAD IT acquired 30% of SFB capital with the option, after the closure of the 2018 financial period, to acquire further shares in the holding in order to reach a controlling 51% share or up to 100% of the capital depending on the faculty of SFB partners to exercise a PUT for their remaining share. In virtue of SFB's promising results during the last two years, CAD IT has decided to bring the transaction forward to 2018.

The company ISATIS INVERSIONES owner of the remaining 30% of SFB has reserved a PUT option to sell CAD IT



his entire remaining share within a pre-determined timeframe exercisable until the close the next three financial periods.

Founded in 1994 and with registered offices in Madrid, SFB, with about 40 financial institution customers, is leader in Spain for the supply of front, middle and back-office software through which settlement instructions amounting to more than 60% of trading volumes negotiated on the Madrid Stock Exchange are processed daily. SFB closed its 2017 financial period with revenues of Euro 4.3 million and a net profit of Euro 0.6 million. The net financial position at 30th June 2018 came to Euro 2.3 million.

The amount that CAD IT paid in July for acquiring 40% of SFB capital and for the final payment of the 30% share acquired in April 2016 comes to Euro 4.86 million. The investment was upheld by suitable multi-year bank funding until September 2023.

With the acquisition of the companies SFB and DPI, CAD IT will be strengthening its presence in the European financial software segment, thereby confirming its strong interest in developing the Spanish market by being able to offer, through the two Spanish companies, its own highly innovative products, already well-established on the domestic market and used by 90% of Italian banks as well as other customers in Spain, Switzerland, Germany and England.



## 10. Management results and comments on the most significant components in the quarter

|  | III Quarter 2018 |               | III Quarter 2017 |               | Period variations |               |
|--|------------------|---------------|------------------|---------------|-------------------|---------------|
|  | €/000            | % PV          | €/000            | % PV          | absolute          | %             |
| Income from sales and services                       | 14,256           | 92.0%         | 12,876           | 93.3%         | 1,379             | 10.7%         |
| Asset increases due to internal work                 | 665              | 4.3%          | 906              | 6.6%          | (241)             | (26.6%)       |
| Other revenue and receipts                           | 576              | 3.7%          | 24               | 0.2%          | 552               | 2259.7%       |
| <b>Production value</b>                              | <b>15,497</b>    | <b>100.0%</b> | <b>13,807</b>    | <b>100.0%</b> | <b>1,691</b>      | <b>12.2%</b>  |
| Purchase costs                                       | (92)             | (0.6%)        | (81)             | (0.6%)        | (11)              | (14.3%)       |
| Service costs  | (2,043)          | (13.2%)       | (2,212)          | (16.0%)       | 169               | 7.6%          |
| Other operational costs                              | (243)            | (1.6%)        | (195)            | (1.4%)        | (48)              | (24.6%)       |
| <b>Added value</b>                                   | <b>13,119</b>    | <b>84.7%</b>  | <b>11,319</b>    | <b>82.0%</b>  | <b>1,800</b>      | <b>15.9%</b>  |
| Labour costs   | (9,203)          | (59.4%)       | (8,567)          | (62.0%)       | (636)             | (7.4%)        |
| Other administrative expenses                        | (482)            | (3.1%)        | (513)            | (3.7%)        | 30                | 5.9%          |
| <b>Gross operational result - EBITDA</b>             | <b>3,434</b>     | <b>22.2%</b>  | <b>2,240</b>     | <b>16.2%</b>  | <b>1,194</b>      | <b>53.3%</b>  |
| Allocation to fund and credit depreciation           | (29)             | (0.2%)        | (30)             | (0.2%)        | 0                 | 1.6%          |
| Intangible fixed asset amortization                  | (1,089)          | (7.0%)        | (1,153)          | (8.4%)        | 64                | 5.6%          |
| Tangible fixed asset amortization and depreciation   | (163)            | (1.1%)        | (149)            | (1.1%)        | (14)              | (9.3%)        |
| <b>Operational result - EBIT</b>                     | <b>2,154</b>     | <b>13.9%</b>  | <b>909</b>       | <b>6.6%</b>   | <b>1,245</b>      | <b>137.1%</b> |
| Financial income                                     | 1                | 0.0%          | 0                | 0.0%          | 1                 | 681.4%        |
| Financial expenses                                   | (30)             | (0.2%)        | (11)             | (0.1%)        | (19)              | (176.7%)      |
| <b>Ordinary result</b>                               | <b>2,125</b>     | <b>13.7%</b>  | <b>898</b>       | <b>6.5%</b>   | <b>1,227</b>      | <b>136.7%</b> |
| Revaluations and depreciations                       | (425)            | (2.7%)        | 330              | 2.4%          | (755)             | (228.9%)      |
| <b>Pre-tax result</b>                                | <b>1,700</b>     | <b>11.0%</b>  | <b>1,228</b>     | <b>8.9%</b>   | <b>472</b>        | <b>38.4%</b>  |
| Income taxes   | (499)            | (3.2%)        | (293)            | (2.1%)        | (206)             | (70.4%)       |
| <b>Profit/(loss) for the period</b>                  | <b>1,201</b>     | <b>7.7%</b>   | <b>935</b>       | <b>6.8%</b>   | <b>266</b>        | <b>28.4%</b>  |
| <b>Profit/(loss) for the period attributable to:</b> |                  |               |                  |               |                   |               |
| Non-controlling interests                            | 50               | 0.3%          | 239              | 1.7%          | (188)             | (78.9%)       |
| <b>Owners of the parent</b>                          | <b>1,150</b>     | <b>7.4%</b>   | <b>696</b>       | <b>5.0%</b>   | <b>454</b>        | <b>65.2%</b>  |

The third quarter of 2018 confirms the positive trend of the first half of the year; all results and profit margins of the quarter showing an improvement compared to the same period of previous year. Net profit of the quarter was Euro 1,201 thousand compared to Euro 935 thousand of the same quarter of previous year.

The value of production in the third quarter amounted to Euro 15,497 thousand, an increase (+12.2%) compared to the same quarter of previous year (Euro 13,807 thousand), mainly includes revenues from sales and services of Euro 14,256 thousand (+10.7% compared to Euro 12,876 thousand of the third quarter of 2017) as well as the increase in fixed assets for internal works of Euro 665 thousand (decreasing compared to Euro 906 thousand in the same period of 2017) relating to the development of new procedures and the CAD IT's own software park.

The added value of Euro 13,119 thousand, an increase compared to the same quarter of previous year (Euro 11,319 thousand) reaches a margin of 84.7 % on the value of production (82.0% in the third quarter of 2017).

Service costs of Euro 2,043 thousand, recorded a decrease (-7.6%) compared to the third quarter of 2017 (equal to Euro 2,212 thousand), mainly due to the lower use of third party collaborations and services.

Labour costs of Euro 9,203 thousand recorded an increase, compared to Euro 8,567 thousand in the third quarter of 2017. The average number of employees during the quarter was 704 employees (compared to 643 employees in the same quarter of 2017), an increase due to the entry into the consolidation area of Spanish companies, whose control was acquired. The increase in cost of labor in the quarter is therefore mainly due to the increase in the average number of employees.

Other administrative costs came in the third quarter to Euro 482 thousand, compared to Euro 513 thousand in

the previous third quarter, and mainly include costs relating to director fees and their relative contributory costs and telephone charges.

The EBITDA Gross Operational Result stood at Euro 3,434 thousand (equal to 22.2% of the value of production), showed a marked improvement (+53.3%) compared to the third quarter of 2017 (Euro 2,240 thousand, equal to 16.2% of the value of production).

Amortization contributions for the third quarter amounted to Euro 1,089 thousand for intangible assets and Euro 163 thousand for tangible assets, compared to Euro 1,153 thousand and Euro 149 thousand of the same quarter of 2017. The decrease in intangible assets amortization is mainly due to the completion of amortization plans on investment projects capitalized in previous years.

The EBIT operational result for the period was in credit by Euro 2,154 thousand, net increasing compared to Euro 909 thousand in the third quarter of 2017.

The result of the financial management was negative and recorded income of Euro 1 thousand and financial expense for Euro 30 thousand, compared to a negative net financial result of Euro 11 thousand in the third quarter of last year.

The ordinary result was positive for Euro 2,125 thousand, a significant improvement compared to Euro 898 thousand in the third quarter of 2017.

The revaluations and depreciations of the period refer to the share of result of associated company, calculated with the equity method, and to Euro 318 thousand depreciation recognized following to assessment at fair value of the 30% stake already held in the company SFB, whose control was acquired over the quarter and therefore fully consolidated.

Income before taxes of third quarter was positive for Euro 1,700 thousand (equal to 11.0% of the value of production), in sharp increase compared to the same period of the previous year of Euro 1,228 thousand (8.9% of the value of production).

Taxes impact on income for Euro 499 thousand, compared to Euro 293 thousand in the third quarter of 2017, resulting in a profit for the period of Euro 1,201 thousand, an improvement (+28.4%) compared to Euro 935 thousand in the third quarter of 2017.

The result of the quarter attributable to owners of CAD IT was positive for Euro 1,150 thousand compared to Euro 696 thousand in the third quarter of 2017; also the result attributable to minority interest was positive for Euro 50 thousand, Euro 239 thousand in 2017.

The figures summarizing earnings from sales and services, subdivided according to the business line and geographical area, compared to the corresponding amounts of the same periods of previous year, are shown below.

| Income from sales and services | 3° Quarter 2018 |       | 3° Quarter 2017 |       | Period 2018<br>01/01 – 30/09 |       | Period 2017<br>01/01 – 30/09 |       |
|--------------------------------|-----------------|-------|-----------------|-------|------------------------------|-------|------------------------------|-------|
|                                | €/000           | %     | €/000           | %     | €/000                        | %     | €/000                        | %     |
| Finance                        | 13,978          | 98.0% | 12,552          | 97.5% | 43,880                       | 98.1% | 38,659                       | 97.1% |
| Manufacturing                  | 278             | 2.0%  | 324             | 2.5%  | 861                          | 1.9%  | 1,150                        | 2.9%  |
| <b>Total</b>                   | <b>14,256</b>   |       | <b>12,876</b>   |       | <b>44,741</b>                |       | <b>39,809</b>                |       |

| Income from sales and services | 3° Quarter 2018 |       | 3° Quarter 2017 |       | Period 2018<br>01/01 – 30/09 |       | Period 2017<br>01/01 – 30/09 |       |
|--------------------------------|-----------------|-------|-----------------|-------|------------------------------|-------|------------------------------|-------|
|                                | €/000           | %     | €/000           | %     | €/000                        | %     | €/000                        | %     |
| Italy                          | 11,898          | 83.5% | 12,267          | 95.3% | 40,371                       | 90.2% | 37,939                       | 95.3% |
| Abroad                         | 2,357           | 16.5% | 611             | 4.7%  | 4,370                        | 9.8%  | 1,870                        | 4.7%  |
| <b>Total</b>                   | <b>14,256</b>   |       | <b>12,876</b>   |       | <b>44,741</b>                |       | <b>39,809</b>                |       |



## 11. Management results and comments on the most significant components – first 9 months

|  | Period<br>01/01 - 30/09/2018 |               | Period<br>01/01 - 30/09/2017 |               | Period variations |               |
|--|------------------------------|---------------|------------------------------|---------------|-------------------|---------------|
|  | €/000                        | % PV          | €/000                        | % PV          | absolute          | %             |
| Income from sales and services                       | 44,741                       | 94.4%         | 39,809                       | 91.8%         | 4,932             | 12.4%         |
| Asset increases due to internal work                 | 1,819                        | 3.8%          | 3,072                        | 7.1%          | (1,253)           | (40.8%)       |
| Other revenue and receipts                           | 836                          | 1.8%          | 503                          | 1.2%          | 333               | 66.3%         |
| <b>Production value</b>                              | <b>47,396</b>                | <b>100.0%</b> | <b>43,384</b>                | <b>100.0%</b> | <b>4,013</b>      | <b>9.2%</b>   |
| Purchase costs                                       | (272)                        | (0.6%)        | (224)                        | (0.5%)        | (48)              | (21.3%)       |
| Service costs  | (7,820)                      | (16.5%)       | (6,183)                      | (14.3%)       | (1,637)           | (26.5%)       |
| Other operational costs                              | (639)                        | (1.3%)        | (645)                        | (1.5%)        | 6                 | 1.0%          |
| <b>Added value</b>                                   | <b>38,666</b>                | <b>81.6%</b>  | <b>36,332</b>                | <b>83.7%</b>  | <b>2,334</b>      | <b>6.4%</b>   |
| Labour costs   | (28,513)                     | (60.2%)       | (27,915)                     | (64.3%)       | (598)             | (2.1%)        |
| Other administrative expenses                        | (1,461)                      | (3.1%)        | (1,586)                      | (3.7%)        | 125               | 7.9%          |
| <b>Gross operational result - EBITDA</b>             | <b>8,692</b>                 | <b>18.3%</b>  | <b>6,831</b>                 | <b>15.7%</b>  | <b>1,861</b>      | <b>27.2%</b>  |
| Allocation to fund and credit depreciation           | (95)                         | (0.2%)        | (78)                         | (0.2%)        | (17)              | (21.4%)       |
| Intangible fixed asset amortization                  | (3,059)                      | (6.5%)        | (3,842)                      | (8.9%)        | 783               | 20.4%         |
| Tangible fixed asset amortization and depreciation   | (512)                        | (1.1%)        | (436)                        | (1.0%)        | (76)              | (17.5%)       |
| <b>Operational result - EBIT</b>                     | <b>5,026</b>                 | <b>10.6%</b>  | <b>2,475</b>                 | <b>5.7%</b>   | <b>2,551</b>      | <b>103.1%</b> |
| Financial income                                     | 5                            | 0.0%          | 2                            | 0.0%          | 3                 | 167.9%        |
| Financial expenses                                   | (65)                         | (0.1%)        | (35)                         | (0.1%)        | (30)              | (86.7%)       |
| <b>Ordinary result</b>                               | <b>4,965</b>                 | <b>10.5%</b>  | <b>2,441</b>                 | <b>5.6%</b>   | <b>2,524</b>      | <b>103.4%</b> |
| Revaluations and depreciations                       | 290                          | 0.6%          | 556                          | 1.3%          | (267)             | (47.9%)       |
| <b>Pre-tax result</b>                                | <b>5,255</b>                 | <b>11.1%</b>  | <b>2,998</b>                 | <b>6.9%</b>   | <b>2,257</b>      | <b>75.3%</b>  |
| Income taxes   | (1,437)                      | (3.0%)        | (718)                        | (1.7%)        | (719)             | (100.2%)      |
| <b>Profit/(loss) for the period</b>                  | <b>3,818</b>                 | <b>8.1%</b>   | <b>2,280</b>                 | <b>5.3%</b>   | <b>1,538</b>      | <b>67.4%</b>  |
| <b>Profit/(loss) for the period attributable to:</b> |                              |               |                              |               |                   |               |
| Non-controlling interests                            | 236                          | 0.5%          | 402                          | 0.9%          | (167)             | (41.4%)       |
| <b>Owners of the parent</b>                          | <b>3,582</b>                 | <b>7.6%</b>   | <b>1,878</b>                 | <b>4.3%</b>   | <b>1,704</b>      | <b>90.8%</b>  |

The CAD IT group closed the first nine months of 2018 with positive results and profit margins, a strong improvement compared to the same period in 2017. Net profit of the period was Euro 3,818 thousand, increasing (+67.4%) compared to Euro 2,280 thousand of previous period.

The value of production for the period, an increase (+9.2%) compared to the previous year, mainly includes revenues from sales and services to the amount of Euro 44,741 thousand, increased by 12.4% compared to Euro 39,809 thousand in the first nine months of 2017, and increases in fixed assets for internal works of Euro 1,819 thousand (a decrease compared to Euro 3,072 thousand in the same period of 2017) relating to the development of new procedures and the CAD IT's own software park.

The other revenues and equivalent earnings of the period 2018 came to Euro 836 thousand, compared to Euro 503 thousand of the same period of previous year, and include Euro 543 thousand relating to tax credit provided by law no. 190/2014 for research and development activities (compared to Euro 411 thousand in 2017).

Revenues from sales and services of 2018 include Euro 2,313 thousand of the Spanish subsidiaries, that entered in the fully consolidation area during the period.

The added value of Euro 38,666 thousand showed an increase compared to Euro 36,332 thousand of previous period (+6.4%), and reaches a 81.6% marginality on the value of production (compared to 83.7% in the first nine months of 2017).

Purchase costs to the value of Euro 272 thousand increased compared to the same period of 2017 (Euro 224 thousand).

Service costs of Euro 7,820 thousand, increased by 26.5% compared to the first nine months of 2017 (equal to Euro 6,183 thousand), mainly due to the greater use of third party collaborations and services, in particular those provided by Sicom associated company, and for other service costs. Service costs mainly include external collaboration costs (Euro 4,117 thousand, compared to Euro 3,260 thousand in the first nine months of 2017), travelling expenses and fee reimbursement (Euro 731 thousand, unchanged compared to the first nine months of 2017) and other service costs (Euro 2,972 thousand, compared to Euro 2,192 thousand in the first nine months of 2017).

Other operating costs of Euro 639 thousand, are substantially in line with the same period of previous year (Euro 645 thousand) and include costs for leases and rentals (Euro 508 thousand, compared to Euro 473 thousand in the first nine months of 2017), these latter mainly consisting of taxes and fees not related to taxable income (such as IMU, Tasi - municipal taxes on real estate, registration taxes, stamp duty and taxes on waste), as well as expenses for magazines, publications and donations.

Labour costs of Euro 28,513 thousand recorded an increase, compared to Euro 27,915 thousand in the first nine months of 2017. The average number of employees during the period was 660 employees (compared to 645 employees in the same period of 2017). Labour costs of 2018 include Euro 1,605 thousand related to Spanish subsidiaries, that entered in the fully consolidation area during the period.

The other administrative expenses, which amounted in the period to Euro 1,461 thousand (Euro 1,586 thousand in the same period of 2017), mainly consist of director and manager fees (Euro 1,044 thousand, compared to Euro 1,201 thousand in the first nine months of 2017) and their relative contributory costs, of telephone and connectivity expenses (Euro 237 thousand, compared to Euro 229 thousand in the first nine months of 2017) and of advertising costs for the residual.

The EBITDA revenue margin was positive for Euro 8,692 thousand (Euro 6,831 thousand in the same period of 2017), with a margin of 18.3% on Production Value, an improvement compared to 15.7% in the same period of 2017.

The depreciation for the period amounted to Euro 3,059 thousand for intangible assets and Euro 512 thousand for tangible assets, compared to Euro 3,842 thousand and Euro 436 thousand in the same period 2017. The decrease in intangible assets amortization is mainly due to the completion of amortization plans on internally developed softwares, capitalized in previous years.

The EBIT operational result for the period was in credit by Euro 5,026 thousand, a sharp increase compared to Euro 2,475 thousand in the first nine months of 2017.

The result of the financial management was negative and recorded income of Euro 5 thousand and financial expense for Euro 65 thousand, compared to 2 and 35 thousand Euro in the first nine months of previous year.

The ordinary result was positive for Euro 4,965 thousand, a marked improvement (+103.4%) compared to Euro 2,441 thousand in the first nine months of 2017.

The revaluations and depreciations of the period refer to the share of result of associates, calculated with the equity method, amounting to Euro 290 thousand (Euro 556 thousand in the first nine months of 2017). During the third quarter 2018, following to assessment at fair value of the 30% stake already held in the company SFB, a Euro 318 thousand depreciation was recognized.

Income before taxes and minority interests was positive for Euro 5,255 thousand (equal to 11.1% of the value of production), an improvement (+75.3%) compared to the same period of the previous year of Euro 2,998 thousand (6.9% of the value of production).

Income taxes amounted to Euro 1,437 thousand, compared to Euro 718 thousand in the first nine months of 2017, resulting in a profit for the period of Euro 3,818 thousand, an improvement compared to Euro 2,280 thousand in the first nine months of 2017.

The result for the first nine months attributable to owners of CAD IT was positive for Euro 3,582 thousand, a considerable improvement compared to Euro 1,878 thousand in the same period of 2017; the result attributable to minority interest was also positive for Euro 236 thousand, compared to Euro 402 thousand in 2017.



## 12. Net financial position

The net financial position of the Group as at 30th September 2018 was in credit by Euro 14,219 thousand, compared to Euro 699 thousand at 30th September 2017.

In particular, the net short-term financial position amounted to Euro 20,912 thousand, while the net financial position is positive for Euro 14,219 thousand, due to the presence of long-term loans for Euro 6,693 thousand. Cash-on-hand bank accounts and cash amounted to Euro 22,647 thousand, an increase compared to 31/12/2017; short-term debts towards banks of Euro 2,810 thousand were made up of current account overdrafts and advances subject to final payment, as well as the current portion (within 12 months) of meium/long-term loans.

(in thousands of Euro)

| <i>Net consolidated financial position</i>              | <i>30/09/2018</i> | <i>30/06/2018</i> | <i>31/12/2017</i> | <i>30/09/2017</i> |
|---|-------------------|-------------------|-------------------|-------------------|
| Cash-on-hand and at bank                                | 22,647            | 23,598            | 14,150            | 5,660             |
| Other current financial assets                          | 1,075             | 1,085             | 0                 | -                 |
| Payables due to banks current portion                   | (2,810)           | (2,690)           | (3,948)           | (3,860)           |
| <b>Net short-term financial position/(indebtedness)</b> | <b>20,912</b>     | <b>21,993</b>     | <b>10,203</b>     | <b>1,800</b>      |
| Medium/Long-term loans                                  | (6,693)           | (3,036)           | (1,663)           | (1,101)           |
| <b>Net long-term financial position/(indebtedness)</b>  | <b>(6,693)</b>    | <b>(3,036)</b>    | <b>(1,663)</b>    | <b>(1,101)</b>    |
| <b>Net financial position/(indebtedness)</b>            | <b>14,219</b>     | <b>18,957</b>     | <b>8,540</b>      | <b>699</b>        |

The net financial position balance sheet agrees with the balance sheets; it is hereby reported that: cash and bank accounts are registered in the Statement of financial position as “Cash on hand and other equivalent assets<sup>2</sup>”; short-term financial debts are registered as “Short-term financing”; medium/long-term financing is registered in the patrimonial status as “Financing”.

Medium/long term loans for 6,693 thousand Euros relating for Euro 5,942 thousand to the amount beyond the 12 months of bank financing taken out by CAD IT during the course of the 2015 and 2018 financial periods, which foresee payback deadlines up until March 2023, and for 751 thousand Euros relating to a ten-year mortgage taken out in 2015 by a subsidiary company for the purchase of an instrumental property. The increase in debts towards banks beyond the 12 months is mainly due to having taken out bank loans in 2018, to finance the acquisition of Spanish subsidiary companies.

As shown in the consolidated cash flow statement, increasing in financial assets compared to the end of previous year was determined by the following management:

- Operational management activities, during the first nine months of 2018, generated a positive cash flow of Euro 11,336 thousand, (compared to Euro 5,767 thousand in the first nine months of 2017).
- Investment activities took Euro 5,441 thousand, compared to Euro 3,395 thousand used in the same period of previous year. Specifically Euro 3,814 thousand were used for the purchase of investments in the Spanish companies SFB and DPI, net of acquired cash availabilities, Euro 1,963 thousand were invested in intangible assets (a decrease compared to Euro 3,157 thousand of previous period) and Euro 426 thousand in tangible assets (an increase compared to Euro 254 thousand of previous period), while Euro 150 thousand were collected for dividends.
- Financing activities generated a positive cash flow of Euro 3,740 thousand (compared to a negative cash flow of Euro 2,456 thousand in previous period) mainly due to the opening of medium/long term financing (Euro 6,237 thousand) net of related repayments (Euro 1,208 thousand) and of the payment of dividends to minority shareholders of subsidiaries (Euro 1,263 thousand).

## 13. Research and development

CAD IT Group dedicates a significant part of its activities and resources to conceive, create and develop their own

software, which will either be licensed out to clients or directly used for product development and the provision of service to its customers.

Activities for the realization of new modules to increase the functional and/or technological development of the considerable range of software installed, with the purpose of consolidating traditional business, diversifying the Group's offer with new products and towards those sectors bordering on the ones in which it is already present and to new markets abroad, were also carried out during the current year.

An important development project concerns the evolution of the *Suite Area Finanza*, made up of independent and integrated modules that can each carry out their own specific activities and interface with others to ensure high standards of efficiency in the management of data, avoiding duplication, in perspective of simplifying the product and the method of release. The development allows to make the Suite even more attractive for the international market with the aim to create a new generation platform, improved in user experience compared to traditional platform Area Finanza, equipped with functionalities and new innovative technical solutions, adapted to the demands of the national and international market.

Another important ongoing development project regards the new General Data (Anagrafe Generale) product, a modern, technologically avant-garde, flexible and versatile solution, which will make it easy to adjust to constant variations in regulations and in the commercial or operative needs of banking institutions. Considering the centrality and criticality of the process, which is one of the primary data sources for the entire banking information system, thanks to the tools being developed, CAD IT will be able to offer gradual data migration within its implementation projects, which will include a period of co-existence and synchronisation between the old and new data system, in order to allow integration and interfacing with the system's other processes as well as standardisation of the data to be transferred into the new data file.

Activity in the production of specialized modules relating the Dashboard for the business intelligence (Managerial Information System) area is also continuing, especially in regard to compliance and liquidity management and monitoring.

Also in development is ART, a platform equipped with planning, development, integration, automation, notarizing, monitoring and maintenance functionalities which will all be available within a technological ecosystem. An evolution guarantee and a differentiating element which will reduce vendor lock-in. ART aims to provide that now indispensable autonomy required for business, operation and IT process management both inside and outside the organization.

Moreover, during the period, the activities started in previous years continued; these activities refer to developments and software updates were made and/or started in relation to sector or regulation evolutions that are having considerable impact on customer systems in the financial sector. These include the new IFRS 9 accounting standard, with particular reference, in the current period, to the adjustments of supervisory reports and financial statements and notes to the financial statements for financial institutions, the 2014/65/EU European Directive (MiFID II) and Regulation no. 600/2014 (MiFIR), the management of ISP Individual Savings Plans (products established with the 2017 Budget Laws, which give access to taxation benefits by investing in certified financial instruments, in other words, those that mainly refer to Italian companies, including small and medium-sized enterprises, maintaining the plan for at least 5 years).

Development activities, started in 2017 financial period, to enrich the product for managing operability on trading on line (TOL), continued during the period.

#### **14. Investments and assets**

The figures accumulated in investments in intangible and tangible assets, made during the third quarter by companies of the Group included in the consolidation area amount to Euro 954 thousand, compared to Euro 989 thousand in the same period of 2017. Investments made in the first nine months conversely amount to Euro 2,388 thousand, compared to Euro 3,411 thousand in the same period of previous year.



(in thousands of Euro)

| Summary of investments   | 3° Quarter | 3° Quarter | Period 2018   | Period 2017   | Year         |
|--|------------|------------|---------------|---------------|--------------|
|  | 2018       | 2017       | 01/01 - 30/09 | 01/01 - 30/09 | 2017         |
| Intangible fixed assets  | 3          | 54         | 143           | 85            | 111          |
| Assets under development and payments on account                 | 665        | 906        | 1,819         | 3,072         | 3,658        |
| Property, Plant and equipment                                    | 285        | 28         | 426           | 254           | 313          |
| <b>Total investments in tangible and intangible fixed assets</b> | <b>954</b> | <b>989</b> | <b>2,388</b>  | <b>3,411</b>  | <b>4,082</b> |

The decrease in investments is mainly referred to the item "Intangible fixed assets under development" related to investments in development of software procedures. Most of these costs refer to the use of the Group's internal resources for the development of its own software which will either be licensed out to clients or used for the Group's activities. Investments derive from strategic decisions taken by the management, aimed at the development of a large number of products, projects and new technologies in order to be ready for development lines in the sector and to be able to propose an updated range of products that can quickly satisfy market demand.

During the first nine months of the financial period, the item "Intangible fixed assets" and "Property, Plant and equipment" varied as follows:

(in thousands of Euro)

| Intangible fixed assets   | Industrial patents and similar rights | Licences, trademarks | Assets under development and payments on account | Other intangible fixed assets | Total         |
|---|---------------------------------------|----------------------|--|-------------------------------|---------------|
| Purchase or production cost   | 46,245                                | 2,566                | 8,727  | -                             | 57,538        |
| Previous years revaluations   | -                                     | -                    | -  | -                             | -             |
| Previous years depreciation and write-downs                         | (38,516)                              | (2,397)              | -  | -                             | (40,913)      |
| Adjustments to previous years write-downs                           | -                                     | -                    | -  | -                             | -             |
| <b>Opening value</b>  | <b>7,730</b>                          | <b>169</b>           | <b>8,727</b>                                     | <b>-</b>                      | <b>16,625</b> |
| Variations in consolidation area                                    | 4                                     | 38                   | -  | -                             | 42            |
| Purchases/increases   | 120                                   | 23                   | 1,819  | -                             | 1,963         |
| Transfers   | 6,618                                 | -                    | (6,618)  | -                             | -             |
| Reduction in accumulated depreciation due to disposals/eliminations | -                                     | 5                    | -  | -                             | 5             |
| Disposals/eliminations  | (723)                                 | (6)                  | -  | -                             | (729)         |
| Revaluations for the period   | -                                     | -                    | -  | -                             | -             |
| Depreciation and write-downs for the period                         | (2,990)                               | (69)                 | -  | -                             | (3,059)       |
| Adjustments to write-downs for the period                           | -                                     | -                    | -  | -                             | -             |
| <b>Total intangible fixed assets</b>                                | <b>10,758</b>                         | <b>161</b>           | <b>3,927</b>                                     | <b>-</b>                      | <b>14,846</b> |

During the period, software development projects for which there was ongoing investment were ended and therefore the incurred costs were reclassified from the voice "assets under development", to the voice "patent rights and intellectual property", for a value of Euro 6,618 thousand, with the start of its amortization plans.



(in thousands of Euro)

| <i>Property, plant and equipment</i>                                | <i>Land and buildings</i> | <i>Plant and machinery</i> | <i>Industrial and commercial equipment</i> | <i>Other tangible fixed assets</i> | <i>Assets under development</i> | <i>Total</i>  |
|---|---------------------------|----------------------------|--|------------------------------------|---------------------------------|---------------|
| Purchase or production cost   | 10,446                    | 4,500                      | 34   | 4,553                              | -                               | 19,534        |
| First time adoption revaluation                                     | 8,439                     | -                          | -  | -                                  | -                               | 8,439         |
| Previous years depreciation and write-downs                         | (2,213)                   | (3,614)                    | (32)                                       | (3,974)                            | -                               | (9,833)       |
| Adjustments to previous years write-downs                           | -                         | -                          | -  | -                                  | -                               | -             |
| <b>Opening value</b>  | <b>16,672</b>             | <b>886</b>                 | <b>2</b>                                   | <b>579</b>                         | <b>-</b>                        | <b>18,139</b> |
| Variations in consolidation area                                    | 105                       | 36                         | -  | 198                                | -                               | 339           |
| Purchases   | 25                        | 156                        | -  | 234                                | 10                              | 426           |
| Transfers   | -                         | -                          | -  | -                                  | -                               | -             |
| Reduction in accumulated depreciation due to disposals/eliminations | -                         | 131                        | -  | 43                                 | -                               | 174           |
| Disposals/eliminations  | -                         | (132)                      | -  | (73)                               | -                               | (205)         |
| Revaluations for the period   | -                         | -                          | -  | -                                  | -                               | -             |
| Depreciation and write-downs for the period                         | (129)                     | (195)                      | (1)  | (187)                              | -                               | (512)         |
| Adjustments to write-downs for the period                           | -                         | -                          | -  | -                                  | -                               | -             |
| <b>Total tangible fixed assets</b>                                  | <b>16,673</b>             | <b>883</b>                 | <b>1</b>                                   | <b>793</b>                         | <b>10</b>                       | <b>18,361</b> |

## 15. Personnel

The number of CAD IT Group staff, at the end of the quarter increased by 74 units compared to the end of 2017 financial period, mainly due to the entry of the staff of the Spanish companies entered in the consolidation area (88 resources at 30/09/2018). Information on the actual number employees is reported below:

| <i>Category of Employees</i> | <i>Labour force at 30/09/2018</i> | <i>Labour force at 31/12/2017</i> | <i>Labour force at 30/09/2017</i> |
|------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Management                   | 22                                | 19                                | 20                                |
| White-collars and cadres     | 649                               | 569                               | 573                               |
| Blue-collars                 | 1                                 | 1                                 | 1                                 |
| Apprentices                  | 26                                | 35                                | 46                                |
| <b>Total</b>                 | <b>698</b>                        | <b>624</b>                        | <b>640</b>                        |

The average number of employees in the quarter was 704 units, an increase compared to the average number of the same reference quarter of the year 2017 (643 units).

| <i>Category of Employees</i> | <i>Average number III Quarter 2018</i> | <i>Average number III Quarter 2017</i> | <i>Average number period 01/01-30/09/18</i> | <i>Average number period 01/01-30/09/17</i> | <i>Average number year 2017</i> |
|------------------------------|--|--|---|---|---------------------------------|
| Management                   | 23                                     | 20                                     | 21  | 20  | 20                              |
| White-collars and cadres     | 652                                    | 574                                    | 606   | 574   | 573                             |
| Blue-collars                 | 1                                      | 1                                      | 1   | 1   | 1                               |
| Apprentices                  | 28                                     | 47                                     | 32  | 50  | 48                              |
| <b>Total</b>                 | <b>704</b>                             | <b>643</b>                             | <b>660</b>                                  | <b>645</b>                                  | <b>642</b>                      |

The Group dedicates particular attention to professional staff training by means of internal training and updating courses. The main training areas were: updating in new programming languages and systems management, health and safety at work, foreign languages (English), company organization and managerial training.



## **16. Significant events since 30<sup>th</sup> September 2018**

On October 12, 2018 the results of the withdrawal right were announced and it was launched the period of offer in option and pre-emption to the shareholders of CAD IT who did not exercise the withdrawal right (for more details refer also to paragraph 9). The withdrawal right has been duly exercised for no. 1,970,039 CAD IT shares, equal to approx. 21.938% of the share capital. The withdrawal consideration for the withdrawn shares is equal to Euro 5.29 for each share, therefore the aggregated liquidation consideration is equal to Euro 10,421,506.31. The liquidation process of the withdrawn shares starts with the offer in option and pre-emption of such shares to all the shareholders who did not exercise the withdrawal right. Option and pre-emption rights can be exercised by the entitled shareholders starting from October 15 until November 13, 2018.

## **17. Foreseeable development in the management**

The development strategies adopted last year, aimed at meeting the priorities that the financial institutions (banks, insurance companies, funds) are now being obliged to face, are going to continue also in the current year. In fact, financial institutions are now finding themselves having to deal with the constant need to adjust their procedures and structures in order to quickly acknowledge new norms and regulations introduced at an international, European and national level as well as to try and improve results and margins in order to manage the current market context that is now beginning to show signs of recovery.

The principal norms and issues that the banks will have to face involve: the information to be furnished following the entry into force of IFRS 9 accounting standard, the 2014/65/EU European Directive (MiFID II) and Regulation no. 600/2014 (MiFIR) integrated with directives and delegated regulations, the management of individual savings plans (PIR), EU Regulation 1286/2014 regarding the KID (Key Information Document) aimed at increasing the transparency of Packaged Retail and Insurance-based Investment Products (PRIIPs), Market Abuse, Data Quality, Alerts (Puma 2), Basel III, T2S, Solvency II.

In addition, the new regulations that could lead to adjustment and updating activities and software releases are the European GDPR regulation regarding the privacy protection and the Securities Financing Transactions Regulation (SFTR), which, as of 2019, will introduce new transparency measures for security loan activities, the European Directive IDD (Insurance Distribution Directive) on "Insurance Distribution".

As regards pursuing improved margins, the financial institutions are constantly trying to contain costs and extend their business areas. CAD IT puts itself forward as a strategic partner for its customers on these fronts with innovative software like the new Oder Hub and General Data systems which are able to take advantage of new technologies that lead to achieving high standards of efficiency in terms of data and process management, with significant reductions in processing times and costs.

Lastly, in order to provide financial institutions with support in their business area and business volume expansion strategies, CAD IT offers a Framework for the new generation Digital Bank and, thanks to significant experience and references matured in the field of solutions for financial promoters, also places its skills at the disposal of those financial institutions that want to innovate and promote their own offers and networks.

In addition to the mentioned opportunities the main strategic objectives of the company and the Group are to maintain and further develop its leadership position in the Italian banking sector, increase its customer portfolio in the insurance companies sectors, in the local tax collection sector, further distribute new products relating to business intelligence, promote its software for the industrial sector at medium/large-sized companies, also at international level.

The Group is also continuing to pursue its efforts to expand towards the European and international markets, especially the Spanish one, whose expansion could be encouraged by the recent acquisitions of Spanish companies Desarrollo de Productos Informaticos S.A. in April 2018 and Software Financiero Bolsa S.A. in July 2018, as well as by the optimal references it has obtained from its existing foreign customers and by the internationalization procedures for which the large Italian and European banking groups are advocating.

The CAD IT S.p.A. managers are also constantly on the look-out for any development opportunities, whether direct or through external lines, through technical or commercial collaboration agreements and by taking on or

acquiring holdings in order to create activities that are complimentary and synergic to existing ones.

In the domestic banking sector the prospects are positive, taking into account the numerous and significant developments in the regulations that the customers will have to adjust to; moreover, the Group's increase in activities on a European and international scale and the acquisition of new customers in sectors bordering on financial institution areas, may contribute to the good performance of the management also for the current year and for 2019 financial year.

On behalf of the Board of Directors  
The Chairman  
//s// Paolo Dal Cortivo

## **DECLARATION IN ACCORDANCE WITH ARTICLE 154-BIS, SECOND PARAGRAPH, OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998**

The undersigned, Michele Miazzi, manager in charge of drafting CAD IT S.p.A. accounting documents, hereby declares, in accordance with article 154-bis, second paragraph, of the Revenue Office "Testo Unico" (Leg. Dec. 58/1998), that the accounting information in this Interim Management Report corresponds to the documentary results, books and accounting registers.

Verona, 13 November 2018

Manager in charge of drafting  
the CAD IT S.p.A. accounting documents  
//s// Michele Miazzi

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