Redsys Servicios de Procesamiento, S.L. and Subsidiary Companies

Consolidated Annual Accounts 31 December 2018

Consolidated Management Report for Year 2018

(Together with the Auditor's Report)

KPMG Auditores, S.L.

Paseo de la Castellana 259 C
28046 Madrid

Audit Report of the Consolidated Annual Accounts Issued by an Independent Auditor

To the shareholders of Redsys Servicios de Procesamiento, S.L.

Opinion

We have audited the consolidated annual accounts of Redsys Servicios de Procesamiento, S.L. (the Parent Company) and dependent company (the Group) which cover the consolidated balance sheet on 31 December 2017, the consolidated profit and loss account, the consolidated statement of changes in net equity, the consolidated cash flow statement and the corresponding consolidated notes to the account for the year ended on that date.

In our opinion, the accompanying consolidated annual accounts express a true and fair view of the consolidated equity and consolidated financial position of the Company on 31 December 2018 in all significant respects and its consolidated results and cash flows for the year ended on that date, in accordance with the regulatory framework for financial information that applies (which is stated in note 2 of the consolidated report) and, in particular, with the accounting principles and criteria contained therein.

Grounds for our opinion

Our audit was conducted in accordance with the regulations in effect that govern the activity of account auditing in Spain. Our responsibilities in accordance with these standards are described below in the section entitled Auditor Responsibilities with regard to the audit of the consolidated annual accounts contained in our report.

We are independent of the Group, in keeping with ethical requirements, including those of independence, that apply to our audit of consolidated annual accounts in Spain, as required by the regulatory legislation governing the account audit activity. In this regard, we have not provided any services other than those of auditing the accounts, nor have there been any situations or circumstances which, in accordance with the aforementioned regulatory legislation, have affected the necessary independence in such a way that this has been compromised.

It is our belief that the audit evidence obtained provides a sufficient and adequate basis for our opinion.

Most relevant aspects of the audit

The most important aspects of the audit were those that, in our professional judgment, were deemed to be the most significant risks of material inaccuracy in our audit of the consolidated annual accounts for the current period. These risks were addressed in the context of our audit of the consolidated annual accounts as a whole and in the formation of our opinion thereon, and we have not expressed a separate opinion involving those risks.

Recognition of income

The Group has obtained its income mainly through the provision of payment processing services to its associates. These revenues are recorded in accordance with the established rates.
We identify as a risk of material inaccuracy of our audit the proper recording of income, in accordance with the applicable regulations.

As part of our procedures, in the context of our audit, we have obtained an understanding of the processes associated with revenue recognition as well as the internal control environment and the key controls that are part of it. Additionally, we have performed analytical reviews of the income accrued throughout the year. We have also obtained external confirmations of a sample regarding the balances for the accounts receivable and the invoicing made during the year 2018.

Other information: consolidated management report

Other information exclusively covers the consolidated management report for 2018, the preparation of which is the responsibility of the parent company's administrators and is not an integral part of the consolidated annual accounts.

The consolidated management report of the consolidated annual accounts is not covered by our audit opinion. Our responsibility for the information contained in the consolidated management report is defined in the regulations governing the account auditing activity, which establish two different levels of the same:

a) A specific level that is applicable to the status of consolidated non-financial information, which consists of verifying only that the aforementioned information has been provided in the consolidated management report, or where appropriate, that the corresponding reference to the separate report has been incorporated therein on non-financial information in the manner provided in the regulations, and if not, to be reported on it.

b) A general level applicable to the rest of the information included in the consolidated management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the consolidated annual accounts, based on the knowledge of the entity obtained in the performance of the audit regarding the cited accounts and without including information other than that obtained as evidence during the same, as well as evaluating and reporting whether the content and presentation of this part of the consolidated management report are in accordance with the regulations resulting from application. If, based on the work that we carried out, we conclude that there are material inaccuracies, we are required to report them.

Based on the work done, as described above, we have verified that the information mentioned in section a) above is presented in the separate report, "Statement of Non-Financial Information Redsys 2018" which is included in the consolidated management report and that the rest of the information contained in the consolidated management report agrees with that of the consolidated annual accounts for the year 2018 and its content and presentation are in accordance with the regulations that are applicable.

Responsibility of the administrators regarding the consolidated annual accounts

The directors of the parent company are responsible for formulating the attached consolidated annual accounts, so that they show the true and fair view of the consolidated equity, the consolidated financial position and the consolidated results of the Group, in accordance with the regulatory financial reporting framework applicable to the Group in Spain and the internal control deemed necessary to allow the preparation of the consolidated annual accounts free of material inaccuracies due to fraud or error.

In the preparation of the consolidated annual accounts, the directors of the parent company are responsible for assessing the ability of the group to continue as a going concern, revealing, where appropriate, issues related to the going concern and using the accounting principle of a going concern, unless the directors intend to liquidate the Group or cease operations, or there is no realistic alternative.

Responsibilities of the auditor in relation to auditing the consolidated annual accounts

Our objective is to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material inaccuracies due to fraud or error, and to issue an audit report that contains our opinion. Reasonable assurance provides a high degree of certainty, but does not guarantee that an audit conducted in accordance with the regulations governing the activity of account auditing in Spain will always identify a material inaccuracy whenever it exists.
The inaccuracies may be due to fraud or error and are considered to be material if, either individually or in an aggregated way, it can be reasonably foreseen that they will have an impact on economic decisions made by users based on the consolidated annual accounts.

As part of an audit in accordance with the regulations governing the activity of auditing accounts in force in Spain, our professional judgment has been applied with a view to maintain an attitude of professional scepticism throughout the audit. Furthermore:

- The risks of material inaccuracies due to fraud or error in the consolidated annual accounts have been identified and valued, thus designing and applying audit procedures to respond to these risks and obtain sufficient, adequate audit evidence to provide a basis for our opinion. The risk of not detecting a material inaccuracy due to fraud is higher than in the case of a material inaccuracy due to error, since fraud may involve collusion, falsification, deliberate omissions, intentionally incorrect statements or circumvention of internal control.

- Knowledge has been gained on the internal control relevant to the audit, in order to design the appropriate audit procedures depending on the circumstances and not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We assess whether the accounting policies applied are appropriate and the reasonableness of the accounting estimates and corresponding information disclosed by the directors of the parent company.

- We ascertain whether the use by the directors of the parent company of the accounting principle of a going concern is appropriate and, based on the audit evidence obtained, whether or not there is a material uncertainty related to events or conditions that can lead to significant doubts about the ability of the Group to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our audit report to the relevant information disclosed in the consolidated annual accounts or, if said disclosure is not adequate, to express a modified opinion. Our conclusions are based on the audit evidence obtained to date from our audit report. However, future events or conditions may lead to the Group ceasing to be a going concern.

- We evaluated the overall presentation, structure and content of the consolidated annual accounts, including the disclosed information, and whether the consolidated annual accounts represent the underlying transactions and events in a way that provide a true and fair view.

- We obtained sufficient and adequate evidence on the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for managing, supervising and carrying out the audit of the Group. We are solely responsible for our audit opinion.

We communicate with the directors of the parent company regarding the scope and timing of the planned audit and any significant findings we make, among other issues, as well as any significant internal control deficiency that we may identify in the course of the audit.

Amongst the significant risks which have been the subject of a notification to the administrators of Redsys Servicios de Procesamiento, S.L., we determined those that were of the greatest significance in the audit of the consolidated annual accounts for the current period and which, therefore, were considered to pose the most significant risks.

We describe these risks in our audit report, unless the legal or regulatory provisions prohibit publicly disclosing the issue.

KPMG Auditores, S.L.
Registered at the R.O.A.C.
(Official Registry of Accounting Auditors) No. S0702

(SIGNED)

Julio Álvaro Esteban
Registered in R.O.A.C, No. 1.661,
10 May 2019

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.
AND SUBSIDIARY COMPANIES

Consolidated balance sheets

31 December 2018 and 2017

(Expressed in euros)

ASSETS	Note	31.12.2018	31.12.2017(*)
NON-CURRENT ASSETS		86.230.686	102.742.646
Goodwill on consolidation	6	324.000	364.500
Intangible fixed Assets	6	4.388.139	4.892.126
Tangible fixed assets	7	75.596.283	89.009.064
Long-term investments in group and associated companies	9	2.530.000	2.530.000
Long-term financial investments		748.101	892.746
Credits to third parties	11	388.234	529.939
Other financial assets		-	3.000
Sureties	10	359.867	359.807
Deferred tax assets	19	2.644.163	5.054.210
CURRENT ASSETS		38.231.271	34.828.096
Stocks	12	1.355.040	82.815
Commercial		-	82.815
Advance payments to suppliers		1.355.040	-
Business debtors and other accounts receivable	11	17.686.725	21.585.457
Clients for sales and services rendered		14.950.725	18.838.815
Group and associated companies clients		-	38.696
Sundry debtors		49.585	24.089
Employees		281.910	215.673
Current tax assets	19	2.402.537	2.462.690
Other credits with Public Administrations		1.968	5.494
Short-term financial investments	11		
Other financial assets		1.050	63
Short-term accruals		1.929.592	2.643.603
Cash and other equivalent liquid assets	13	17.258.864	10.516.158
Treasury		17.258.864	10.516.158
TOTAL ASSETS		124.461.957	137.570.742

(*) Unaudited figures are presented solely and exclusively for comparative purposes (see note 2 (c)).

The attached financial statement is part of the consolidated annual accounts for the fiscal year 2018.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.
AND SUBSIDIARY COMPANIES

Consolidated balance sheets

31 December 2018 and 2017

(Expressed in euros)

NET ASSETS AND LIABILITIES	Note	31.12.2018	31.12.2017(*)
NET EQUITY		59.798.761	50.879.768
Own funds	14	59.765.444	50.830.815
Share capital		5.814.880	5.814.880
Issue premium		197.038	197.038
Reserves		44.818.897	35.369.677
Result of the financial year		8.934.629	9.449.220
Subsidies, donations and bequests received		33.317	48.953
LIABILITIES		64.663.196	86.690.974
NON-CURRENT LIABILITIES		11.765.905	26.837.613
Long-term provisions		693.327	787.116
Obligations by personnel long-term benefit	17	538.475	632.264
Other provisions	18	154.852	154.852
Long-term debts		11.072.578	26.050.497
Debts with credit institutions	16	10.772.173	25.639.310
Other financial liabilities	15 and 16	300.405	411.187
CURRENT LIABILITIES		52.897.291	59.853.361
Short-term provisions	17 y 18	1.234.614	9.450.292
Short-term debts		15.155.714	19.986.200
Debts with credit institutions	16	14.897.951	19.878.688
Other financial liabilities	15 and 16	257.763	107.512
Trade creditors and other accounts payable	16	36.506.963	30.086.869
Suppliers		31.466.007	24.994.193
Suppliers, group and associated companies		921.415	738.226
Sundry creditors		39.045	259.558
Employees		2.371.104	2.312.708
Current Tax Liabilities		25.830	56.744
Other debts with Public Administrations		1.683.562	1.725.440
Short-term accruals		-	330.000
TOTAL NET EQUITY AND LIABILITIES		124.461.957	137.570.742

(*) Unaudited figures are presented, solely and exclusively, for comparative purposes.

The attached financial statement is part of the consolidated annual accounts for the fiscal year 2018.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.
Consolidated profit and loss statement for the years ended on
31 December, 2017 and 2018
(Expressed in euros)

	Note	2018	2017(*)
ONGOING OPERATIONS			
Net business turnover	20.a	175.511.250	180.974.405
Sales		206.691	189.413
Provision of services		175.304.559	180.784.992
Supplies	20.c	(211.359)	(186.438)
Consumption of goods		(128.544)	(165.760)
Consumption of raw materials and other consumables		(82.815)	(20.678)
Other operating income	20.b	7.866.964	7.718.332
Additional income and others of current management		7.866.964	7.718.332
Personnel expenses	20.d	(37.649.510)	(35.388.043)
Wages, salaries and similar expenses		(29.631.563)	(26.142.605)
Social charges		(8.361.107)	(7.781.480)
Provisions		343.160	(1.463.958)
Other operating expenses	20.e	(85.029.792)	(85.900.404)
External services		(85.165.121)	(85.406.839)
Taxes		398	(213.736)
Losses, impairment and changes in provisions for commercial operations		134.931	(279.829)
Fixed asset depreciations	6 and 7	(50.255.022)	(55.667.989)
Depreciation of Consolidation Goodwill	6 and 7	(40.500)	(40.500)
Excess of provisions		-	-
Impairment and profit/loss on disposal of fixed assets		1.340.606	(811.549)
Impairment and losses	6 and 7	2.521.180	(81.826)
Results from disposals and others	20.f	(1.180.574)	(729.723)
OPERATING INCOME		11.532.637	10.697.814
Financial revenue		196.046	25.392
Financial expenses		(309.273)	(463.128)
Exchange rate differences		652	7.886
FINANCIAL OUTCOME	21	(112.575)	(429.850)
RESULT BEFORE TAX		11.420.062	10.267.964
Income tax	20	(2.485.433)	(818.744)
RESULT FOR THE FINANTIAL YEAR FROM ONGOING OPERATIONS		8.934.629	9.449.220
RESULT OF THE FINANCIAL YEAR	14.3	8.934.629	9.449.220

(*) Unaudited figures are presented solely and exclusively for comparative purposes (see note 2 (c)).

The attached financial statement is part of the consolidated annual accounts for the fiscal year 2018.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L. AND
SUBSIDIARY COMPANIES

A) Statements of Income and Consolidated Recognized Expenses corresponding to the years ended on 31 December, 2017 and 2018

	31.12.2018	31.12.2017(*)
Result of the profit and loss statement	8.934.629	9.449.220
Total of income and expenses charged directly to net equity		
Subsidies, donations and bequests received	(15.636)	(18.809)
Total consolidated recognised income and expenses	8.918.993	9.430.411

A) Total Statement of Changes in the Consolidated Net Equity relating to the fiscal year ended on 31 December 2018

	Subscribed Share Capital	Issue premium	Reserves	Result of financial year	Subsidies, donations and bequests received	Total
Balance on 31 December 2017 (*)	5.814.880	197.038	35.369.677	9.449.220	48.953	50.879.768
Balance adjusted as of 1 January 2018	5.814.880	197.038	35.369.677	9.449.220	48.953	50.879.768
Total recognised income and expenses	-	-	-	8.934.629	(15.636)	8.918.993
Other changes in net equity	-	-	9.449.220	(9.449.220)	-	-
Balance on 31 December 2018	5.814.880	197.038	44.818.897	8.934.629	33.317	59.798.761

B) Total Statement of Changes in the Consolidated Net Equity relating to the fiscal year ended on 31 December 2017

	Subscribed Share Capital	Issue premium	Reserves	Result of financial year	Subsidies, donations and bequests received	Total
Balance as of 31December 2016 (*)	5.814.880	197.038	26.189.899	9.179.778	67.762	41.449.357
Balance adjusted as of 1 January 2017	5.814.880	197.038	26.189.899	9.179.778	67.762	41.449.357
Total recognised income and expenses	-	-	-	9.449.220	(18.809)	9.430.411
Other changes in net equity	-	-	9.179.778	(9.179.778)	-	-
Balance on 31 December 2017 (*)	5.814.880	197.038	35.369.677	9.449.220	48.953	50.879.768

(*) Unaudited figures are presented solely and exclusively for comparative purposes (see note 2 (c)).

The attached financial statement is part of the annual accounts for the fiscal year 2018.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.
AND SUBSIDIARY COMPANIES

Consolidated Cash Flow Statements for the years ended on
31 December, 2017 and 2018

(Expressed in euros)

	31.12.2018
Consolidated cash flows from operating activities	
Consolidated before-taxes result for the period	11.420.062
Consolidated result adjustments	49.067.490
Depreciation of fixed assets (+)	50.295.522
Impairment adjustments (+/-)	(2.521.180)
Change in provisions (+/-)	
Profit/loss from cancellations and disposal of fixed assets	1.180.574
Financial revenues (-)	(196.046)
Financial expenses (+)	309.273
Exchange rate differences (+/-)	(653)
Changes in consolidated current capital	3.531.192
Stocks (+/-)	(1.272.225)
Debtors and other accounts receivable (+/-)	3.838.579
Other current assets (+/-)	774.164
Creditors and other accounts payable (+/-)	6.451.008
Other current liabilities (+/-)	(8.576.592)
Other Non-Current Assets and Liabilities (+/-)	2.316.258
Other consolidated cash flows from operating activities	(2.598.660)
Interest payments (-)	(309.273)
Interest receivable (+)	196.046
Payments (charges) for income tax (- /+)	(2.485.433)
Consolidated cash flows from operating activities	61.420.084
Consolidated cash flows from investment activities	
Payments for investments (-)	(35.036.666)
Intangible fixed assets	(2.414.430)
Tangible fixed assets	(32.622.236)
Collections for disinvestments	39.018
Tangible fixed assets	39.018
Other financial assets	-
Consolidated cash flows from investment activities	(34.997.648)
Consolidated cash flows from financing activities	
Collections and payments for equity instruments	(15.636)
Subsidies, donations and bequests received	(15.636)
Collections and payments for financial liability instruments	(19.664.747)
Issuance / Return and depreciation	
Obligations and other negotiable securities, and other debts	(19.664.747)
Consolidated cash flows from financing activities	(19.680.383)
Effect of changes in exchange rates	653
Net increase/decrease in cash and cash equivalents	6.742.706
Cash or cash equivalents at the beginning of year	10.516.158
Cash or cash equivalents at the end of year	17.258.864

The attached financial statement is part of the consolidated annual accounts for the fiscal year 2018.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.
AND SUBSIDIARY COMPANIES

Annual Accounts Report

31 December 2018

1.Overview

1.1. Constitution, corporate name and purpose

Redsys Servicios de Pago, S.L.- Sociedad Unipersonal, was established in Madrid, on 20 May 2010, before the Notary of this city Mr. Manuel González-Meneses García-Valdecasas, with protocol number 787 and the corporate name, Redsys Servicios de Pago, S.L.- Sociedad Unipersonal and with registered office in the municipality of Madrid, Calle Gustavo Fernández Balbuena, nº 15. On 28 May 2010 it was registered in the Mercantile Register of Madrid, in Volume 27.802, page 70, section 8, page number M-501052, registration entry 1.

On 25 May 2010, there was a change in its corporate name, replacing the previous one, Redsys Servicios de Pago, S.L.- Sociedad Unipersonal, by Redsys Servicios de Procesamiento, S.L.- Sociedad Unipersonal (hereinafter, Redsys or the Parent Company). This change has been made public before the notary Mr. Manuel González-Meneses García-Valdecasas, protocol number 824, with the consequent correction of the articles of association of the Company and on 31 May 2010 it has been registered in the Mercantile Register of Madrid, in Volume 27.802, page 73, section 8, page number M-501052, registration entry 2.

As a result of the merger and spin-off transactions that were formalized in a public deed dated 1 April 2011, the Company changed the situation of sole proprietor ship, as all of the shares of the sole shareholder of the Company were transferred to the Servired shareholders, Sociedad Española de Medios de Pago, S.A., and Redes y Procesos, S.A. (see Notes 1.2 and 14).

As stated in article 2 of its bylaws, the Company has the following activities:

(i) The development and provision of processing services in the business of issuing and acquiring systems and means of payment under any modality available in the market (including credit, debit, payment and collection cards), as well as the provision of any services of support and accessories that are part of the payment cycle.

(ii) The computer and technological development of payment methods and associated electronic services, as well as the launching of new products and services based on new technologies and their adaptation to the demands of the market for systems and payment methods.

(iii) The provision of operative and computer services related to the use of credit and debit cards or other payment methods.

(iv) Advice and consulting on computer systems and operational processes.

(v) The design and development of computer programs for the operation of credit and debit cards, electronic funds transfers and services to financial institutions for the execution by these of electronic banking and automatic banking to clients, and other services of a similar nature to their clients.

(vi) Advice on purchase, adaptation, transformation of ATMs and other systems of issuance of similar payment methods, point of sale terminals, cash registers and connections of all these with computers and computer or calculation centres, study, analysis, research

and inquiry of infractions to the security of the documentary and electronic traffic of funds and implementation of fraud prevention systems in said traffic.

(vii) The provision of computer connection services and issuance of operations authorization queries, transmission of data related to the operations aforementioned in this article; the recording, printing and computer processing of the operations carried out with the means and products indicated in this article.

The legal framework applicable to the Company as a result of the activity carried out is, in general, the Spanish Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Capital Companies Law (hereafter Capital Companies Law or CCL), which repeals the Public Limited Companies Law and the Limited Liability Companies Law.

1.2. Merger operations by takeover of Servicios para Medios de Pago, S.A.U by Servired, Sociedad Española de Medios de Pago, S.A; spin-off of the activity branch in support of Redsys, Servicios de Procesamiento, S.L.U. and subsequent merger with Redes y Procesos, S.A.-REDY

On 26 May 2010, the Órganos de Administración de Servicios para Medios de Pago, S.A.U. (hereinafter, Sermepa) and Redsys, approved the Common project for a merger and partial spin-off subscribed by Servired Sociedad Española de Medios de Pago, S.A. (hereafter, Servired), Sermepa and Redsys.

In this context, on 22 July 2010, the General Meeting of Shareholders of Servired ratified the merger and spin-off operations described above. Likewise, at the aforementioned General Meeting of Shareholders, the merger of Redsys by takeover of Redy was agreed.

On 14 March 2011, a Resolution was issued by the Comisión Nacional de la Competencia (Spanish National Competition Commission), in the second phase, which authorized the operation of economic concentration consisting of the merger between Redsys Servicios de Procesamiento, S.L.U. and Redes y Procesos, S.A., what constituted a suspensive condition of the merger process of Servicios para Medios de Pago, S.A.U with Servired, Sociedad Española de Medios de Pago, S.A. and the partial excision of this in support of Redsys Servicios de Procesamiento, S.L.U

Likewise, on 29 March 2011, the Ministry of Economy and Finance communicated its ratification to said authorization, for which reason the merger and spin-off corporate transactions were formalized on public deed on 1 April 2011, with which culminated the process in which Servicios para Medios de Pago, S.A.U., Servired, Sociedad Española de Medios de Pago, S.A., Redsys Servicios de Procesamiento, S.L.U. and Redes and Procesos, S.A. were involved.

1.3 Composition of the Group

After the sale contract of Havasoft Consultoría Informática was made public, S.L., Redsys Servicio de Procesamiento, S.L. was transformed into the Parent Company of a Group, made up of the Company and its Subsidiary Company that began to prepare consolidated financial statements in the fiscal year ended on 31 January 2018. However, both companies present their individual annual accounts.

On 8 August 2018, there was a change in its corporate name, replacing the previous one, Havasoft Consultoría Informática, S.L., by the current Redsys Salud, S.L. (hereinafter, Redsys Salud or the Subsidiary Company). This change has been made public before the Notary Mr. Manuel González-Meneses García-Valdecasas, with protocol number 824, with the consequent correction of the articles of the company constitution and on 31 May 2010 it was registered in the Mercantile Register of Madrid, in Volume 27.802, page 73, section 8, page number M-501052, registration entry 2.

On 26 November 2018, the Company entered into a contract whose purpose is the transfer by Redsys Servicios de Procesamiento, S.L. of the business unit of the health sector to the Subsidiary Company, Redys Salud, S.L., consisting of the provision of services of medical procedures operations as well as the development of products related to information technology, advising, consultancy in computer systems and operating processes in the field of private health. It was performed through the transmission of the assets and liabilities corresponding to said economic unit, assuming all human resources, commercial relations and patrimonial elements assigned to the aforementioned business unit. The effectiveness of this transaction was set on 1 November 2018.

2. Basis of presentation

(a) True and fair view

The consolidated annual accounts have been prepared based on the accounting records of Redsys Servicios de Procesamiento, S.L. and the subsidiary companies. The 2018 consolidated annual accounts were prepared in accordance with current commercial legislation, with rules laid down in the Spanish Chart of Accounts and the rules for preparing consolidated annual accounts, in order to show the true and fair image of the consolidated equity and the consolidated financial position as of 31 December 2018, and the consolidated results of its operations, changes in consolidated net equity and consolidated cash flows for the year ended at that date.

These consolidated financial statements, which have been prepared by the Company's Managing Directors, will be submitted for approval by the General Meeting of Shareholders and are expected to be approved without any amendments.

b) Mandatory accounting principles

There are no mandatory accounting principles that, having a significant effect on the consolidated annual accounts, have ceased to be applied.

c) Comparison of the information

The consolidated annual accounts are presented for comparative purposes, with each of the items on the consolidated balance sheet, in the consolidated profit and loss statement, in the statement of changes in consolidated net equity, in the statement of consolidated cash flows and in the consolidated annual report, besides the figures for the year ended 31 December 2018, those corresponding to the previous fiscal year. In certain cases it has been decided to delete those items that did not present data as of 31 December 2018 and 2017.

d) Functional currency and presentation currency

The figures shown in the annual accounts are expressed in euros, rounded to the nearest unit, which is the Group's functional and presentation currency.

e) Critical aspects on the valuation and estimation of uncertainty

The preparation of the consolidated annual financial statements requires the Group to use certain estimates and judgements concerning the future that are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances.

The resulting accounting estimates, by definition, would seldom be equivalent to the

corresponding actual results. As of 31 December 2018 and 2017 there are no estimates and assessments that have a significant risk of giving rise to a material adjustment in the book values of the assets and liabilities within the following financial year.

f) Error correction

In the years 2018 and 2017, no significant corrections of errors were made in the preparation of these consolidated annual accounts.

g) Going concern

The consolidated annual accounts for the 2018 financial year have been prepared by the Managing directors, under the operating company principle, on the understanding that there are no factors that affect such principle, considering the evolution of its results, the nature of its clients (financial entities) and its solvency, and its financial capacity, which includes credit lines with availability, as indicated in Note 16.

h) Changes in accounting criteria

During financial year 2018, there have been no significant changes in accounting principles with respect to those applied in 2017.

3. Application of Results

The proposal to apply the result of the Parent Company of the Group for the year ended 31 December 2018 in order to be submitted to the General Meeting of the Company is to transfer profit from the year to reserves, for an amount of 8.730.555 euros of profit.

The application of the benefit of the Parent Company of the Group for the year ended 31 December 2017, approved by the General Meeting of the Parent Company on 27 June 2018, consisted of transferring the benefit of 9.319.502 euros to reserves.

4. Accounting Principles and Registration and Valuation Standards

a) Consolidation principles

Subsidiary companies, including special purpose entities, are those over which the Company exercises control, directly or indirectly, through subsidiaries, as provided for in art. 42 of the Commerce Code. The control is the power to conduct the financial and operating policies of a company, in order to obtain profits from its activities, considering for these purposes the potential voting rights that may be exercised or converted at the close of the accounting year under the control of the Group or third parties.

For the sole purpose of presentation and breakdown, group companies are considered to be those which are controlled by any means by one or more natural or legal persons acting jointly or under sole management by agreements or clauses in the Articles of Association.

The subsidiary companies have been consolidated through the application of the global integration method.

The income, expenses and cash flows of subsidiary companies are included in the consolidated annual accounts from the date of acquisition, which is the date on which the Group effectively obtained control of them. Subsidiary companies are excluded from the consolidation from the date on which control was lost.

Transactions and balances held with the subsidiary companies and unrealised profits or losses were eliminated in the consolidation process.

The subsidiary company's accounting policies were adapted to the Group's accounting policies for transactions and other events that, being similar, occurred in similar circumstances.

The subsidiary company's annual accounts or financial statements used in the consolidation process are related to the same reporting date and period as those of the Company.

b) Business combinations

The Group applies the acquisition method set in the 19th Registration and Valuation Standard of the General Accounting Plan as amended by article 4 of Royal Decree 1159/2010, which approves the rules for the formulation of the consolidated annual accounts and modifies the General Accounting Plan.

In business combinations, except for mergers, spin-offs and non-monetary contributions of a business among group companies, the Group applies the acquisition method.

The date of acquisition is the date on which the Group acquires control of the business acquired. In this case, it corresponds to the date of making public the sales agreement of Havasoft Consultoría Informática, S.L. (see note 1).

The cost of the business combination is determined on the acquisition date by adding the fair values of the assets provided, liabilities incurred or assumed, net equity instruments issued and any contingent consideration that depends on future events or compliance with certain conditions in exchange for control of the business acquired.

The cost of the business combination excludes any expenditure which is not part of the exchange for the business acquired. Costs related to the acquisition are recognised as an expense as they are incurred.

The costs of issuing equity and liability instruments are recognised in accordance with the valuation criteria applicable to these transactions.
The Group recognises the assets acquired and liabilities assumed at fair value on the date of acquisition. Liabilities assumed include contingent liabilities to the extent that they represent current obligations arising from past events and their fair value can be measured reliably. The Group also recognises assets for compensation awarded by the

seller at the same time and in accordance with the same valuation criteria as those of the item for which the business acquired is being compensated, taking into account the risk of insolvency and any contractual limitation on the amount compensated.

Assets and liabilities assumed are classified and designated for their subsequent valuation based on contractual agreements, economic conditions, accounting and operating policies and other conditions existing on the acquisition date, except lease contracts.

The existing excess between the cost of the business combination, plus the value assigned to external partners, over the corresponding value of the identifiable net assets of the business acquired is recognised as goodwill, if the acquisition is recognised in the individual annual accounts of the consolidated companies or as goodwill on consolidation, if the acquisition is made in the consolidated annual accounts.

As of 31 December 2018 and 2017, all business combinations are permanently registered.

Once the business combination is definitively registered, only adjustments to the initial valuation are made for an error correction.

c) Intangible assets

As a general rule, intangible assets are initially valued at cost, whether this is their acquisition price or production cost. After the initial recognition, intangible assets are valued at cost, excluding the accumulated amortization and, if applicable, the cumulative amount of corrections resulting from the impairment registered. Each intangible asset is analysed and determined whether its useful life is definite or indefinite.

Intangible assets that have a definite useful life are depreciated systematically based on the estimated useful life and residual value. The depreciation methods and periods applied are reviewed at the end of each fiscal year and, where appropriate, adjusted prospectively. At least, by the end of the fiscal year, the existence of indicators of impairment is evaluated, in which case the recoverable amounts are estimated, carrying out the value adjustments that proceed.

Repairs that not represent an extension of the useful life and maintenance costs are charged to the profit and loss statement in the financial year in which they occur.

The costs incurred in carrying out activities that help develop the value of the group's business as a whole, such as goodwill, trademarks and other similarly internally generated, as well as formation expenses are recognised as expenses in the consolidated profit and loss statement as they are incurred.

Intangible assets correspond to:

- Software licenses acquired from third parties that are capitalised on the basis of the

costs incurred to acquire them and prepare them to be used in the specific program. These costs are depreciated over their estimated useful lives between 1.5 and 3.08 years. Expenses related to software maintenance are considered as expenses when incurred in them.

- The acquisition of the future leasing of the use rights of the Point of Sale Terminals (POS) made by Sermepa during the years 2003, 2004, 2005 and 2006 and incorporated into the balance sheet of the Company by virtue of the merger and spin-off processes described in Note 1.2, are accounted for at cost exlcuding the accumulated amortization and corrections for recognized impairment of value, and they are recorded in the "Other intangible assets" section. Its amortization is carried out linearly over a period of 5 years. As of 31 December 2018 and 2017, they were fully depreciated.

- Goodwill on consolidation and goodwill:

  Goodwill in consolidation item arises from the process of consolidating subsidiaries companies and joint ventures. Its amortization is carried out linearly over a period of 10 years.

d) Fixed assets

Tangible fixed assets are recognised at their acquisition price or production cost, excluding accumulated depreciation and the accumulated amount of recognised losses.

The value of work carried out by the company for its own fixed assets is calculated by adding the acquisition price of the consumables, the direct or indirect costs attributable to said goods.

Costs incurred to extend, modernise or improve the fixed assets are incorporated to the assets as higher value of the asset when the capacity, productivity or useful life extension of the asset are increased and it is possible to ascertain or estimate the carrying amount of the assets that have been replaced in inventories due to disposal.

The costs of major repairs are activated and amortised over their estimated useful life, while recurring maintenance costs are charged to the profit and loss statement during the financial year in which they are incurred.

Depreciation of fixed assets with the exception of non-depreciated land, is systematically calculated using the straight-line method, based on the estimated useful life of the property, considering the depreciation actually suffered by its operation, use and enjoyment. The estimated useful lives are:

	Years of estimated useful life
Technical facilities, equipment and furniture:	2-10
Other fixed assets:	
IT equipment	1.8 - 4
Transportation equipment	5 – 7

In relation to the Point of Sale Terminals (POS), in 2011 the Parent company acquired POS in use that were accounted for at their acquisition cost and incorporated into the balance sheet the POS from Sermepa, by virtue of the merger and spin-off processes described in Note 1.2. In 2011, the depreciation of these assets was carried out on a linear basis over the remaining useful life up to 4.75 years, taking into account the original acquisition date of each POS.

In 2013, the Parent company reassessed the useful life of these elements and, as a result of the technical analysis carried out by experts, its depreciation was carried out on a linear basis over the remaining useful life up to 4.58 years, taking into account the original acquisition date of each POS. Said life is not limited by the wear of the different elements of the Terminal, but by the technical characteristics that, depending on the models and the requirements for which they have been designed, limit their development and the possible use of new applications.

During 2016, the Company re-estimated the useful life of these elements and as a result of the technical analysis carried out by experts, its amortization was carried out linearly in the remaining useful life period up to 4 years, taking into account the date of the original acquisition of each POS. Said life is not limited by the wear of the different elements of the Terminal, but by the technical characteristics that, depending on the models and the requirements for which they have been designed, limit their development and the possible use of new applications. The impact on the result of the year due to this change in the useful life of these elements was a higher amortization amounting to 6.232.509 euros.

The residual value and the useful life of the assets are reviewed, adjusting if necessary, on the date of each balance sheet.

When the accounting value of an asset is greater than its estimated recoverable amount, its value is reduced immediately to its recoverable amount. The Group counts the corresponding provisions for depreciation of the fixed assets as a result of its long-term depreciation.

Gains and losses on the sale of fixed assets are calculated by comparing the income obtained from the sale with the book value and are recorded in the profit and loss statement.

e) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable charges that are not listed in an active market. They are included in current assets, except for maturities over 12 months from the balance date which are classified as non-current assets. Loans and receivables are included in "Credits to third parties", "Credits to companies" and "Trade debtors and other accounts receivable" in the balance sheet.

These financial assets are initially measured at fair value, including transaction costs directly attributable to them, and subsequently at amortised cost, taking into account the interest accrued according to their effective interest rate, understood as the updating type equalling the book value of the instrument with all estimated cash flows to maturity. Nevertheless, credits for commercial operations with a maturity of no more than one year are valued, both when initially booked and later at their nominal value provided that the effect of not adjusting the flows is not significant.

At closing of year, value adjustments are made for impairment if there is objective evidence that not all amounts receivable will be collected.

The amount of the impairment loss is the difference between the book value of the asset and the present value of estimated future cash flows, discounted at the effective interest rate at the time of initial recognition. Value corrections, as well as their reversals, if applicable, are shown in the profit and loss statement.

f) Held-to-maturity investments

Financial assets held to maturity are debt representative values with fixed or determinable collection and fixed maturities that are traded on an active market and the Management of the Group has the intention and ability to hold until maturity. If the Company sells a not insignificant amount of financial assets held to maturity, the entire category is reclassified as available for sale. These financial assets are included in non-current assets, except those maturing within 12 months from the balance date which are classified as current assets.

g) Long-term investments in group and associated companies

Investments in group, associated and multi-group companies are initially stated at cost, which is equal to the fair value of the consideration provided, including the transaction costs that are borne and subsequently stated at cost, excluding the accumulated amount of the valuation corrections due to impairment.

h) Sureties

As of 31 December 2018 and 2017, the item of long-term financial investments includes the sureties established in connection with the renting of the offices in which the Company carries out its activity. The Group considers that the nominal value is assimilated to its fair value, not being updated, since the financial effect is not considered significant.

i) Stocks

Stocks are valued at their acquisition price or at their net realizable value, whichever is lower. When the net realizable value of the stock is less than their cost, the appropriate valuation adjustments will be made, considering them as an expense in the profit and loss statement. If the circumstances that cause the correction of value cease to exist, the amount of the correction is reversed and considered as income in the profit and loss statement.

The cost is determined by the weighted average cost. The net realizable value is the estimated sale price in the normal course of business, excluding the estimated costs necessary to carry out the sale.

j) Cash and other equivalent liquid assets

Cash and equivalent liquid assets include cash in hand and bank deposits at sight at credit institutions. This also includes highly liquid short-term investments, provided that they are easily convertible into determinable amounts of cash and are subject to a minor risk of change in value. For these purposes, investments maturing in less than three months after the acquisition date are included.

k) Own funds

The share capital is represented by ordinary shares.

The Group does not have its own shares. Where appropriate, the costs of issuing new shares are presented directly against net equity, as lower reserves.

In the case of acquisition of the Group's own shares, the consideration paid, including any directly attributable incremental costs, is deducted from the net equity until cancelled, reissued or disposal. When these shares are subsequently sold or reissued subsequently, any net amount received of any incremental cost of the directly attributable transaction is included in the net equity.

l) Subsidies received

Subsidies that are reimbursable are recorded as liabilities until they meet the conditions to be considered non-refundable, while non-refundable subsidies are registered as income directly attributed to the net equity and considered as income on a systematic and rational basis in a correlated manner with the expenses derived from the subsidy. The non-refundable subsidies received from the associates are recorded directly in own funds.

For these purposes, a subsidy is considered non-refundable when there is an individualized agreement to grant the subsidy, all the conditions set for granting have

been met and there are no reasonable doubts about its collection.
Monetary subsidies are valued at the fair value of the amount granted and non-monetary subsidies for the fair value of the asset received, both at the time of recognition.

Non-refundable subsidies related to the acquisition of intangible, fixed assets and property investments are considered as income for the fiscal year in proportion to the amortization of the corresponding assets or, as the case may be, when their disposal, valuation adjustment for impairment or discharge on the balance sheet may happen. On the other hand, non-refundable subsidies related to specific expenses are recognized in the profit and loss statement in the same year in which the corresponding expenses are accrued and those subsidies granted to compensate for operating deficit in the year in which they are granted, except when they are used to compensate for operating deficits of future years, in which case they are registered in those years.

m) Debts and account payable

This category includes debits for trade operations and debits for non-trade operations. These external funds are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance date.

These liabilities are initially recognised at fair value, adjusted for directly attributable transaction costs and subsequently registered at amortised cost using the effective interest rate method. Said effective interest is the updating type that equals the book value of the instrument with the expected flow of future payments intended until the maturity of the liability.

Notwithstanding the foregoing, debts for trade operations maturing in less than one year and which do not have a contractual interest rate are valued, both initially and subsequently, at their nominal value when the effect of not updating the cash flows is not significant.

n) Current and deferred taxes

Income tax expense (income) is the amount that, for this reason, is accrued during the year and includes both current and deferred tax expense (income).

Both expense (income) for current and deferred tax are registered in the profit and loss statement. However, the tax effect related to items that are recorded directly in net equity are recognized in the net equity.

Current tax assets and liabilities are assessed at the amounts expected to be paid or recovered from the tax authorities, in accordance with current or approved regulations and pending publication at the time of the year closure.

Deferred taxes are calculated according to the liability method, on temporary differences arising between the tax bases of assets and liabilities and their accounting values. However, if the deferred taxes arise from the initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting result nor tax base of the said tax, they are not recognised. The deferred tax is determined by applying the rules and tax rates enacted or about to be enacted at the balance sheet date and are expected to apply when the related deferred tax asset is carried out or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that future taxable profit will probably be available with which to be able to compensate temporary differences.

Deferred taxes on temporary differences arising on investments in subsidiaries, associated and joint ventures are recognized, except in those cases where the Group is able to control the timing of the reversal of the temporary differences and besides it is probable that they will not reverse in the foreseeable future.

o) Long-term employee benefits

The Group classifies its commitments for pensions depending on their nature in plans of defined contribution and plans of defined benefit. Defined contributions are those plans in which the Company undertakes to make contributions of a predetermined nature to a separate entity (such as an insurance company or a pension plan), and provided that it does not have a legal, contractual or implicit obligation to make additional contributions if the separate entity cannot meet the commitments assumed. Plans that do not have the character of defined contribution are considered defined benefit.

- Defined contribution plans

  For defined contribution plans, the Group pays contributions to publicly or privately managed pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no obligation of additional payments. Contributions are recognised as benefits to employees when they are accrued. Contributions paid in advance are recognised as an asset to the extent that a cash refund or a reduction of future payments is available.

  The Group recognizes a liability for contributions to be made when, at the end of the year, unpaid accrued contributions appear.

  The defined contribution plan of the Group is formalized in Ahorro Madrid IX, Fund managed by Bankia Pensiones, S.A, E.G.F.P.

- Defined benefit plans

  The Company recognizes on the balance sheet the difference between the present value of the committed remunerations and the fair value of the assets subject to the plan and the amount from costs for past services not yet recognized. If this difference reveals an asset, its valuation cannot exceed the current value of the

economic benefits that can be returned to the Group in the form of direct reimbursements or in the form of lower future contributions, plus, where applicable, the pending part to be allocated to results regarding the costs for past unrecognized services.

All variations of these amounts are recorded in the profit and loss statement, except:

- Actuarial profit and losses, which are recorded directly in net equity, considered as reserves.

- The amount that cannot be registered as an asset because it exceeds the current value of the economic benefits that can be returned to the Group as refunds or lower future contributions, plus the portion pending to be charged to results regarding past service costs, which is recorded directly in reserves.

The costs for past services arising from the establishment of a new defined benefit plan or an improvement in the conditions of the existing plan are recognized as an expense in the profit and loss statement in the following way:

- Irrevocable rights are recorded immediately.

- Revocable rights are registered on a linear basis in the average period remaining until they are irrevocable, unless an asset arises, in which case they are recorded immediately.

The Group has the following defined benefit commitments:

a) With its employees from Sermepa (excluding executives), payment of a monthly payment each 10-year period completed by the employee working for the company.

b) With certain employees members of the Management coming from Sermepa, payment of an annuity of their salary at the time of retirement. These commitments are externalized through an insurance contract with Vidacaixa, S.A. de Servicios y Reaseguros.

c) With certain employee members of the Management coming from Redsys, the Parent company has subscribed a group insurance policy of rents to implement pension commitments with these employees.

d) Personnel hired before 8 March 1980 in Sistema 4B, S.A., who is currently part of the Parent company's workforce, is entitled to receive a supplementary pension in cases of retirement, death and disability. These commitments are externalized through insurance contracts with Santander Seguros and Reaseguros, Compañía Aseguradora, S.A.

e) Additionally, in relation to the benefits for death and disability in assets included in different agreements, an insurance contract of annual maturity for

employees has been signed with an insurance company.

- Mixed plans:

  In addition to the plans detailed above, the Parent company has a commitment with a member from the Management. This plan is defined as mixed because it has a defined contribution system for the retirement contingency, while the benefits derived from the death or invalidity of the managing director are set as a defined benefit. The Company has contracted a life insurance policy to cover these commitments.

p) Provisions and contingent liabilities

The Group recognizes as provisions the liabilities that, clearly specified as to their nature, on the closing date of the fiscal year, are indeterminate as to their exact amount or the date on which they will be cancelled, and may be determined by a legal provision, contractual, or by an implicit or tacit obligation whose origin is placed in the valid expectation created by the Group against third parties.

With the information available at each moment, they are valued at the closing date of the fiscal year, for the current value of the best possible estimate of the disbursement that is necessary to cancel, or transfer the obligation to a third party. Adjustments to the provision by virtue of its updating are considered as a financial expense, when applicable, as they are accrued.

The amount of provisions with maturity less than or equal to one year is included in current liabilities, and if their financial effect is not significant, they are not discounted.

On the other hand, contingent liabilities are those considered as possible obligations arising as a result of past events, the existence of which will be conditioned by the occurrence or non-occurrence of a single or several events beyond the will of the Group. These contingent liabilities are not subject to an accounting record, and, if they exist, they are reported in the annual accounts.

q) Classification of assets and liabilities as current and non-current

Assets and liabilities are classified in the balance sheet as current and non-current. For this purpose, assets and liabilities are classified as current when they are linked to the normal operating cycle of the Group and are expected to be sold, consumed, realized or settled in their course; they are different from the previous ones and their maturity, disposal or completion is expected to occur within a maximum period of one year; they are held for trading or they are cash and equivalent liquid assets whose use is not restricted to a period more than one year.

The normal operating cycle is less than one year for all activities.

r) Income recognition

Incomes are recognised at the fair value of the consideration receivable and represent amounts receivable for goods supplied and services rendered in the ordinary course of business of the Group, excluding returns, reductions, discounts and Value Added Tax.

The Company recognises the incomes when the amount of these can be measured reliably, it is probable that future economic benefits will be given to the Company and the specific conditions for each of the activities, as detailed below, are met. The amount of revenue is not considered to be reliably assessed until all contingencies related to the sale have been resolved.

i) Income from services rendered:

The Company provides operational and computer services related to the use of credit, debit card or other means of payment for the administration and management of terminals, as well as services in the connection of computers and the issuance of operations authorization queries, data transmission, recording, printing and computer processing regarding transactions carried out with financial entities. Revenues from the rendering of services are recorded without including the amounts corresponding to the taxes levied on these operations. The income derived from the rendering of services is generally recognized in the period in which the services are provided.

ii) Income by interests:

Income by interest is carried out by the effective interest rate method. When a collectable account undergoes loss due to impairment in value, the Group reduces the book value to its recoverable value, discounting estimated future cash flows at the original effective interest rate of the instrument and holds the discount as a reduction in interest income. Interest revenues of loans that have suffered losses due to fall in value are carried out using the effective interest rate method.

s) Leases

Contracts of leasing, at the beginning of which, all the risks and benefits inherent in asset ownership are substantially transferred to the Group, are then classified as financial leases, otherwise, they are classified as operating leases. As of 31 December 2018 and 2017, the Group has only formalized operating lease agreements.

- Operating leases

Payments from operating leases, net of any incentives received, are recognised as a linear expense over the term of the lease, unless another systematic basis of allocation is more representative of the time pattern of the benefit from the lease.

t) Foreign currency transactions

The Group's annual accounts are presented in euros, which is the presentation and functional currency of the Group.

Transactions in foreign currencies are converted to the functional currency using the exchange rates prevailing on the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the conversion at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss statement, except when deferred in net equity as in the case of qualifying cash flow hedges and qualifying net investment hedges.

u) Transactions between related parties

In general, transactions among Group companies are accounted for at the initial moment at fair value. Wherever appropriate, if the agreed price differs from its fair value, the difference is recognised based on the economic reality of the operation. Subsequent valuation is performed in accordance with the provisions of relevant standards.

4.Financial risk management

4.1. Financial risk factors

The Company's activities are exposed to various financial risks: market risk (including interest rate risk and exchange rate risk), credit risk and cash flow risk. The Group’s overall risk management programme focuses on the uncertainty of financial markets and attempts to minimise the potential adverse effects on the group’s financial profitability.

Risk management is controlled by the Treasury Department of the Company, which identifies, evaluates and covers financial risks in accordance with the policies issued by the Financial Department of the Group, which provides such policies for global risk management, as well as for specific areas such as interest rate risk, liquidity risk, use of derivatives and non-derivatives and investment of excess liquidity.

a) Market Risks:

i) Exchange rate risk

The Company operates almost exclusively in the euro area, and almost all of its debts are denominated in euros, so the exchange rate risk is practically null.

ii) Interest rate risk of cash flows and fair value

As the only significant remunerated assets of the Group are those generated by its own treasury, the income and cash flows from its operating activities are quite independent from the variations in market interest rates. Surplus of cash flows on treasury's cash needs are invested in risk-free assets during the period of time in which the surplus is held.

The Group's interest rate risk arises mainly from long-term external resources. Loans issued at variable rates expose the Group to interest rate risk from cash flows. External resources at a fixed interest rate expose the Company to interest rate risks over fair value. During the years 2018 and 2017, the Company's long-term external resources mainly came from variable interest rate loans (see Note 16) and loans at the 0% rate (see Note 15).

b) Credit Risk:

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as from clients, including outstanding accounts receivable and compromised transactions.

At the end of 2018 and 2017 there are registered credits with:

- The Tax Administration, for tax refunds pending to be made,
- Clients for sales and provision of services,
- Several debtors, for invoices pending of collection,
- Financial institutions, for the debit balances of their financial investments and their treasury accounts, and
- For the credits granted to its personnel.

c) Liquidity Risk:

Prudent management of cash flow risk involves the maintenance of sufficient cash and marketable securities, the availability of financing through a sufficient amount of committed credit facilities and the ability to liquidate market positions. Given the dynamic nature of the underlying businesses, the Group's Treasury Department aims to maintain flexibility in financing through the availability of committed credit lines.

The Groups's Management monitors the forecasts of the Group's liquidity reserve which includes the credit availability (Note 16) and cash and other liquid assets equivalent to cash (Note 13) based on the expected cash flows.

In accordance with the budgets prepared by the Group, it is estimated that during the year 2018, the Group will have sufficient liquidity reserves for the development of its activity.

4.2. Fair value estimation

The fair value of financial instruments that are traded in active markets (such as securities held for trading and those available for sale) is based on market prices at the balance sheet date. The market price that is used for financial assets is the current buyer price.

The fair value of the financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions based on market conditions on each balance sheet date.

It is assumed that the carrying amount of receivables and payables for trade operations is close to their fair value. The fair value of financial liabilities for the presentation of financial information is estimated by discounting future contractual cash flows at the current interest rate of the market available to the Group for similar financial instruments.

5. Analysis of financial instruments

5.1. Analysis by categories

The book value as of 31 December 2018 and 2017 of each of the categories of financial instruments established in the "Financial Instruments" recording and measurement standard is presented in Notes 9, 10, 11, 13 and 16 of these annual accounts.

5.2. Analysis by due dates

The amounts as of 31 December 2018 and 2017 of the financial instruments with a specified or specifiable maturity classified by year of maturity are the following:

	31.12.2018		31.12.2017	
	Expiration date in 2018	Expiration date in subsequent years	Expiration date in 2017	Expiration date in subsequent years
Financial and commercial credits, and other receivables (Note 11)	17.686.725	388.234	21.585.457	529.939
Sureties (Note 10)	-	359.867	-	359.807
Financial and commercial debts, and other accounts payable (Note 16)	51.662.680	11.072.578	50.073.070	26.050.497

5.3. Credit quality of financial assets

The credit quality as of 31 December 2018 and 2017 of the financial assets that have not yet expired and that have not suffered losses due to impairment can be assessed based on the credit rating ("rating") granted by external agencies or through of the historical index of bad debts, is as follows:

- Loans and receivables

	31.12.2018	31.12.2017
Clients with Rating A1	629	-
Clients with Rating A2	2.633.924	-
Clients with Rating A3	268.345	638.014
Clients with Rating Aa3	259.965	-
Clients con Rating Baa1	7.891.371	4.654.329
Clients con Rating Baa2	256.731	2.875.892
Clients with Rating Baa3	1.330.751	1.878.993
Clients with Rating Ba1	-	168.849
Clients with Rating Ba2	-	5.445
Clients with Rating Ba3	-	14.581
Clients con Rating B1	-	-
Clients with Rating B2	3.691	-
Clients with Rating Caa1	5.770	-
Clients with Rating Caa3	629	-
Clients without Rating	5.184.842,98	11.349.417
	17.687.775	21.585.520

(*) note: clients and debtors with external credit rating (Moody's)

The following table includes the following amounts as of 31 December 2018 and 2017:

	31.12.2018	31.12.2017
Short-term financial investments	1.050	63
Clients for sales and provision of services	14.950.725	18.838.815
Clients, group and associated companies	-	38.696
Sundry debtors	49.585	24.089
Employees	281.910	215.673
Current tax assets	2.402.537	2.462.690
Other credits with Public Administrations	1.968	5.494
	17.687.775	21.585.520

- Cash and other equivalent liquid assets

	31.12.2018	31.12.2017
Entities with Rating A2	4.859.034	178.360
Entities with A3 Rating	-	17.519
Entities with Rating Aa3	395	-
Entities with Rating Baa1	7.914.078	2.349.458
Entities with Rating Baa2	258.128	2.273.649
Entities with Rating Baa3	4.088.070	5.671.976
Entities with Rating Ba1	-	7.916
Entities without Rating	139.159	17.280
	17.258.864	10.516.158

(*) note: entities with external credit rating (Moody's)

6. Intangible assets and goodwill

The detail as of 31 December 2018 and 2017 and the movement during the fiscal year 2018 of the items included in this balance sheet heading is as follows:

	Applications Applications	Use rights of POS	Advances of the fixed assets	Total	Goodwill
Cost at 31 December 2017	30.063.206	2.784.864	230.786	33.078.856	405.000
Registrations	1.878.874	-	535.556	2.414.430	-
Cancellations	-	-	-	-	-
Transfers	-	-	-	-	-
Cost at 31 December 2018	31.942.080	2.784.864	766.342	35.493.286	405.000
Accumulated depreciation on 31 December 2017	(25.401.866)	(2.784.864)	-	(28.186.730)	(40.500)
Registrations	(2.918.417)	-	-	(2.918.417)	(40.500)
Cancellations	-	-	-	-	-
Accumulated depreciation on 31 December 2018	(28.320.283)	(2.784.864)	-	(31.105.147)	(81.000)
Net book value on 31December 2017	4.661.340	-	230.786	4.892.126	364.500
Net book value on 31 December 2018	3.621.797	-	766.342	4.388.139	324.000

As of December 31, 2018 there is intangible fixed assets in use and fully amortized for an amount of 25.947.260 euros (23.977.370 euros as of 31 December 2017).

The Group amortizes a cost value of 405.000 euros (corresponding to goodwill of consolidation that arose in the first consolidation of the Dependent Company) from 1 January 2017 in 10 years.

7. Other tangible assets

The detail as of 31 December 2018 and 2017 and the operations during these years of the items recorded as fixed assets is as follows:

	POS terminals	Technical facilities and machinery	Others facilities, equipment and furniture	Equipment for processes of information	Transportation equipment	Ongoing assets and advances	Total
Cost on 31 December 2017	279.846.156	389.637	906.955	29.041.239	10.200	4.895	310.199.082
Registrations	28.953.646	6.185	10.628	3.485.854	-	165.923	32.622.236
Cancellations	(15.711.506)	-	(2.125)	(3.062.096)	-	-	(18.775.727)
Transfers	-	-	(8.404)	(20.411)	-	-	(28.815)
Cost on 31 December 2018	293.088.296	395.822	907.054	29.444.586	10.200	170.818	324.016.776
Accumulated depreciation on 31 December 2017	(188.884.632)	(358.456)	(573.982)	(22.591.169)	(10.200)	-	(212.418.439)
Registrations	(43.941.990)	(17.486)	(60.194)	(3.316.936)	-	-	(47.336.606)
Cancellations	14.521.228	-	9.863	3.053.862	-	-	17.584.953
Accumulated depreciation on 31 December 2018	(218.305.394)	(375.942)	(624.313)	(22.854.243)	(10.200)	-	(242.170.092)
Accumulated value impairment as of 31 December 2017	(8.771.579)	-	-	-	-	-	(8.771.579)
Registrations	-	-	-	-	-	-	-
Cancellations	2.521.178	-	-	-	-	-	2.521.178
Accumulated value impairment as of 31 December 2018	(6.250.401)	-	-	-	-	-	(6.250.401)
Net book value on 31 December 2017	82.189.945	31.181	332.973	6.450.070	-	4.895	89.009.064
Net book value on 31 December 2018	68.532.501	19.880	282.741	6.590.343	-	170.818	75.596.283

The cost of fully depreciated fixed assets in use amounts to 150.536.047 euros as of 31 December 2018 (111.036.078 euros as of 31 December 2017).

The Group has contracted several insurance policies to cover the risks to which intangible fixed assets are subject. The Group Management considers that the coverage of these policies is sufficient.

8. Operating leases

The Group leases, under an operating lease, the property in which it operates, as well as the use of various software programs.

The description of the most relevant lease agreements is as follows:

Lease	Term of renewal	Penalties
C/ Francisco Sancha, 12 (Madrid)	30 June 2019	Contract resolution in case of breach
Software Programs with IBM	30 June 2019	Contract resolution in case of breach

During 2018 the subsidiary Group has moved its offices from Alcobendas to Madrid.

The most significant amounts of operating lease payments recognized as expenses in 2018 and 2017 are as follows:

	31.12.2018	31.12.2017
Expenses for leasing Office	2.821.322	2.658.301
Lease expense IBM Software	839.810	835.337
	3.631.859	3.476.598

The minimum expected future annual payments of the non-cancellable lease agreement as of 31 December 2018 and 2017 are as follows:

	31.12.2018	31.12.2017
Up to one year	2.212.899	2.649.756
From one to five years	-	1.010.758

9. Long-term investments in group and associated companies

The detail as of 31 December 2018 and 2017 of investments in equity instruments of group companies and associates is as follows:

	31.12.2018	31.12.2017
Cost		
Equity instruments	2.530.000	2.530.000
Impairment to value		
Equity instruments	-	-
	2.530.000	2.530.000

On 10 June 2014, the Parent Company acquired 44% of the share capital of Chip Card, S.A, through the acquisition of 9.400 shares, with a par value of 60.10 euros.

The relevant information on the participation in Group companies as of 31 December 2018 and 2017 is as follows:

Company name and registered office	**Legal form**	**Activity**	**Participation in capital Direct (%)**
Chip Card, S.A.	Limited Company	Consulting, advice on systems based on memory cards.	44%

	Chip Card, S.A (*)	
	31.12.2018	31.12.2017
Total assets	3.925.538	3.301.613
Share capital	1.295.816	1.295.816
Total reserves and issuance premium	1.742.467	1.524.259
Result of the financial year	190.067	218.208

(*) Figures audited in the 2018 and 2017 financial years

10. Sureties

The breakdown of the amounts recorded as bonds as of 31 December 2018 and 2017, is shown below:

	31.12.2018	31.12.2017
Buildings sureties	359.867	359.807

11. Loans and receivables

The breakdown of the amounts recorded as loans and items receivable as of 31 December 2018 and 2017 is shown below:

	31.12.2018	31.12.2017
Long-term financial investments		
Other financial assets	-	3.000
Long-Term loans and receivables		
Long-term credits to personnel	388.234	529.939
Short-term financial investments		
Other financial assets	1.050	63
Short-Term loans and receivables		
Clients for sales and services rendered	14.950.725	18.838.815
Clients, group companies	-	38.696
Sundry debtors	49.585	24.089
Short-term credits to personnel	250.140	163.823
Advance payments of remunerations	31.770	51.850
Current tax assets (Note 20)	2.402.537	2.462.690
Other credits with Public Administrations	1.968	5.494
	17.686.725	21.585.457

Assets for current tax as of 31 December 2018 and 2017 includes an amount of 2.402.537 and 2.462.690 euros, respectively, corresponding to balances pending recovery for the Corporation Tax for the 2018 and 2017 fiscal years.

The book values of the loans and receivables are denominated in euros as of 31 December 2018 and 2017.

The breakdown of "Other credits with Public Administrations" as of 31 December 2018 and 2017 is shown below:

	31.12.2018	31.12.2017
Other credits with Public Administrations		
Public Finance, withholdings and debtors	1.968	5.494

The maximum exposure to credit risk at the date of presentation of the information is the fair value of each of the categories of accounts receivable indicated above, which does not differ significantly from the value recorded in books.

During the year 2018, impairment in accounts receivable from clients was reversed in the amount of 134.931 euros (losses of 279.829 euros in 2017) (see Note 21.e).

12. Stocks

The breakdown of the stock heading as of 31 December 2018 and 2017 is as follows:

	31.12.2018	31.12.2017
Office supplies	-	7.539
POS components	-	12.225
Telebank components	-	63.051
Advances to suppliers	1.355.040	-
	1.355.040	82.815

The fair value of these assets does not differ significantly from their book value.

The change in inventories for the 2018 and 2017 financial years is explained as follows:

	31.12.2018	31.12.2017
Initial Balance	82.815	103.493
Variation in stocks (Note 21.c)	(82.815)	(20.678)
Final Balance	-	82.815

13. Cash and other cash equivalent assets

The detail of this balance sheet heading as of 31 December 2018 and 2017 is as follows:

	2018	2017
Cash and banks	17.258.864	10.516.158

"Cash and banks" includes, as of 31 December 2018 and 2017, the balances held in bank current accounts, which are remunerated at market interest rates.

As of 31 December 2018 and 2017 there are no restrictions on the availability of these balances. All balances under this heading are denominated in euros on 31 December 2018 and 2017, except for an amount of 3.149 euros, which is denominated in pounds sterling as of 31 December 2018 (3.866 euros as of 31 December 2017).

14. Own funds

The composition and movement in the net equity are presented in the statement of changes in the consolidated net equity.

14.1. Share capital and issue premium

The share capital of the Parent company as of 31 December 2018 and 2017 is composed of 456.069 shares of 12,75 euros of par value each, numbered consecutively from 1 to 456.069, both inclusive and fully subscribed and paid up.

Shares do not have the character of securities and are not represented by means of securities or book entries. All the constituent shares of the capital enjoy the same rights and there are no statutory restrictions on their transfer.

The entities that participate in the shared capital of the Parent company in a percentage equal to or greater than 10% as of 31 December 2018 and 2017 are the following:

	31.12.2018		31.12.2017	
Company	Number of shares	Percentage of share	Number of shares	Percentage of share
Caixabank	91.213	19,99%	91.213	19,99%
Banco Bilbao Vizcaya Argentaria	91.212	19,99%	91.212	19,99%
Bankia	72.691	15,94%	72.691	15,94%
Banco Santander	91.213	19,99%	61.690	13,53%
	346.329	75,94%	316.806	69,45%

The share issue premium is freely available.

14.2. Reserves

As of 31 December 2018 and 2017, the amounts of the reserves are as follows:

	31.12.2018	31.12.2017
Legal reserve	1.162.976	1.162.976
Other reserves	43.526.203	34.206.701
Consolidation reserves	129.718	-
	44.818.897	35.369.677

(i) *Legal reserve*

The legal reserve was provided for in accordance with article 274 of the Consolidated Text of the Capital Companies Law, which provides that, in any case, a figure equal to 10 per cent of the profits of the year should be allocated to this until it reaches, at least, 20 per cent of the share capital.

It cannot be distributed and if it is used to offset losses, in the event that no other available reserves sufficient for this purpose exist, it must be replaced with future profits.

On 31 December2018 and 2017, the Parent company has endowed this reserve with the minimum limit set in the Consolidated Text of the Law on Capital Companies.

(ii) *Voluntary Reserves*

Voluntary reserves are freely available.

(iii) *Reserves in consolidated companies*

In accordance with Law 16/2012, of 27 December which adopts various tax measures aimed at consolidating public finances and boosting economic activity, some of the Group's companies updated their equity items of the intangible assets with effects to 1 January 2017.

15. Subsidies received

As of 31 December 2018, the Group's liability includes a balance of 411.187 euros corresponding to amounts received from the Ministry of Industry / CDTI for loans at 0 interest rate, which come from the liabilities included in the Parent Company's balance sheet by virtue of the merger and spin-off processes described in Note 1.2, for this reason.

Its breakdown by maturity is as follows:

	31.12.2018	31.12.2017
Year 2018	-	107.512
Year 2019	110.783	110.783
Year 2020	114.152	114.152
Year 2021	74.642	74.642
Year 2022	42.318	42.318
Year 2023	34.127	34.127
Year 2024	35.166	35.165
	411.187	518.699
	(Note 16)	(Note 16)

16. Debts and account payable

The breakdown of the amounts recorded as loans and items receivable as of 31 December 2018 and 2017 is shown below:

	Non-current		Current	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Debts with credit institutions	10.772.173	25.639.310	14.897.951	19.878.688
Other financial liabilities	300.405	411.187	257.763	107.512
Suppliers	-	-	31.466.007	24.994.193
Suppliers, group and associated companies	-	-	921.415	738.226

	Non-current		Current	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Sundry creditors	-	-	39.045	259.558
Remunerations pending of payment to the personnel	-	-	2.371.104	2.312.708
Current Tax Liabilities	-	-	25.830	56.744
Other debts with public bodies	-	-	1.683.562	1.725.440
	11.072.578	26.050.497	51.662.677	50.073.069

The composition of "Other financial liabilities" as of 31 December 2018 and 2017 is shown below:

	Non-current		Current	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Subsidies (Note 15)	300.405	411.187	255.838	107.512
Others	-	-	1.925	-
	300.405	411.187	257.763	107.512

The breakdown of "Other debts with Public Administrations" as of 31 December 2018 and 2017 is as follows:

	31.12.2018	31.12.2017
Other debts with public bodies:		
Public Finance creditor by VAT	255.724	375.705
Public Finance creditor by IRPF (income tax)	777.965	725.056
Public Finance creditor by RCI (capital gains)	838	824
Social Security bodies creditors	649.035	623.855
	1.683.562	1.725.440

Given the nature of the items included in the category of debits and items to be paid, exposure to variations in interest rates is not considered to significantly affect the valuation of the same.

The book value of long and short term debt is close to its fair value given that the effect of the discount is not significant.

As of 31 December 2018 and 2017, the Parent company has the following credit lines as well as loans:

	31.12.2018		31.12.2017	
	Limit	Authorised	Limit	Authorised
Variable rate				
With expiration to more than one year	10.772.173	10.772.173	25.639.310	25.639.310
Maturity in less than one year	33.874.507	14.897.951	39.378.688	19.878.688
	44.646.680	25.670.124	65.017.998	45.517.998

In fiscal year 2018, the Parent Company did not make any loan subscription, thus maintaining six lines of credit for an amount of 9.000.000 euros, 6.000.000 euros, 1.000.000 euros, 1.000.000 euros, 1.000.000 euros and 1.000.000 euros whose maturities are between 23 November 2019 and 26 November 2019.

In fiscal year 2017, the Parent Company had subscribed a loan for a total amount of € 3.000.000, whose maturity is on 6 October 2020, as well as six credit lines for an amount of 9.000.000 euros, 6.000.000 euros, 1.500.000 euros, 1.000.000 euros, 1.000.000 euros and 1.000.000 euros whose maturities are between 8 November 2018 and 11 November 2018.

In compliance with the provisions of Law 15/2010, of 5 July, of amendment of Law 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, developed by the Resolution of 29 January 2016, of the Institute of Accounting and Auditing of Accounts (ICAC), on the information to be included in the annual accounts for the year in relation to the average period of payment to suppliers in commercial operations, indicate that:

Among other aspects, this rule eliminates the possibility of the "agreement between the parties", in relation to the extension of the payment term to suppliers, in response to the financial repercussions of the economic crisis in all sectors, considered as an increase in defaults, delays and extensions in the liquidation of overdue invoices, which particularly affect small and medium-sized companies due to their high dependence on short-term credit and treasury limitations in the current economic context.

In addition, to fight against these difficulties, the Law establishes a maximum general postponement between companies of 60 calendar days from the date of delivery of the goods or provision of services that will take effect on 1 January 2013. Up to that point, a transitory system is set up with higher maximum legal payment terms that will be progressively adjusted for those companies that had agreed to higher payment terms.

Information on deferred payments to suppliers is as follows:

	31.12.2018	31.12.2017
	Days	
Average period of payment to suppliers	42	45
Ratio of transactions paid	45	49
Ratio of transactions pending of payment	32	25
	Amount	
Total payments made	89.534.650	97.295.976
Total pending payments	8.054.728	6.354.932

17. Long-term and short-term provisions

The detail of the provisions recorded by the Parent company as of 31 December 2018 and 2017 is as follows:

	31.12.2018		31.12.2017	
	Non-current	Current	Non-current	Current
Provisions for personnel benefits	538.475	-	632.264	8.250.000
Provisions for restructuring (Note 18)	-	1.234.614	-	1.200.292
Provisions for other liabilities (Note 18)	154.852	-	154.852	-
	693.327	1.234.614	787.116	9.450.292

a) Obligations by personnel long-term benefit

The breakdown on 31 December 2018 and 2017 of the amounts recognized in the balance sheet for obligations for long-term employee benefits, as well as the corresponding charges in the profit and loss statement for the years 2018 and 2017, for the different types of commitments that the Group has made with its employees is as follows:

	31.12.2018	31.12.2017
Obligations on balance for:		
Long-term benefits	538.475	632.264
Charges / (Payments) in the profit and loss statement		
Long-term benefits	(343.160)	1.466.470

The movement in the 2018 exercise of the obligation for long-term personnel benefits was as follows:

	31.12.2018
Initial Balance	632.264
Registrations	2.897
Cancellations	(96.686)
Final Balance	538.475

The "Long-term employee benefits obligations" heading includes the following amount as of 31 December 2018:

An amount of 535.578 euros to cover the commitment to pay certain employees a monthly payment for every 10 years working in the Group (632.264 euros as of 31 December 2017) (see note 3.1). In fiscal year 2018, the Group has released 96.686 euros, charged to the profit and loss account.

During the year 2017, the Company reclassified to the "short-term provisions" heading the amount of the variable compensation coverage agreed by the Parent company in 2014, payable to all Company personnel if certain global objectives are achieved. They were paid to the employees during the first quarter of the financial year 2018. During fiscal year 2017, the Group allocated 1.500.000 euros, charged to the profit and loss account (see note 21.d).

18. Other provisions

The balance as of 31 December 2018 and 2017, and the operations in these years in these provisions recognized in the balance sheet, has been as follows:

	Provisions for restructuring	Others
As on 31 December 2017	1.200.292	154.852
Registrations	3.716.319	-
Applications and recoveries	(3.681.987)	-
As of 31 December 2018	1.234.614	154.852

a) Provisions for restructuring

During fiscal year 2018, the management of the Company made the decision to dispense with a series of employees, as a result of the internal reorganization of the company, which had a special impact on the structure of the departments to which the employees belonged. As a result, an agreement has been reached during this fiscal year to pay them the corresponding indemnities. It is expected that the provision existing as of 31 December 2018 for the coverage of said payments will be applied in full during the first months of 2019.

b) Other provisions

During fiscal year 2016, the State Tax Administration Agency issued the Settlement Act with reasons for the verification and investigation of the Corporation Tax for the years 2012 and 2013, quantifying the penalty at 154.852 euros. The Company proceeded to sign the corresponding acts in disagreement, and present arguments in defence of its interests, for which reason it maintains the provision for the penalty.

19. Fiscal Situation

The breakdown of the balances with Public Administrations is as follows:

	Euros	
	31.12.2018	31.12.2017
Assets		
Deferred tax assets	2.644.163	5.054.210
Current tax assets	2.402.537	2.462.690
Other credits with Public Administrations	1.968	5.494
	5.048.668	7.522.394
Liabilities		
Other debts with Public administrations		
Value added tax and similar items	255.724	375.705
Social Security	649.035	623.855

Withholdings	778.803	725880
	1.683.562	1.725.440

19.1. Deferred tax

The detail of deferred taxes as of 31 December 2018 and 2017 is as follows:

	2018	2017
Assets by deferred taxes:		
Temporary differences	2.644.163	5.054.210

The movement during fiscal year 2018 in deferred tax assets has been as follows:

	Provisions	Others	Total
Balance on 31 December 2017	2.220.567	2.833.644	5.054.210
Registrations	-	295.428	295.428
Cancellations	(2.085.947)	(650.002)	(2.735.949)
Other movements	39.684	(9.210)	30.474
Balance on 31 December 2018	174.304	2.469.860	2.644.163

Other movements include the adjustments made to assets by deferred taxes, as a result of the differences arising between the provision and the settlement of the Corporation Tax, corresponding to the financial year 2017.

Others amounting to 2.469.860 and 2.833.644 euros during the 2018 and 2017 financial years, respectively, mainly include the amount corresponding to the adjustments for freedom of amortization.

19.2. Corporate tax

The reconciliation between the net amount of income and expenses for the years 2018 and 2017, and the tax base of the Corporation Tax for both years is as follows:

	31.12.2018	31.122017
Profit/loss for the financial year before tax	11.420.062	10.308.464
Permanent differences:		
Consolidation adjustments	(252.040)	45.646
Others	14	14
	(252.026)	45.660
Temporary differences:		
From Individual Company	(9.762.086)	1.264.523
Tax base	1.405.950	11.578.147
Reduction for capitalization reserve		
From Individual Company	(109.035)	(847.762)

From consolidation adjustments	(31.560)	-
	(140.595)	(847.762)
Fee	316.339	2.682.596
Deductions	(176.960)	(1.287.838)
Payable rate	139.379	1.394.758
Counted as:		
Prepaid tax	(2.449.730)	257.395
Foreign withholding	(6.272)	-
Corporation Tax		
From Individual Company	2.524.372	1.080.619
From the adjustments of the Subsidiary company	71.009	56.744
	2.595.381	1.137.363
Withholdings and payments on account		
From Individual Company	(2.470.906)	(2.394.690)
From the adjustments of the Subsidiary company	(45.179)	(5.494)
	(2.516.085)	(2.400.184)
Net amount to pay / return (Note 11)	(2.376.706)	(1.005.426)
- accounted for as Creditor PF	25.830	51.250
- accounted for as Debtor PF	2.402.537	1.056.676

The expense for the fiscal year for Corporate Tax for the years 2018 and 2017 is calculated as follows:

	2018	2017
Accounting base of the tax (estimated)	2.756.860	2.366.466
Deductions	(176.960)	(1.229.103)
Adjustments for difference between the provision and the settlement of the Corporation Tax and adjustment of the tax rate	(94.467)	(318.618)
	2.485.433	818.745

The current Corporation tax results from applying a tax rate of 25% as of 31 December 2018 on the taxable base.

According to current legislation, tax returns cannot be considered final until they have been inspected by the tax authorities or the limitation period has passed, which is currently set at four years. In the opinion of the Managing directors of the Group, as well as its tax advisors, there are no tax contingencies of significant amounts that may arise in the case of inspection, of varying interpretations of tax regulations applicable to the operations performed by the Group.

On 28 December 2015, the Tax Agency informed the Group of the initiation of inspection and verification actions in the terms set forth in articles 141 and 145 of the General Tax Law and in article 177 of the General Regulations of the proceedings and procedures of tax administration and inspection and development of the common rules of the procedures for the application of taxes. The actions referred to Corporation Tax for the 2012-2013 financial years and were partial, limited to the "verification of financial expenses derived from the financing of the distribution of dividends".

During fiscal year 2016, the State Tax Administration Agency issued a Liquidation Act, quantifying the penalty at 154.852 euros (See note 17). The Group proceeded to present arguments in defence of its interests, and there were no amendments at the date of preparation of these annual accounts.

20. Income and expenses

The distribution in 2018 and 2017 of the net amount of the Group's turnover corresponding to its continuing operations by activity category is as follows:

	31.12.2018	31.12.2017
Segmentation by service category		
Sales	206.691	189.413
Provision of services	175.304.559	180.784.992
	175.511.250	180.974.405

a) Revenues from the rendering of services are obtained substantially as a result of the activities carried out by the Group as described in Note 1, which, among others, consist in the provision of a comprehensive service for the use of Credit and Debit cards of the clients, activity that is billed to the banking entities of the national and international market.

During the years 2018 and 2017, the Group has established a proportionality of sales rebates on gross turnover, and above a determined annual turnover. The estimate of this rebate at the close of the 2018 financial year reaches a total amount of 12.772.647 euros (10.194.479 euros at the close of fiscal year 2017).

b) The section "Other operating income - Non-core and other current operating incomes" includes in the year 2018 an amount of 2.037.852 euros collected from different telephone operators for business induction (1.816.996 euros in the fiscal year 2017). During the financial year 2018, an amount of 1.547.918 euros was recorded under "Other operating expenses - External Services" as compensation for prescribers, due to the induction of business generated by these (1.655.346 euros) in fiscal year 2017) (see Note 21.e).

c) The breakdown of merchandise consumption and consumption of raw materials and other consumables during the 2018 and 2017 periods is as follows:

	31.12.2018	31.12.2017
Supplies:		
Changes in stocks (Note 12)	82.844	20.678
Consumption of raw materials and other consumables	128.545	165.760
	211.359	186.438

d) The breakdown of personnel expenses for the 2018 and 2017 financial years is as follows:

	31.12.2018	31.12.2017
Wages, salaries and similar expenses	25.915.953	24.733.770
Provisions (Note 17)	(343.160)	1.463.958
Accrued indemnities	3.715.611	1.408.835
Social security contributions payable by the company	6.598.562	6.031.159
Other charges	1.762.544	1.750.321
	37.649.510	35.388.043

Provisions include in the year 2018 an income of 246.474 euros corresponding to excess of provisions (2.512 euros as of 31 December 2017).

The expense for wages, salaries and similar expenses accounts corresponds mainly to the payroll settled in the 2018 and 2017 fiscal years.

The average number of employees during the 2018 and 2017 fiscal years and the final number of employees distributed by sex and labour category as of 31 December 2018 and 2017 is as follows:

	2018				2017			
	Annual average	Men	Women	Total	Annual average	Men	Women	Total
Managers	24	19	4	23	24	19	4	23
Level 1	4	-	4	4	5	1	3	4
Level 2	16	11	4	15	21	15	7	22
Level 3	285	233	68	301	277	239	71	310
Level 4	55	38	17	55	60	39	19	58
Level 5	140	60	79	139	128	57	78	135
Level 6	1	1	-	1	1	1	0	1
Technicians	25	20	5	25	20	17	3	20
	550	382	181	563	536	388	185	573

The average number of Group employees with disabilities greater than or equal to 33% (or local equivalent qualification), during the 2018 and 2017 fiscal years, broken down by category, is as follows:

	Annual average	
	2018	2017
Administrative staff	2	2
	2	2

e) Within "Other operating expenses" are included the following concepts in the 2018 and 2017 fiscal years:

	31.12.2018	31.12.2017
Work carried out by other companies	25.645.817	34.067.500
Leases, repairs and Preservation	38.280.584	35.655.938
Office supplies	44.183	40.676
Communications	17.033.460	11.721.325
Supplies	1.641	
Other expenses for external services	4.159.436	3.921.400
Taxes	(398)	213.736
Losses, impairment and changes in provisions for commercial operations	(134.931)	279.829
	85.029.792	85.900.404

"Other expenses for external services" includes in the year 2018 an amount of 1.547.918 euros, in concept of "business induction", as compensation to prescribers, based on the number of transactions carried out by them in 2018 (1.655.346 euros in the year 2017).

f) The breakdown of the income statement for disposals of fixed assets for the 2018 and 2017 fiscal years is as follows:

	31.12.2018	31.12.2017
Fixed assets		
Benefits	5.172	27.228
Losses	(1.185.746)	(756.951)
	(1.180.574)	(729.723)

21. Financial result

The following is the breakdown of the financial result of the 2018 and 2017 financial years:

	31.12.2018	31.122017
Financial income from negotiable securities and other financial instruments:		
From third parties	196.046	25.392
Financial expenses:		
For debts with third parties	(302.235)	(444.479)
Others	(7.038)	(18.649)
	(309.273)	(463.128)
Exchange rate differences	652	7.886
Financial profit/loss	(112.575)	(429.850)

22. Information relating to Managing Directors and the Senior Management of the Company

During the fiscal period ended on 31 December 2018 and 31 December 2017, no payment obligations have been accrued as compensation to the members of the Board of Directors and personnel of the Senior management of the Company due to their status, nor there are balances with them at the close of the aforementioned annual exercises.

During the years 2018 and 2017, the Managing directors and Senior Management personnel have not been granted advances or credits and no obligations have been assumed on their behalf as security title, nor have civil liability insurance premiums been paid for damages caused by acts or omissions in the exercise of the position. The company has no obligations in terms of pensions and life assurance in respect of former or current Managing directors of the Company.

Article 229 of the Law on Corporations, approved by Royal Legislative Decree 1/2010 of 2 July, imposes on the Managing directors the duty to notify the Board of Directors and, failing that, the other Managing directors or, in case of Sole Administrator, to the General Meeting any situation of conflict, direct or indirect, that could have with the interest of the company. The affected Managing director must abstain from intervening in the agreements or decisions related to the operation to which the conflict refers.
Likewise, the Managing directors must communicate the direct or indirect participation that they and the persons linked to them have in the capital of a company with the same, analogous or complementary type of activity to which it constitutes the corporate purpose, and they will also communicate the positions or the functions that they exercise in it.

The Board of Directors of the Company and persons related to them have not engaged in any conflict of interest that has had to be communicated in accordance with the provisions of article 229 of TRLSC (Consolidated Text of the Capital Companies Law)

23. Operations with related parties

The most significant balances held with legal persons linked to the Company as of 31 December 2018 and 2017 are as mentioned below:

	31.12.2018	31.12.2017
Liabilities		
Suppliers, group and associated companies (Note 16)	921.418	738.227
Financial Revenue		
Provision of services	3.891.645	3.838.655

24. Information relating to the environment

The Group considers that it substantially complies with the laws relating to the protection of the environment (environmental laws). During the years 2018 and 2017, no significant environmental investments have been made, nor has it been considered necessary to record any provision for risks and expenses of environmental type, nor is it considered that there are significant contingencies related to the protection and improvement of the environment.

25. Audit fees

The auditor of the Group accounts is KPMG Auditores, S.L. The audit fees for the year ended on 31 December 2018 have amounted to 5.250 euros, regardless of when they were invoiced.

26. Subsequent events

Between 31 December 2018 and the date of formulation of these consolidated annual accounts, it should be noted that on 21 January 2019, Redsys Servicios de Procesamiento, S.L. (hereinafter, "Redsys") and Servired, Sociedad Española de Medios de Pago (hereinafter, "Servired") reached the agreement for the transmission of the distribution and commercialization business of the intellectual property rights of the Advantis System (Advantis systems and programs) and programs of the Pricenet, SIS and SAS families, as well as the human resources and patrimonial elements of said economic unit.

After the analysis and studies, and in virtue of the accumulated experience since the transfer to Servired of the distribution rights of the Advantis System and others, the parties came to the conviction that their commercialization activity as well as their profitability would result optimized if said activity was carried out by Redsys as the owner of the rights that comprise it, also assuming this on its own account, the maintenance and support tasks that Servired had been carrying out until then as a service provider, since Redsys had the ownership of the transformation rights on the software.

With this operation, the Redsys Group achieves a strategic position in the market, being one of the benchmark companies in the sector of payment methods.

Management Report

Financial Year 2018

Throughout 2018, the Redsys Group (hereinafter, "the Group"), has been characterized by a consolidation of the trends of previous years.

Regarding Redsys Servicios de Procesamiento, S.L, we highlight below the most relevant milestones achieved in the different areas of the company;

- Technology and Transactional;

  - Transaction processing has shown a growth of around 20% compared to the previous year.

  - The operation of the platform for the provision of the different services of the company stands out in all its facets, from the continuity reached to the indicators of tests and deployments, with a reduction of 18% of incidents with impact on the service with respect to levels already prominent in previous exercises. The operational availability of the platform has been 99.999%, and the global temporary availability of 100%.

- Operations;

  - Improvement in the different dimensions of the device management service.

  - Incorporation of a second Contact Centre improving the distribution of traffic and the strength of the service.

  - Adaptation of the Records Management service to the new requirements of international brands, in particular to Visa Claims Resolution-VCR.

  - Improvement of the quality of the Exchange, Compensation and Liquidation service, improving the level of balance of sessions and the reduction of payment collections.

  - Advance in the development of the Information Services platform and in the services delivered, evolving the standard information service "Ágora" and creating a new Benchmark.

  - Increase of the ATM park with Redsys application and development of new services oriented to clients.

- Solutions;

  - Start-up of a new acquisition platform, providing an Omni-channel gateway at the disposal of the Financial Entities.

  - Consolidation of the "Vending" service, which resulted in a 37% increase in the number of machines and a 52% increase in the total number of operations.

- Consolidation of the Digital Hub that allows Financial Institutions to have a solution to integrate in a single point the existing mobile payment solutions (Apple Pay, Samsung Pay, Android Pay, Fitbit, Garmin, etc.).

- Participation in the definition of a new European standard, in the ECPA group (European Card Payment Association), for the use of private payment at the domestic level and even interoperable at European level; it is the so-called Multi AID project.

With regard to Redsys Salud, we must highlight the change in the company name from Havasoft, Consultoría Informática, S.L to Redsys Salud, S.L. on 8 August 2018.

On 26 November 2018, Redsys Servicios de Procesamiento, S.L. transferred to Redsys Salud SL the business unit of the health sector through the transfer of assets and liabilities, assuming human resources, commercial relations and patrimonial elements assigned to the aforementioned business unit.

From this moment, Redsys Salud has been developing its activity with a marked orientation to the client, directed to the provision of services for processing of medical procedures, as well as the development of products and services related to information technologies, the advice and the consultancy on computer systems and operational processes in the field of transactions inherent to healthcare.

The Group considers that it substantially complies with the laws relating to the protection of the environment (environmental laws).

Financial risk management is controlled by the Treasury Department of the Group, which identifies, evaluates and covers financial risks in accordance with the policies issued by the Financial Department of the Company, which provides such policies for global risk management, as well as for specific areas such as interest rate risk, liquidity risk, use of derivatives and non-derivatives and investment of excess of liquidity. The Treasury / Debt had an appreciably better performance than estimated in the original business plan.

Risk management is carried out by analysing market risk (exchange rate risk, price risk and interest rate risk), credit risk and liquidity risk.

The average period of payment to suppliers of the Group is 41,46 days.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.
AND SUBSIDIARY COMPANIES

Consolidated Annual Accounts Report

Formulation of the Consolidated Annual Accounts and Consolidated Management Report as of 31 December 2018.

These consolidated Annual Accounts and the Consolidated Management Report for the year ended 31 December 2018 have been formulated by the Board of Directors of Redsys Servicios de Procesamiento, S.L. on today's date with a view to its verification by the auditors and the subsequent approval, if applicable, of the General Meeting of Shareholders of the Company.
The consolidated Annual Accounts and Consolidated Management Report included in the consolidated balance sheet, the consolidated profit and loss statement, the statement of changes in consolidated net equity and the consolidated statement of cash flows, together with the consolidated report and the consolidated management report, are presented in writing only on the front and endorsed all them by each of the members of the Board of Directors.

In accordance with the provisions of the Capital Companies Law, the consolidated Annual Accounts corresponding to the fiscal year ended on 31 December 2018 are now signed by all the members of the Board of Directors:

Madrid, 27 March 2019

SECRETARY OF THE MANAGEMENT BOARD

Signed: Ms. Alicia Beatriz Muñoz Lombardía

PRESIDENT

Mr. Jesús Verde López

Signed by:

Mr. Oriol Borrell Vilaseca

Board Member

Mr. Luis Javier Blas Agüero

Board Member

Mr. Juan Antonio Merino Cantos

Board Member

Ms. María del Mar Ruiz Andújar

Board Member

Gesmare Sociedad Gestora, S.L.U.
D. Luis Félix Uriarte Extremiana

Board Member

Inmogestión y Patrimonios, S.A.
Ms. Eva María Herranz Caro

Board Member

Rural Informática, S.A
Carrión
Mr. Ramón Carballás Varela

Board Member

Mr. Javier Francisco Cuenca

Board Member

Banco Sabadell
Mr. Adrià Galian i Valldeneu

Board Member

Mr. Josep Gallach Patau

Board Member