

**Consolidated Financial Statements
for the year ended 31 December 2019**

NOVABASE S.G.P.S., S.A.

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I. CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

NOVABASE S.G.P.S., S.A.

Consolidated Statement of Financial Position as at 31 December 2019

(Amounts expressed in thousands of Euros)

	Note	31.12.19	31.12.18
Assets			
Non-Current Assets			
Property, plant and equipment	7	11,965	10,235
Intangible assets	8	12,967	16,065
Investments in associates	9	169	252
Financial assets at fair value through profit or loss	10	12,175	3,868
Debt securities	19	403	7,680
Deferred tax assets	11	9,585	10,048
Other non-current assets	12	1,908	1,644
Total Non-Current Assets		49,172	49,792
Current Assets			
Inventories	13	34	33
Trade and other receivables	15	78,428	45,658
Accrued income	16	3,843	5,464
Income tax receivable		2,168	2,619
Derivative financial instruments	17	24	26
Other current assets	18	6,211	3,851
Debt securities	19	2,793	1,198
Cash and cash equivalents	20	48,755	63,614
Total Current Assets		142,256	122,463
Assets from discontinued operations	41	460	-
Total Assets		191,888	172,255
Equity			
Share capital	21	54,638	15,701
Treasury shares	21	(655)	(188)
Share premium	21	226	43,560
Reserves and retained earnings		(5,318)	3,016
Profit for the year		20,400	4,737
Total Equity attributable to owners of the parent		69,291	66,826
Non-controlling interests	23	18,329	13,754
Total Equity		87,620	80,580
Liabilities			
Non-Current Liabilities			
Borrowings	24	21,281	13,360
Provisions	25	8,623	8,252
Other non-current liabilities	26	770	990
Total Non-Current Liabilities		30,674	22,602
Current Liabilities			
Borrowings	24	9,081	6,320
Trade and other payables	27	39,635	40,399
Income tax payable		1,312	-
Derivative financial instruments	17	17	24
Deferred income and other current liabilities	28	14,854	22,267
Total Current Liabilities		64,899	69,010
Liabilities from discontinued operations	41	8,695	63
Total Liabilities		104,268	91,675
Total Equity and Liabilities		191,888	172,255

THE CERTIFIED ACCOUNTANT

THE BOARD OF DIRECTORS

The accompanying notes are an integral part of these consolidated financial statements

NOVABASE S.G.P.S., S.A.
Consolidated Statement of Profit and Loss
for the year ended 31 December 2019

(Amounts expressed in thousands of Euros)

	Note	12 M *	
		31.12.19	31.12.18 (*)
Continuing operations			
Sales	5	374	-
Services rendered	5	119,881	110,031
Cost of sales		(253)	-
External supplies and services	29	(33,353)	(32,962)
Employee benefit expense	30	(76,756)	(72,018)
Net impairment losses on trade and other receivables	15	253	675
Other gains/(losses) - net	31	(787)	806
Depreciation and amortisation	32	(4,715)	(2,517)
Operating Profit		4,644	4,015
Finance income	33	11,435	2,283
Finance costs	34	(4,770)	(3,802)
Share of loss of associates	35	(83)	(62)
Gain on net monetary position		-	308
Earnings Before Taxes (EBT)		11,226	2,742
Income tax expense	36	(353)	(994)
Profit from continuing operations		10,873	1,748
Discontinued operations			
Profit from discontinued operations	41	15,103	3,266
Profit for the Year		25,976	5,014
Profit attributable to:			
Owners of the parent		20,400	4,737
Non-controlling interests	23	5,576	277
		<u>25,976</u>	<u>5,014</u>
Earnings per share from continuing and discontinued operations attributable to owners of the parent (Euros per share)			
Basic earnings per share			
From continuing operations	37	0.17 Euros	0.05 Euros
From discontinued operations	37	0.49 Euros	0.11 Euros
From profit for the year	37	0.66 Euros	0.15 Euros
Diluted earnings per share			
From continuing operations	37	0.17 Euros	0.05 Euros
From discontinued operations	37	0.48 Euros	0.11 Euros
From profit for the year	37	0.66 Euros	0.15 Euros

(*) Restated in accordance with the explanation in notes 2.24, 2.25 and 41.

12 M * - period of 12 months ended

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NOVABASE S.G.P.S., S.A.
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

(Amounts expressed in thousands of Euros)

	Note	12 M *	
		31.12.19	31.12.18
Profit for the Year		25,976	5,014
Other comprehensive income for the year			
Items that may be reclassified to profit or loss			
Exchange differences on foreign operations, net of tax	11	615	1,627
Other comprehensive income for the year		615	1,627
Total comprehensive income for the year		26,591	6,641
Total comprehensive income attributable to:			
Owners of the parent		20,693	5,556
Non-controlling interests		5,898	1,085
		26,591	6,641
12 M * - period of 12 months ended			

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THE BOARD OF DIRECTORS

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NOVABASE S.G.P.S., S.A.

Consolidated Statement of Changes in Equity for the year ended 31 December 2019

(Amounts expressed in thousands of Euros)

	Note	Attributable to owners of the parent						Non-controlling interests	Total Equity
		Share capital	Treasury shares	Share premium	Legal reserves	Stock options reserves	Exchange dif. on foreign operations	Reserves and retained earnings	
Balance at 1 January 2018		15,701	(188)	43,560	3,140	-	(8,897)	14,253	81,166
Adjustment on initial application of IFRS 9 and IFRS 15 (net of tax)		-	-	-	-	-	-	(1,769)	(2,505)
Restated balance at 1 January 2018		15,701	(188)	43,560	3,140	-	(8,897)	12,484	78,661
Profit for the year		-	-	-	-	-	-	4,737	5,014
Other comprehensive income for the year	23	-	-	-	-	-	1,067	(248)	1,627
Total comprehensive income for the year		-	-	-	-	-	1,067	4,489	6,641
Transactions with owners									
Dividends	22, 23	-	-	-	-	-	-	(4,654)	(5,475)
Transactions with owners		-	-	-	-	-	-	(4,654)	(5,475)
Changes in ownership interests in subsidiaries that do not result in a loss of control									
Transactions with non-controlling interests		-	-	-	-	-	-	124	753
Balance at 31 December 2018		15,701	(188)	43,560	3,140	-	(7,830)	12,443	80,580
Balance at 1 January 2019									
Balance at 1 January 2019		15,701	(188)	43,560	3,140	-	(7,830)	12,443	80,580
Adjustment on initial application of IFRS 16 (net of tax)	2.2.	-	-	-	-	-	-	(1,084)	(1,131)
Restated balance at 1 January 2019		15,701	(188)	43,560	3,140	-	(7,830)	11,359	79,449
Profit for the year		-	-	-	-	-	-	20,400	25,976
Other comprehensive income for the year	23	-	-	-	-	-	293	-	615
Total comprehensive income for the year		-	-	-	-	-	293	20,400	26,591
Transfer of exchanges differences on foreign operations to profit and loss due to the sale of GTE Business	41	-	-	-	-	-	3,016	-	3,016
Transactions with owners									
Share capital reduction	21, 22	(4,397)	-	-	-	-	-	53	(4,344)
Share capital increase	21, 22	43,334	(467)	(43,334)	-	-	-	467	-
Dividends	22, 23	-	-	-	-	-	-	(15,823)	(16,371)
Share-based payments	21	-	-	-	-	7	-	-	7
Change in consolidation perimeter	23, 41	-	-	-	-	-	-	-	(728)
Transactions with owners		38,937	(467)	(43,334)	-	7	-	(15,303)	(21,436)
Changes in ownership interests in subsidiaries that do not result in a loss of control									
Transactions with non-controlling interests		-	-	-	-	-	-	-	-
Balance at 31 December 2019		54,638	(655)	226	3,140	7	(4,521)	16,456	87,620

THE CERTIFIED ACCOUNTANT

THE BOARD OF DIRECTORS

The accompanying notes are an integral part of these consolidated financial statements

NOVABASE S.G.P.S., S.A.

Consolidated Statement of Cash Flows for the year ended 31 December 2019

(Amounts expressed in thousands of Euros)

		12 M *	
	Note	31.12.19	31.12.18
Cash flows from operating activities			
Cash receipts from customers		144,176	153,600
Cash paid to suppliers and employees		(135,102)	(138,107)
Cash generated from operations		9,074	15,493
Income taxes received / (paid)		1,125	(618)
Other operating payments		(619)	(772)
		506	(1,390)
Net cash flows from operating activities		9,580	14,103
Cash flows from investing activities			
Proceeds:			
Sale of subsidiaries, associates and other partic. companies		9	8
Loans granted to associates and participated companies		-	164
Disposal of debt securities	19	4,498	11,236
Sale of property, plant and equipment		8	55
Interest received		675	1,351
		5,190	12,814
Payments:			
Acquisition of subsidiaries, assoc. and other partic. companies	10	(440)	(462)
Loans granted to associates and participated companies	40 iii)	(264)	-
Purchases of debt securities	19	-	(5,029)
Purchases of property, plant and equipment		(1,204)	(866)
Purchases of intangible assets		(918)	(237)
		(2,826)	(6,594)
Net cash flows from investing activities		2,364	6,220
Cash flows from financing activities			
Proceeds:			
Proceeds from borrowings	24 (a)	16,000	-
Capital contribution by non-controlling interests		-	(60)
Transactions with non-controlling interests	15	12	741
		16,012	681
Payments:			
Repayments of borrowings	24 (a)	(8,459)	(4,273)
Dividends paid and share capital reductions	22, 23	(20,714)	(5,475)
Payment of lease liabilities (i)	24 (a)	(3,406)	(805)
Interest paid		(1,124)	(891)
		(33,703)	(11,444)
Net cash flows from financing activities		(17,691)	(10,763)
Cash and cash equivalents at 1 January	20	63,643	56,136
Net increase / (decrease) of cash and cash equivalents		(5,747)	9,560
Effects of change in consolidation perimeter	41	(6,935)	-
Effects of exchange rate changes on cash and cash equiv.		(2,179)	(2,053)
Cash and cash equivalents at 31 December	20	48,782	63,643
12 M * - period of 12 months ended			

(i) As at 1 January 2019, the Group adopted IFRS 16, so the amounts presented under 'Payment of lease liabilities' corresponded, in 2018, only to finance lease liabilities (see note 2.2.).

THE CERTIFIED ACCOUNTANT

THE BOARD OF DIRECTORS

NOVABASE S.G.P.S., S.A.
Notes to the Consolidated Financial Statements
for the year ended 31 December 2019

1. General information

Novabase, Sociedade Gestora de Participações Sociais, S.A. - Public Company (hereinafter referred to as Novabase, Novabase Group or Group), with its head office in Av. D. João II, 34, Parque das Nações, 1998-031 Lisbon, Portugal, holds and manages financial holdings in other companies as an indirect way of doing business, being the Holding Company of Novabase Group.

2019 was marked by the culmination of a period of strategic reflection by Novabase and the consequent update of the strategic plan for the 2019-2023 horizon, disclosed to the market on July 2019. Therefore, the Executive Committee reorganised the operating segments, in order to be aligned with this new business view, with effect from 1 January 2019 (see note 5). Novabase's activity is now aggregated into 2 operating segments:

(i) Next-Gen (NG) - This area of Novabase develops an activity of IT consulting and services with technology offerings that tend to be more advanced and targeted mainly to the Financial Services (Banks, Insurance and Capital Markets) and Telecommunications (Operators) industries;

(ii) Value Portfolio (VP) - This area of Novabase develops an activity of IT consulting and services with offerings targeted to the Government, Transportation and Energy industries, and IT Staffing. This segment also develops a venture capital activity through Novabase Capital, S.C.R., S.A..

2019 was also marked by the sale agreement of the Value Portfolio segment business area specialized in "Application and Data Analytics" solutions for the Government, Transport and Energy business - "GTE Business" - and the consequent discontinuation of its operations (see note 41). The sale was substantially completed at the end of 2019, after verification of the relevant conditions precedents under the sale agreement.

Novabase is listed on the Euronext Lisbon.

The share capital is represented by 31,401,394 shares (2018: 31,401,394 shares), and all shares have a nominal value of 1.74 Euros each (2018: 0.5 Euros) - see note 21.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on 16 April 2020. In the opinion of the Board of Directors these financial statements fairly present the Group operations, as well as its financial position, financial performance and cash flows.

These consolidated financial statements will be subject to approval at the Shareholders' General Meeting scheduled for May 12, 2020.

2. Significant accounting policies

The most significant accounting policies applied in the preparation of these consolidated financial statements are described below. These accounting policies have been consistently applied to all years presented in these financial statements, except for the changes mentioned in section 2.2..

2.1. Basis of preparation

The consolidated financial statements of Novabase have been prepared in accordance with International Financial Reporting Standards - IFRS, as adopted by the European Union (EU) as at 31 December 2019.

These financial statements are presented in thousands of euro (EUR thousand).

New standards, interpretations and amendments to existing standards, which became effective as of 1 January 2019

- **IFRS 16 (new)**, 'Leases'. IFRS 16 replaces IAS 17 - 'Leases', with a significant impact on the accounting made by lessees who are now required to recognise for all lease contracts a lease liability, which reflects future lease payments and an asset under right of use, except for certain short-term leases (<12 months) and low value leases (<\$ 5,000). The definition of a lease has also been changed, based on the 'right to control the use of an identified asset'.
- **IFRS 9 (amendment)**, 'Prepayment features with negative compensation'. This amendment enables companies to measure at amortised cost some pre-payable financial assets with negative compensation, representing an exemption from the requirements of IFRS 9. In addition, this amendment also clarifies that when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss.
- **IAS 19 (amendment)**, 'Plan amendment, curtailment or settlement'. This amendment to IAS 19 requires an entity to: i) use updated assumptions to determine the current service cost and net interest for the remaining reporting period after the change, reduction or settlement of the plan; ii) recognises in profit or loss for the period as part of the past service cost, or as a gain or loss on settlement, any reduction in the surplus of a defined benefit plan, even if that surplus has not previously been recognised due to the impact of the 'asset ceiling'. Changes on 'asset ceiling' is always recorded in other comprehensive income and can not be recycled as a result of the year.

- **IAS 28 (amendment)**, 'Long-term interests in associates and joint ventures'. This amendment clarifies that long-term investments in associates and joint ventures (components of the entity's interest in an associate or a joint venture) that are not being recognised using the equity-method are accounted for in accordance to IFRS 9. This amendment also clarifies that an entity applies the impairment requirements in IFRS 9 when indicators of impairment exist, to long-term interests, which, in substance, form part of the entity's net investment in an associate or joint venture.

- **2015 – 2017 Annual cycle of improvements**. This cycle of improvements is still subject to endorsement by the European Union and affects the following standards: IAS 23 - 'Borrowing costs', IAS 12 - 'Income taxes', and IFRS 3 - 'Business combinations' and IFRS 11 - 'Joint agreements'.

- **IFRIC 23**, 'Uncertainty over income tax treatments'. IFRIC 23 clarifies application of recognition and measurement requirements in IAS 12 - 'Income taxes' when there is uncertainty on the acceptance of a certain tax treatment by Tax Authorities. If there is uncertainty whether tax authorities will accept tax treatment in a particular transaction, the entity shall make its best estimate and record the income tax assets or liabilities according to IAS 12 instead of IAS 37 - 'Provisions, contingent liabilities and contingent assets', based on the expected value or the most probable value.

No standard, interpretation or amendment to existing standards adopted by the Group for the first time this year had a significant impact on the consolidated financial statements, except for the changes mentioned in note 2.2..

New standards, interpretations and amendments to existing standards that have been published at the reporting date and are mandatory for annual periods beginning on or after 1 January 2020, but that the Group has not early adopted

- **Amendment to IAS 1 and IAS 8**, 'Definition of material' (effective for annual periods beginning on or after 1 January 2020). These changes introduce a modification to the material concept, being part of the wider design of the IASB 'Disclosure Initiative'. The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole. The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

- **'Amendments to the Conceptual Framework for Financial Reporting (IFRS)'** (effective for annual periods beginning on or after 1 January 2020). As a result of the publication of the new Conceptual Framework, IASB introduced changes to various standards and interpretations: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32, in order to clarify the application of the new definitions of asset / liability and expense / income, as well as some of the qualitative characteristics of useful financial information.

- **Amendment to IFRS 3**, 'Definition of a business' (effective for annual periods beginning on or after 1 January 2020). This amendment is still subject to endorsement by the European Union, and constitutes a review of the definition of business for the purpose of accounting for the concentration of business activities. This amendment requires that an acquisition includes an input and a substantial process that together generate outputs. These are defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits to shareholders. 'Concentration tests' are allowed, which when positive exempt the additional valuation entity from whether it is the acquisition of an asset or business.

Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest rate benchmark reform' (effective for annual periods beginning on or after 1 January 2020). These amendments are still subject to endorsement by the European Union, and arise from the need of replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). Considering the uncertainty that such a process entails and in view of the numerous hedge structures based on reference interest rates in force, the IASB decided to provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. The main exemptions refer to: i) risk components; ii) "highly probable" requirement; iii) prospective assessment; iv) retrospective effectiveness test (if application of IAS 39); v) recycling of the cash flow hedging reserve in equity. Hedge inefficiencies should continue to be recorded in the statement of profit and loss.

It is not expected for new standards, interpretations and amendments to existing standards not yet mandatory and not early adopted, to have a significant impact on the consolidated financial statements.

The Group's consolidated financial statements were prepared on a going concern basis, based on the historical cost principle except for 'Financial assets at fair value through profit or loss' and 'Derivative financial instruments', which were measured at fair value (notes 10 and 17).

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The Board of Directors believes that the estimates and assumptions adopted do not involve significant risks that may, over the course of the coming financial year, cause material adjustments in the value of the assets and liabilities.

2.2. Changes in significant accounting policies

As at 1 January 2019, IFRS 16 – 'Leases' came into force, being adopted by Novabase in these annual consolidated financial statements for 2019.

IFRS 16 supersedes IAS 17 'Leases' and its associated interpretative guidance. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17.

As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. The Group has no contracts in which acts as a lessor.

Novabase adopted IFRS 16 on the required effective date, i.e. 1 January 2019, using the modified retrospective approach, with the cumulative effect of the initial application of the standard recognised in Equity, and has not restated comparative information, as provided by the standard.

The adoption of this standard led to several changes in the Group accounting policies, detailed below.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 - 'Determining whether an arrangement contains a Lease'. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. According to IFRS 16, a contract is, or contains, a lease if the contract conveys a right to use an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine whether a lease exists. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

(b) Summary of new accounting policies

The Group leases many assets, including properties and transport equipment. According to the previous standard, property leases were classified as operating leases and transport equipment leases as finance leases. This classification was based on the Group's assessment of whether the lease transferred substantially all of the risks and rewards of ownership of the underlying asset.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases - i.e. these leases are on-balance sheet. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some short-term leases (properties). In such cases, the Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Novabase presents right-of-use assets in 'Property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns. Lease liabilities are presented under 'Borrowings' in the statement of financial position. The carrying amounts of right-of-use assets and lease liabilities, as well as movements during the period, are as follows:

	Right-of-use assets			Lease
	Buildings	Transp. equip.	Total	Liabilities
Balance at 31 December 2018	-	-	-	-
Recognition of operating leases	7,968	-	7,968	9,400
Reassignment of finance leases	-	8,084	8,084	8,427
Restated balance at 1 January 2019	7,968	8,084	16,052	17,827
Acquisitions	3,449	689	4,138	4,138
Write-offs	-	(84)	(84)	(84)
Changes in estimates of residual value guarantees	-	(6,907)	(6,907)	(6,907)
Depreciation	(2,737)	(677)	(3,414)	-
Interest expense	-	-	-	540
Lease payments	-	-	-	(3,946)
Balance at 31 December 2019	8,680	1,105	9,785	11,568

The new accounting policies of the Group upon adoption of IFRS 16 are presented in note 2.21..

(c) Transition

Previously, the Group classified property leases as operating leases under IAS 17. These leases refer mainly to the lease of the Company's headquarter and to lease agreements of other facilities where Novabase operates. The initial term of these contracts is between 1 and 5 years, with renewal options after this period. Payments are updated annually, reflecting inflation and/or market valuation.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application.

Novabase used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discounted rate to a portfolio of leases with reasonably similar characteristics.
- Relied on previous assessments on whether leases are onerous according to IAS 37, immediately before the date of initial application of IFRS 16, instead of performing an impairment review under IAS 36.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term at the date of initial application.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group also leases several items of transport equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability as at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

(d) Impacts on financial statements• *Impacts on transition*

On transition to IFRS 16, the Group recognised additional right-of-use assets and lease liabilities, recognising the difference in Equity. The impact on transition can be analysed as follows:

	1 January 2019
Right-of-use assets (included in 'Property, plant and equipment')	7,968
Deferred tax assets	301
Lease liabilities (included in 'Borrowings')	9,400
Equity attributable to owners of the parent	(1,084)
Non-controlling interests	(47)

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied was 2.48%.

	1 January 2019
Operating lease commitments at 31 December 2018, as disclosed in the Group's consolidated financial statements	9,261
Discounted using the incremental borrowing rate at 1 January 2019	8,752
Finance lease liabilities recognised as at 31 December 2018	8,427
- Recognition exemption for short-term leases	(41)
- Extension options reasonably certain to be exercised	689
Lease liabilities recognised at 1 January 2019	17,827
From which:	
Non-current	14,141
Current	3,686

• *Impacts for the period*

As a result of adopting IFRS 16 in 2019, in relation to the leases that were previously classified as operating leases, the Group recognised EUR 8,680 thousand of right-of-use assets and EUR 10,135 thousand of lease liabilities as at 31 December 2019.

Regarding those leases, the Group has recognised depreciation and interest costs according to IFRS 16, instead of rent expense. The impact on the Consolidated Statement of Profit and Loss, as well as on segment information, for the year ended 31 December 2019, can be analysed as follows:

	Value Portfolio	Next-Gen	NOVABASE
Rent expense (included in 'External supplies and services')	(1,856)	(1,103)	(2,959)
Depreciation expense of right-of-use assets (included in 'Depreciation and amortisation')	1,525	1,212	2,737
Operating Profit	(331)	109	(222)
Interest expense on lease liabilities (included in 'Finance costs')	196	61	257
Income tax expense	29	(36)	(7)
Profit for the year	(106)	134	28
Profit attributable to:			
Owners of the parent	(124)	(21)	(145)
Non-controlling interests	18	155	173

For leases considered in the short-term exemption at the date of initial application, the Group recognised, this year, the amount of EUR 267 thousand under 'External supplies and services' caption.

Lastly, regarding cash flows, the Group registered an increase in cash flows from operating activities and a decrease in cash flows from financing activities, as repayments of lease liabilities principal and interest are now classified as cash flows from financing activities. The impact can be analysed as follows:

	31 December 2019
Net cash flows from operating activities	2,959
Net cash flows from financing activities	(2,959)

2.3. Consolidation

The consolidated financial statements, with reference to 31 December 2019, include assets, liabilities and results of the Group companies, understood as Novabase and its subsidiaries and associates, which are presented in note 6.

(1) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has the power to manage the relevant activities, that is, is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. These are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group, and the fair value of the acquirer's previously held equity interest in the acquiree before control is transferred to the Group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the acquisition cost, the fair value of the acquirer's previously held equity interest in the acquiree before control is transferred to the Group and the fair value of non-controlling interest, over the net identifiable assets acquired and liabilities assumed is recorded as goodwill. If the acquisition cost, the fair value of the acquirer's previously held equity interest in the acquiree before control is transferred to the Group and the fair value of non-controlling interest, is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date, regardless of the probability of occurrence. Subsequent changes to the fair value of the contingent consideration do not affect goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries are changed when necessary to ensure consistency with the policies adopted by the Group.

(2) Transactions with non-controlling interests

Non-controlling interests corresponds to the proportion of the fair value of assets, liabilities and contingent liabilities of acquired subsidiaries, which are not directly or indirectly attributable to Novabase. Transactions with non-controlling interests are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners.

The Group recognises any non-controlling interest in a business combination either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This option is performed separately for each transaction.

In any acquisition to non-controlling interests, the difference between any consideration paid and the carrying amount of the relevant share acquired is recorded in equity. Gains or losses on disposals to non-controlling interests that do not result in a loss of control are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured at its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as a financial asset.

(3) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted by the equity method and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates post-acquisition profit or losses is recognised in the statement of profit and loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates are changed when necessary to ensure consistency with the policies adopted by the Group.

2.4. Segment reporting

Operating segments are reported consistently with the internal reporting provided to the Management.

An operating segment is a component or a set of components of the Group that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Management and for which discrete financial information is available.

Novabase monitors the performance of its operations according to the main guidelines of the strategic plan for the 2019-2023 horizon, disclosed to the market on July 2019. Therefore, Novabase identified new reportable operating segments: Next-Gen, the betting segment of Novabase, which has the ambition to become a "Next-Gen IT Services Company", and Value Portfolio, a segment that aims to generate the necessary funds to support the Next-Gen growth and transformation, and did not aggregate operating segments.

General information on how Novabase identified its reportable operating segments, including the organizational basis, activities developed by each segment, as well as the types of products and services from which each operating segment derives its revenues are presented in note 5.

2.5. Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in thousands of euros (EUR thousand). Euro is the Company's functional and presentation currency.

The subsidiaries included in consolidation with a functional currency different from the Group's presentation currency are those operating in Angola, in Mozambique, in Turkey and in the United Kingdom, as shown in the table of note 6.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary financial assets such as equities held at fair value through profit or loss are recognised in profit or loss in the consolidated statement of profit and loss. Translation differences on monetary items are included in other comprehensive income in the consolidated statement of comprehensive income.

The main exchange rates applied on the reporting date are those listed below:

Euro foreign exchange reference rates (x foreign exchange units per 1 Euro)	Rate on		Average rate	
	31.12.19	31.12.18	2019	2018
• Angolan Kwanza (AOA)	558.1500	362.2335	450.9606	303.6640
• Mozambican Metical (MZN)	69.7182	71.0702	70.1985	75.3864
• Turkish Lira (TRY)	6.6843	6.0588	6.1324	5.8349
• US Dollar (USD)	1.1234	1.1450	1.1193	1.1830
• British Pound (GBP)	0.8508	0.8945	0.8710	0.9003

With the exception of AOA and MZN, all exchange rates used are the official EUR exchange rate at 31.12.19 as published on 'Banco de Portugal' website. Regarding the AOA and the MZN exchange rates, it was used the most appropriate exchange rate as if the transactions were settled at the reporting date, according to IAS 21.26. For information on the most relevant changes observed after the reporting date in the exchange rates to which the Group is most exposed to, see note 3 a).

(3) Group companies

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency that is not the currency of a hyperinflationary economy, are translated into the presentation currency as follows:

- (i) assets and liabilities at the reporting date are translated at the closing exchange rate in force at the reporting date;
- (ii) income and expenses in results are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in the statement of comprehensive income.

When an entity has foreign operations whose functional currency is the currency of a hyperinflationary economy, its financial statements are restated before being translated and included in the consolidated financial statements as described above. The assets, liabilities, equity, income and expenses are first restated in accordance with IAS 29, using a general price index that reflects changes in general purchasing power, as follows:

- (i) monetary items are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period;
- (ii) assets and liabilities linked by agreement to changes in prices are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the end of the reporting period;
- (iii) all other assets and liabilities are non-monetary and are restated (with the exception of some non-monetary items that are carried at amounts current at the end of the reporting period, such as net realisable value and market value);
- (iv) all items of the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements.

The gain or loss on the net monetary position is included in profit or loss and separately disclosed.

When an economy ceases to be hyperinflationary and an entity interrupts the preparation and presentation of financial statements prepared in accordance with IAS 29 - 'Financial reporting in hyperinflationary economies', it must address the amounts expressed in the current unit of measurement at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

In 2017, as a result of high levels of inflation in the last three years approaching 100% in cumulative terms, and analysing some qualitative aspects of the Angolan economy (the use of the USD as the reference currency), Angola was qualified as a hyperinflationary economy. This qualification, requires that entities that report in the Angolan currency (Kwanza) apply standard IAS 29 - 'Financial reporting in hyperinflationary economies' in the financial statements since the beginning of the reporting period in which the existence of hyperinflation is identified, which in this case means 1 January 2017.

Considering the Group's exposure to Angola through its subsidiary NBASIT-Sist. de Inf. e Telecomunic., S.A., Novabase applied IAS 29 in its consolidated accounts with reference to the year ended 31 December 2017. In 2018, this economy continues to meet one of the main criteria to be considered hyperinflationary, since 3 year inflation exceeded 100% (it was approximately 108%).

In 2019, Novabase undertook a reassessment of the hyperinflationary situation of the Angolan economy, under IAS 29 - 'Financial reporting in hyperinflationary economies', and concluded that the conditions necessary for Angola to be considered a hyperinflationary economy were not met, namely due to the fact that it registered an accumulated inflation in the last three years of approximately 70%. Therefore, the Group no longer applies IAS 29 to the accounts of its subsidiary in Angola for the year ended 31 December 2019.

The table below presents the price index and the percentage variation at the end of 2018, the year in which IAS 29 was still applied. The price index used was the National Consumer Price Index (NCPI) released by the National Statistics Institute of Angola.

	<u>31.12.18</u>
• Index (Base: Dec. 2014 = 100)	232.02
• Cumulative percentage variation	18.6%

In consolidation, exchange differences arising from the translation of net investments in foreign entities, i.e., exchange differences arising from the conversion of monetary items at rates other than those at which they were converted at their initial recognition, or in previous financial statements, are recognised in other comprehensive income in the line item 'Exchange differences on foreign operations'. Likewise, exchange differences arising from the early repayment of monetary items that are included in the net investment in foreign entities are recognised in other comprehensive income, remaining in reserves until the sale or liquidation of such foreign entities.

Once the criteria for continuing to classify the amount receivable (in part or all) as net investment in foreign entities are no longer met, the future foreign exchange gains and losses related thereto are recognised in statement of profit and loss, and the historical gains and losses recorded up to that time are not reclassified to results.

When a foreign entity is sold or liquidated, accumulated exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Until the first half of 2019, the Group was applying the net investment in foreign entities for loans without defined repayment term granted to its subsidiaries with a functional currency other than the Euro. This treatment was due to the fact that the settlement of the outstanding amount is neither planned nor likely to occur in a foreseeable future. In addition, investments in Government of Angola Treasury Bonds were considered as an integral part of the Group's net investment, since its contractual purpose is to provide the natural hedging of the Angolan operation.

Whereas the subsidiary NBASIT-Sist. de Inf. e Telecomunic., S.A. made payments in the first six months of 2019, after demobilizing amounts invested in OTA's, to settle part of the balances with Portuguese entities, the Group reassessed the prospect of receiving loans granted to its foreign subsidiaries and ceased the application of the net investment in foreign entities, with effect from July 2019, regarding exchange differences resulting from the remaining outstanding balances as well as regarding exchange differences and interest on OTA's.

Additionally, following the sale of the GTE Business at the end of 2019 (see note 41), the accumulated exchange differences arising from the application of the net investment in foreign entities in the subsidiary NBMSIT, Sist. de Inf. and Tecnol., S.A. were transferred to profit and loss and recognised as part of the gain on the sale.

2.6. Property, plant and equipment

As of 1 January 2019, with the entry into force of IFRS 16 - 'Leases', property plant and equipment assets comprise both own assets and right-of-use assets (see also notes 2.2. and 2.21.).

For Novabase, property, plant and equipment comprise mainly buildings and other constructions, basic and transport equipment. Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items (purchase price and all the expenses supported direct or indirectly to bring the asset to its current condition).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit and loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method, over their estimated useful lives, as follows:

	<u>No. of years</u>
• Buildings and other constructions	3 to 50
• Basic equipment	3 to 4
• Transport equipment	4
• Tools and utensils	4
• Furniture, fittings and equipment	3 to 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are included in profit or loss.

2.7. Intangible assets

(1) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill on acquisitions of associates is included in 'Investments in associates'.

Goodwill (that has an undetermined useful life), is carried at cost less accumulated impairment losses, being tested annually for impairment, in the second half of the year. Impairment losses on Goodwill are recognised whenever its carrying amount exceeds its recoverable amount, and are not reversed. Gains and losses on the disposal of an entity include the carrying amount of Goodwill relating to the entity sold.

For the purpose of performing impairment tests, goodwill is allocated to cash generating units (CGUs). Cash generating units represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Following the update of the strategic plan for the 2019-2023 horizon, Novabase reorganised its activity in two new operating segments (Next-Gen and Value Portfolio), consequently, for the purposes of impairment tests of goodwill, the Group reassessed its cash generating units, having identified new CGUs that represent the way the entity monitors its operations and makes its decisions on the continuation or disposal of its assets and operations.

Since IAS 36 requires goodwill to be reallocated to the affected units, the goodwill previously allocated to Business Solutions CGU was reallocated to Next-Gen, GTE and NeoTalent units. There is no goodwill not allocated to those cash generating units. In addition, at the end of 2019, the goodwill allocated to GTE CGU was considered in determining the capital gain generated on the sale of the subsidiary Novabase Digital, S.A. (see note 41). Note 8 gives information on Goodwill's allocation to the CGUs.

(2) Internally generated intangible assets

Research expenses in the search for new technical or scientific knowledge are recognised in the statement of profit and loss as and when incurred. Development expenses are accounted as intangible fixed assets when: i) it is technically feasible to complete the asset or process; ii) the Group has the intention and capacity to complete its development; iii) market viability is assured and iv) its cost can be reliably measured.

These assets are recorded at its production or acquisition cost, which include the acquisition cost of the assets plus employee costs directly involved in the production or outsourcing costs incurred for the same purpose, as well as an appropriate portion of relevant overheads.

Amortisation is calculated using the straight-line method, for periods between 3 to 10 years. Impairment of internally generated assets in progress is tested at each reporting date.

(3) Industrial property and other rights

Industrial property and other rights are recorded at acquisition cost. These assets have a finite useful life and are recognised at cost less accumulated amortisation for a period between 3 to 10 years. Amortisation is calculated using the straight-line method to allocate the cost of the industrial property and other rights over their estimated useful lives.

(4) Work in progress

Intangible assets in progress refer to, mainly, the ongoing internal development of software products.

2.8. Financial assets and liabilities

Financial assets are recognised in the consolidated statement of financial position on the trade or contracting date.

At the initial recognition, except for trade accounts receivable, financial assets are recognised at fair value plus directly attributable transaction costs, except for assets at fair value through profit or loss in which transaction costs are recognised immediately in profit or loss. The subsequent measurement depends on the category of the investment, Level 1, Level 2 or Level 3, which are described in note 14.

Fair value is determined using the quoted price in an active market, or based in valuation methods and techniques (when there is no active market). A market is regarded as 'active', and therefore liquid, if transactions for the asset take place on a regular basis.

Trade accounts receivable, at the initial recognition, are recognised at their transaction price, as defined in IFRS 15.

Financial assets are derecognised when: (i) the contractual rights of the Group to receive their cash flows expire; (ii) the Group has transferred substantially all the risks and rewards of the ownership; or (iii) despite retaining a portion, but not substantially all the risks and rewards of the ownership, the Group has transferred control over the assets.

The Group classifies its financial assets into the following categories: (i) financial assets measured at amortised cost, (ii) financial assets at fair value through other comprehensive income, and (iii) financial assets at fair value through profit or loss. Its classification depends on the entity's business model to manage the financial assets (business model test) and the contractual characteristics in terms of the cash flows of the financial asset (SPPI test).

Management determines the classification of its investments at the date of acquisition and reassesses this classification at each reporting date. Regarding changes in the fair value measurement from period to period, the Group considers whether the inputs of the models initially used in its measurement became, for instance, observable and whether they have adherence to the financial instrument under analysis. If the inputs are observable and representative, Novabase changes the category from Level 3 to Level 2.

(i) Financial assets measured at amortised cost

Are those financial assets that are included in a business model whose purpose is to hold financial assets in order to collect the contractual cashflows, and these contractual cashflows represent solely payments of principal and interest.

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

Are those financial assets that are part of a business model whose objective is achieved through the collection of contractual cashflows and the sale of financial assets, these contractual cashflows being solely payments of principal and interest.

(iii) Financial assets at fair value through profit or loss

This category includes derivative financial instruments and equity instruments that the Group has not classified in category (ii). This category also includes all financial instruments whose contractual cashflows are not exclusively capital and interest.

The Group's financial assets are mostly classified in the category of 'Financial assets measured at amortised cost' and include debt securities, trade and other receivables, other assets, accrued income and cash and cash equivalents. These items are included in the statement of financial position in current assets, except for maturities greater than 12 months after the end of the reporting period that are classified as non-current assets.

The Group has also financial assets classified at fair value through profit or loss, such as derivative financial instruments and certain interests in companies mainly held through its Venture Capital Funds, NB Capital Inovação e Internacionalização e NB Capital +Inovação. In this category, fair value is calculated using the method of discounted cash flows, except in cases where fair value is observable in the market, with the changes in fair value recognised in profit or loss in the period in which they occur.

Financial liabilities are classified according to the contractual substance regardless of their legal form. They are derecognised only when they are extinguished, that is, when the obligation is settled, canceled or expired.

In accordance with IFRS 9, financial liabilities are subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss. These liabilities, including derivatives that are liabilities, should subsequently be measured at fair value;
- Financial liabilities that arise when a transfer of a financial asset does not meet the conditions for derecognition or when the continued involvement approach is applied;
- Financial guarantee contracts;
- Commitments to grant a loan at a lower interest rate than the market;
- The contingent consideration recognised in a business combination to which IFRS 3 applies, which shall be subsequently measured at fair value, with changes recognised in profit or loss.

The Group's financial liabilities include borrowings, trade and other payables, derivative financial instruments and other liabilities. They are classified in the statement of financial position as non-current liabilities if the remaining maturity is greater than 12 months and as current liabilities if their maturity is less than 12 months.

2.9. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and depreciation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The value in use is the present value of the estimated future cash flows from the continuous use of the asset and from its sale at the end of its useful life. In determining the value in use, estimated future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the asset in question.

For the purposes of assessing impairment, assets are allocated by cash generating units, given that it is at this level that management monitors its return on investment.

2.10 Impairment of financial assets

At each reporting date, Novabase assesses whether financial assets carried at amortised cost are credit-impaired and recognise loss allowances for ECLs on: (1) Trade, debtors and other receivables, and (2) Debt securities and bank balances.

ECLs are a probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset.

The objective of this impairment policy is to recognise expected credit losses over the respective duration of financial instruments that have undergone significant increases in credit risk since initial recognition, assessed on an individual or collective basis. If, at the reporting date, the credit risk associated with a financial instrument has not increased significantly since the initial recognition, the Group measures loss allowances relating to that financial instrument by an amount equivalent to the expected credit losses within a period of 12 months.

In terms of the presentation in the statement of financial position, loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Regarding the statement of profit and loss, the Group has applied judgement in determining an appropriate presentation of impairment losses under IFRS 9, considering the specific requirements to present the effect of certain events or circumstances as a single amount in the statement of profit and loss, ensuring that the chosen presentation is relevant to the users' understanding of its financial statements. Consequently, the Group has disaggregated the impairment loss amount into:

- Impairment related to trade and other receivables, which is presented separately in the statement of profit and loss under the caption 'Net impairment losses on trade and other receivables'; and
- Impairment related to debt securities and bank balances, which is included in 'Finance costs' or 'Finance income' (in the case of reversals) due to materiality considerations.

(1) Trade, debtors and other receivables

With regard to trade and other receivables, Novabase measures loss allowances at an amount equal to lifetime ECLs. With receivables being recorded by the various group companies under IFRS 15, the Group applies the simplified approach to measure the expected credit losses, that means, it uses an allowance matrix per company, which is based on the past experience of actual losses over a period considered statistically relevant and representative of the specific characteristics of the underlying credit risk. These allowance matrices are reviewed whenever there is a significant change in the company's credit risk, changes in the type of customers or significant changes in the business or macroeconomic environment.

When determining whether the credit risk of a financial asset has increased significantly, the Group considers all reasonable and supportable information that is relevant and available without undue cost or effort, which includes both quantitative and qualitative information and analysis, based on the Group's historical experience and forward-looking information. Novabase defines a financial asset relating to trade and other receivables to be in default when is more than 360 days past due.

Despite the 90 days past due presumption under IFRS 9, the Group considers 360 days past due to be a more appropriate default definition, because it's in line with the entity's current credit risk management policies, as it corresponds to the period in which the sending of credit for litigation is triggered, and since its experience of actual losses before this maturity is reduced, apart from the fact that there are no sales / contracts with significant financing components in accordance with the principles of IFRS 15. It should be noted that the Group, based on balances and specific past events and considering counterparties historical information, its risk profile and other observable data, assesses whether there are objective indicators of impairment, and records impairment losses accordingly. Furthermore, the Group assessed the impact of considering 360 days of default over 90 days and concluded that the 'Expected Credit Losses' would not change significantly.

The impairment losses are recorded in profit or loss under 'Net impairment losses on trade and other receivables'. When an amount receivable from customers and debtors is considered unrecoverable, it is written off using the same caption in the income statement. The Group expects no significant recovery from the amounts written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Subsequent recoveries, if any, are recorded in profit or loss under 'Net impairment losses on trade and other receivables'.

(2) Debt securities and bank balances

Regarding debt securities and bank balances, impairments are calculated by assigning i) a Probability of Default (PD) that derives from the rating of the issuer or counterparty, and ii) a Loss Given Default (LGD) that results from market parameters. Since the PD available on the market corresponds to the expected losses in the 12-month period, Novabase applied a PD adjusted to the maturity of the instrument on a 'pro rata' basis to the value of debt securities and bank balances. In 2019, the LGD used corresponded to 60% for Portugal and 59% for Angola (2018: 62% for Portugal, 60% for Angola and 50% for Mozambique).

For these assets the Group measures loss allowances at 12-month ECLs (or a shorter period if the expected life of the instrument is less than 12 months) provided that the credit risk has not increased significantly since its initial recognition.

The Group considers a debt security or a short term bank deposit to have a low credit risk when its credit risk rating is equivalent to CCC or higher (weighted-average rating per various agencies, namely, Standard & Poor's and Moody's).

The impairment losses related to investment in debt securities and bank balances are recorded in profit or loss, under 'Finance costs' heading. If the Group's exposure declines or if the annual reassessment of the PD and LGD used to calculate the impairment leads to a reduction of the ECLs, the carrying amount of these assets is increased, against 'Finance income' in the statement of profit and loss.

2.11 Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less, or with contractual terms of immediate demobilization and which are subject to an insignificant risk of change in value.

For the purpose of presentation in the statement of cash flows, this caption also includes bank overdrafts. Bank overdrafts are shown within 'Borrowings' in current liabilities in the statement of financial position.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or stock options of the Company and its subsidiaries are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or stock options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where the Company or any Group companies acquire treasury shares of parent company, they are recorded at cost and the consideration paid is deducted from the equity attributable to owners of the parent until the shares are cancelled, reissued or sold. When such shares are subsequently sold or reissued, any consideration received is included in equity attributable to owners of the parent.

2.14 Borrowings

As of 1 January 2019, with the entry into force of IFRS 16 - 'Leases', borrowings comprise bank borrowings and lease liabilities (see also notes 2.2. and 2.21.).

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Interest costs on borrowings are included in the statement of profit and loss under 'Finance costs' caption.

2.15 Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of profit and loss, except to the extent that it relates to items recognised directly in equity. The current income tax charge is calculated on the basis of profit before income tax, adjusted according to the tax laws enacted at the reporting date.

Deferred tax is recognised, using the liability method at the reporting date, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from the recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits

Personnel expenses are recognised when the service is rendered by employees regardless of their date of payment. Some specificities are disclosed below:

Bonus

The Group recognises a liability and an expense for bonuses, based on a formula that considers the profit attributable to the Company's employees after adjustments.

Obligations for holiday, holiday allowance and Christmas allowance

In accordance with Portuguese legislation, employees have, annually, the right to receive two months of salary, for a holiday period and a holiday allowance, right earned in the previous year to its settlement. The employees also have, annually, the right to a Christmas allowance, which is earned over the year and paid each December. These obligations are recorded in the respective period in which the right is earned, regardless its payment date.

Labour Compensation Fund (FCT) and Labour Compensation Guarantee Fund (FGCT)

Based on the publication of Law No. 70/2013 and subsequent regulation by Order No. 294-A /2013, entered into force on 1 October the Labour Compensation Fund schemes (FCT) and the Guarantee Fund Compensation of Labour (FGCT). In this context, companies that hire a new employee are required to deduct a percentage of the respective salary for these two new funds (0.925% to FCT and 0.075% for FGCT), in order to ensure, in the future, the partial payment the compensation in the event of dismissal. Considering the characteristics of each Fund, the following is considered:

- the monthly deliveries to FGCT, made by Novabase, are recognised as an expense in the period to which they relate;
- the monthly deliveries to FCT, made by Novabase, are recognised as a financial asset, measured at fair value with changes recognised in the income statement.

Stock options

At the General Meeting of Shareholders held on 26 September 2019, it was approved the implementation of a medium or long-term plan to grant a variable remuneration to the members of the Board of Directors of the Company and to employees of Novabase, based on the performance of the Novabase's shares. According to this resolution, Novabase may approve the attribution of stock options plans, equity settled and cash settled, as a form of remuneration able to promote the alignment of interests of the members of the management bodies with the interests of the Company.

The fair value of the services received is recorded as a cost in the statement of profit and loss, against an increase in equity (equity settled portion) or liability (cash settled portion), over the period of acquisition of rights by the employee. The total amount to be recorded as a cost is determined based on the fair value of the options attributed, which was estimated only using market conditions. Acquisition conditions that are not market conditions were considered to estimate the number of options that at the end of the acquisition period will have acquired rights. At each reporting date, Novabase reviews the estimate of the number of options it expects to become exercisable and recognises the impact of the revision of the original estimate on profit or loss.

2.17 Provisions

Provisions are recognised at the reporting date when: i) the Group has a present legal or constructive obligation as a result of past events; ii) it is probable that an outflow of resources will be required to settle the obligation and; iii) the amount has been reliably estimated. Provisions for restructuring include all liabilities to be paid, namely employee termination payments. These provisions do not include any estimated future operating losses or estimated profits from the disposal of assets.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any of the items included in the same class of obligations may be small. Note 25 gives information about the type of provisions.

Provisions are reviewed at each reporting date and adjusted to reflect the best estimate at that date. Whenever possible, the time effect is taken into account in the annual adjustment of provisions. For those in which there is no predictability of the moment of reversal, the Group does not proceed with the financial update.

Onerous contracts

The Group recognises a provision for onerous contracts on the date on which it is established that the costs to be incurred to satisfy the obligation assumed exceed the future economic benefits. This analysis is made on an individual basis.

Legal claims in progress

Provisions relating to legal proceedings brought against Novabase and which essentially relate to contractual disagreements with third parties. Provisions for legal proceedings in progress are recorded for the amounts estimated to represent future outflows in accordance with the risk assessments made by Management based on the opinions of its legal and internal experts and counselors, based on success.

For legal proceedings where the probability of having an unfavorable outcome is less than probable, the Group does not recognise provisions, as described in note 42, unless the possibility of an outflow of resources is remote, in which case it is not disclosed. For each legal proceeding a brief description of the process is given, as well as an estimate of its financial effect, and when practicable an indication of the uncertainties that relate to the moment of any outflow. If any repayment is possible, this information is also included in the 'Contingencies' note.

2.18 Trade and other payables

Trade and other payables balances are obligations to pay goods or services that have been acquired in the ordinary course of the business. They are initially recognised at fair value and subsequently at amortised cost accordingly with the effective interest rate method.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of Value Added Tax (V.A.T.), rebates and discounts and after eliminating intra-group transactions.

The recognition of the Group's revenue is based on the five-step model established by IFRS 15:

- identification of the contract with the customer;
- identification of performance obligations;
- determination of the price of the transaction;
- allocation of transaction price to performance obligations; and
- recognition of revenue when or as the entity meets a performance obligation.

According to this model, the recognition of revenue depends on whether performance obligations are satisfied over time ("over time") or whether, on the contrary, control over goods or services is transferred at a given time ("point in time"), being measured by the consideration that the entity expects to be entitled to receive in return for the delivery of these goods or services.

Thus, at the beginning of each contract, the Group evaluates the promised goods or services and identifies, as a performance obligation, every promise of transfer to the customer of any distinct good or service (alone or together). These promises in customer contracts may be explicit or implicit, since such promises create a valid expectation on the customer that the entity will transfer a good or service to the customer, based on the entity's published policies, specific statements, or customary business practices.

In determining and allocating the transaction price of each performance obligation, the Group used the stand-alone prices of the promised products and services, at the date of conclusion of the contract with the customer.

The recognition of revenue occurs at the time of the fulfillment of each performance obligation.

Novabase's revenues derive from: (a) sales of goods, (b) services rendered, (c) interest and (d) dividend income. The recognition of revenue is detailed below, by type of revenue:

(a) Sales of goods

Revenue from the sale of goods is recognised in the statement of profit and loss when all the following conditions have been satisfied: (i) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; ii) the entity retains neither continuing management involvement to the degree usually associated with ownership nor effective control over the goods sold; (iii) the amount of revenue can be reliably measured; iv) it is probable that the economic benefits associated with the transaction will flow to the entity; and v) the costs incurred or to be incurred in respect of the transaction can be reliably measured.

Software products are usually sold without a right of return. However, if there is any chance of return, the Group estimates an amount for such return at the time of sale.

(b) Services rendered

Revenue from services rendered is recognised in the statement of profit and loss when all the following conditions have been satisfied: i) the amount of revenue can be reliably measured; ii) it is probable that future economic benefits associated with the transaction will flow to the Group; iii) the stage of completion of the performance obligation at the reporting date can be reliably measured; and (iv) the costs incurred for the transaction and the costs to complete the transaction can be reliably measured. For Novabase Group, the revenue from services rendered relates to 'time and materials' projects, 'turn key' projects and outsourcing or maintenance projects.

Revenue from time and materials consulting projects is recognised at the date the services are rendered, given that is the time when the benefits of the performance obligation are transferred to the customer (the customer simultaneously receives and consumes the benefits of the goods and services provided). In cases where the customer does not receive or consume goods and services over time, Novabase does not recognise any revenue, recognising only when the performance obligation is satisfied.

Revenues from the services rendered in 'turn key' projects are recognised, in each year, according to the performance obligation to which they comply, depending on its percentage of completion. That is, for each performance obligation, the Group recognises revenue over time by measuring progress towards full compliance with such performance obligation. The assessment of the percentage of completion of each performance obligation is reviewed periodically considering the most recent information available from project managers and subject to further review by the respective controllers. The amount of the transaction whose receipt is conditional to the completion of the services rendered is recognised as a contract asset (included in accrued income) rather than a receivable.

Whenever the performance obligations at the reporting date have an estimated initial duration of 1 year or less, the Group does not disclose additional information about them, as permitted by IFRS 15.

Revenue from outsourcing or maintenance projects is recognised as a single performance obligation on a straight-line basis over the contract period.

(c) Interest income

Interest received is recognised on the accrual basis, considering the outstanding balance and the effective rate during the period up to maturity. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount (estimated future cash flows, discounted at the original effective rate of the instrument), and records the discount as a financial gain.

(d) Dividend income

Dividends are recognised when the shareholders' rights to receive such amounts are appropriately established and communicated.

2.20 Grants

Government grants are recognised at fair value, when there is highly likely that the grant will be received and the Group fulfils all the requirements to receive it.

Non-refundable grants to finance development projects are recorded as a liability at the reporting date, in 'Other non-current liabilities' caption, if the remaining maturity is greater than 12 months or under 'Deferred income and other current liabilities' if the maturity is less than 12 months, and are recognised in profit or loss of each period by the useful life of the financed assets.

Operating grants are aimed to recovering the costs, incurred and recorded, with training initiatives and projects of research for new technological or scientific knowledge, and are recognised in the statement of profit and loss as the related expenses are incurred, regardless of when the grant is received.

2.21 Leases

Policy applicable from 1 January 2019

According to the new definition of a Lease under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to use an identified asset for a period of time in exchange for consideration. Under this accounting standard, the Group recognises right-of-use assets and lease liabilities for most leases (leases that appear on the statement of financial position) with the exception of short-term leases and low-value leases, for which Novabase applies the exemption provided in the standard.

- *Right-of-use assets*

The Group recognises a right-of-use asset at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

- *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase or renewal options reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Subsequently, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, the revised lease payments are discounted using an unchanged discount rate, and a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

If there is a lease modification that do not qualifies to be accounted as a separate lease, Novabase remeasures the liability (and adjusts the corresponding right-of-use assets) by discounting the revised lease payments, using a revised discount rate at the effective date of the modification.

- *Short-term leases and leases of low-value assets*

Novabase applies the short-term lease recognition exemption to its short-term leases of facilities that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense under the straight-line method over the lease term. The Group has no low-value assets leases.

Policy applicable before 1 January 2019

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed over the period of the lease.

Lease contracts for tangible assets where the Group has substantially all the risks and benefits of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are recorded under liabilities (current and non-current). The interest element of the finance cost is expensed over the lease period so as to produce a constant periodic rate of interest on the remaining balance of liability for each period. Tangible assets acquired under finance leases are depreciated over the shorter of the useful life and the lease term.

2.22 *Derivative financial instruments*

Novabase uses derivative financial instruments to hedge foreign exchange risks to which is exposed. The financial instruments used to manage this risk are the forward foreign exchange contracts. Novabase does not take speculative positions. The treasury department is responsible for managing derivative financial instruments, under the guidance of the Executive Committee. Derivative financial instruments are measured initial and subsequently by its fair value. The method of recognising the resulting gain or loss depends on the nature and objective of the item being hedged.

(1) Hedging derivatives

Pursuant to IFRS 9, the Novabase Group is applying the hedge accounting requirements in IAS 39 until there is greater visibility of the Dynamic Risk Management project (macro-hedging) that is still in progress, in order to avoid a partial application of the hedge accounting premises of the new standard.

The possibility of qualifying a derivative financial instrument as a hedging instrument meets the criteria of IAS 39, namely, in what respect to the documentation required and effectiveness assessment, which is performed at the inception of the hedge and on an ongoing basis.

For hedging relationships designated as a net investment in a foreign operation hedge and that are determined to be an effective hedge, the gain or loss in the fair value of the hedging instrument is recognised in other comprehensive income. The ineffective portion is recognised immediately as a financial result of the period.

The cumulative foreign exchange gains and losses relating to a net investment and its respective hedging operation, both registered in other comprehensive income, are included in the consolidated statement of profit and loss when the foreign operation is disposed of, liquidated or discontinued, as an integral part of the gain or loss on sale.

Where the hedging relationship fails to comply with the qualifying criteria to be designated as hedge accounting, the fair value changes of the hedging instrument are recognised in profit or loss.

(2) Trading derivatives

Regarding derivative financial instruments that, although complying with the Group's financial risk management policies, do not comply with all the requirements of IAS 39 to qualify for hedge accounting, the respective changes in fair value are included in the consolidated statement of profit and loss, under financial results, in the period in which they occur.

2.23 *Dividend distribution*

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which dividends are approved by the Company's shareholders.

2.24 Discontinued operations

A discontinued operation is a component of the Group's business that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group, and:

- represents either a separate major line of business or a geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the comparatives of the statement of profit and loss and of the statement of other comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative year.

In terms of income statement, the profit or loss is recognised in 'Profit from discontinued operations' and, in terms of the statement of financial position, under the captions 'Assets from discontinued operations' and 'Liabilities from discontinued operations'.

For the Group, discontinued operations correspond mainly to the GTE Business, discontinued at the end of 2019, as the result of the sale agreement of the "Application and Data Analytics" business for the Government, Transport and Energy industries to VINCI Energies Portugal, SGPS, S.A. - see note 41. It also comprises a marginal value of liabilities and results related to the IMS Business, discontinued at the end of 2016.

2.25 Comparatives

The consolidated financial statements for the year ended 31 December 2019, except as referred at the beginning of this note, are comparable in all material aspects with 2018, and except for the accounting policies changes mentioned in note 2.2., no other changes have occurred when compared to those used for preparation of the financial statements of the previous year, presented for comparative effects.

As a result of the discontinuation of GTE Business described in the general information note, and as indicated in note 2.24., the statement of profit and loss for 2018 was restated.

In what concerns to the segment information, due to the changes in the composition of the business segments as described in the general information note, the 2018 amounts were restated considering the new vision of analysis of the Group's business.

3. Financial risk management policy

The Group's activities expose it to a variety of financial risks, namely, Foreign exchange risk, Interest rate risk (cash flows and fair value), Credit Risk, Liquidity risk and Capital management risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk, mainly arising from U.S. Dollar, Kwanza and Metical exposures, since some subsidiaries perform transactions in these currencies.

The finance department is responsible for monitoring the evolution of the exchange rate of the currencies mentioned above, in order to reduce the impact of their fluctuations in consolidated results. The Group uses derivative financial instruments to hedge certain risk exposures (see note 17). These financial instruments do not comply with hedge accounting requirements therefore being classified as trading derivatives, with changes in fair value recognised in profit or loss.

With reference to the rates disclosed in note 2.5. (2) Transactions and balances, the most significant changes observed after the reporting date were in the EUR/MZN exchange rate. From the reporting date until 29 February, the Metical depreciated 3.77% against the Euro, with the EUR/MZN exchange rate returning to the beginning of 2019. For its part, the EUR/USD exchange rate presented the second lowest value since April 2017, in what appears to be a return of volatility in the money markets and consequently in the foreign exchange market, with the US Dollar appreciating 2.34% against the Euro, from the reporting date until 29 February. Finally, it should be noted that the EUR/AOA exchange rate showed an almost zero variation, with the Kwanza appreciating against the Euro only 0.18%, since the reporting date until 29 February, so despite this currency maintaining a devaluation trend against the Euro, this has been happening at a lower pace.

It should also be noted that, until the issue of this report, final negotiations on the exit model of the United Kingdom from the EU were not concluded on 31 January 2020, as a result of the outcome of the referendum that led to Brexit. Any remaining uncertainty was removed after the "divorce" agreement was ratified by the British and European parliaments - legal requirements for its terms to take effect. The European Parliament approved the agreement on 29 January.

As a result, the United Kingdom ceased to be a member of the EU as of 1 February 2020, and is no longer part of the various community institutions. The exit came into force under the agreement signed by London and Brussels in October 2019, consisting of an exit Agreement on the terms of the exit, accompanied by a Political Declaration on future ties and covering issues such as the Kingdom's financial agreement. United Kingdom, provisions for Northern Ireland and safeguards for the rights of EU citizens living in the UK and Britons living on the continent. Under this agreement, a transitional period took effect after the UK left and will run until 31 December 2020, during which many existing agreements will remain in force.

Therefore, until a final agreement is reached, it remains a high degree of uncertainty regarding the evolution of the British economy and, consequently, of the British Pound. This scenario could be further aggravated if a trade agreement with the EU is not reached, as failure to do so would severely affect the UK economy and lead to a change in trade relations with the EU.

Novabase is following closely this topic, however, it does not expect significant impacts with the actual exit of the UK, whereby the Group's exposure to this currency is low, namely through its subsidiary Celfocus LTD, which presents, at 31 December 2019, financial assets and liabilities of EUR 176 thousand and EUR 180 thousand, respectively.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December, based on the amounts of the Consolidated Statement of Financial Position of the Group's financial assets and liabilities of the Group's continued operations:

At 31 December 2018	Euro	Dollar	Kwanza	Metical	Other	Total
Assets						
Financial assets at fair value through profit or loss	3,868	-	-	-	-	3,868
Debt securities	-	-	8,878	-	-	8,878
Other non-current assets	1,644	-	-	-	-	1,644
Trade and other receivables	36,856	4,697	1	40	31	41,625
Accrued income	5,344	-	108	12	-	5,464
Derivative financial instruments	26	-	-	-	-	26
Cash and cash equivalents	53,712	264	5,297	4,016	325	63,614
	<u>101,450</u>	<u>4,961</u>	<u>14,284</u>	<u>4,068</u>	<u>356</u>	<u>125,119</u>
Liabilities						
Borrowings	19,680	-	-	-	-	19,680
Other non-current liabilities	990	-	-	-	-	990
Trade and other payables	37,787	571	1,273	577	191	40,399
Derivative financial instruments	24	-	-	-	-	24
Deferred income and other current liabilities	21,707	-	38	522	-	22,267
	<u>80,188</u>	<u>571</u>	<u>1,311</u>	<u>1,099</u>	<u>191</u>	<u>83,360</u>
At 31 December 2019	Euro	Dollar	Kwanza	Metical	Other	Total
Assets						
Financial assets at fair value through profit or loss	12,175	-	-	-	-	12,175
Debt securities	-	-	3,196	-	-	3,196
Other non-current assets	1,899	9	-	-	-	1,908
Trade and other receivables	71,667	2,041	206	-	33	73,947
Accrued income	3,823	-	20	-	-	3,843
Derivative financial instruments	24	-	-	-	-	24
Cash and cash equivalents	47,873	289	302	-	291	48,755
	<u>137,461</u>	<u>2,339</u>	<u>3,724</u>	<u>-</u>	<u>324</u>	<u>143,848</u>
Liabilities						
Borrowings	30,362	-	-	-	-	30,362
Other non-current liabilities	770	-	-	-	-	770
Trade and other payables	38,927	43	404	-	261	39,635
Derivative financial instruments	17	-	-	-	-	17
Deferred income and other current liabilities	14,853	-	1	-	-	14,854
	<u>84,929</u>	<u>43</u>	<u>405</u>	<u>-</u>	<u>261</u>	<u>85,638</u>

The Group uses a sensitivity analysis technique that measures the estimated changes in profit or loss and shareholders' equity of either an instantaneous 10% strengthening or weakening in Euro against all other currencies, from the rates applicable at 31 December 2019, for each class of financial instrument with all other variables held constant. This analysis has illustrative purposes only, as in practice market rates rarely change alone.

Under this assumption, with a 10% strengthening or weakening of Euro against all exchange rates, profit before income tax (and inherent capital) would have increased or decreased, respectively, by EUR 568 thousand in 2019 (2018: EUR 2,050 thousand). There are no direct impacts on equity since the Group does not hold financial instruments with fair value changes recognised in equity nor is applying hedge accounting.

b) Interest rate risk (cash flows and fair value)

Interest rate risk reflects the possibility of changes in future interest charges in loans obtained as a result of changes in market interest rate levels.

Novabase Group's financial liabilities are indexed to short-term reference interest rates, revised in periods shorter than one year plus duly negotiated risk spreads. Hence, changes in interest rates can impact the Group's earnings.

The Group's exposure to interest rates is related to financial liabilities contracted with a fixed and/or floating rate. In the first case, the Group faces a risk of fair value variation in these assets or liabilities, since every change in market rates involves an opportunity cost. In the second case, such change has a direct impact on interest value, consequently causing cash variations.

Exposure to interest rate risk is monitored continuously by the finance department. The purpose of managing interest rate risk is to reduce the volatility of financial costs in the income statement.

Novabase's exposure to interest rate risk is currently very low, not only because of the expected maintenance of very low indexes but also because it is in a cash surplus position. As at 31 December 2019, approximately 29% of bank borrowings are contracted at fixed rates (2018: 11%). However, as a result of the negative indexes during the year, this amount rises to 100%, bearing in mind that some of the borrowings are negotiated at variable rates but with minimum index level conditions. All of the borrowings were denominated in Euros.

The Group uses a sensitivity analysis technique that measures the estimated changes in profit or loss and shareholders' equity of either an instantaneous increase or decrease of 0.5% (50 basis points) in market interest rates, from the rates applicable at 31 December 2019, for each class of financial instrument with all other variables held constant. This analysis has illustrative purposes only, as in practice market rates rarely change alone. The sensitivity analysis is based on the following assumptions:

- (i) Changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- (ii) Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at their fair value;
- (iii) Changes in market interest rates affect the fair value of derivative financial instruments and other financial assets and liabilities;
- (iv) Changes in the fair values of derivative financial instruments and other financial assets and liabilities are estimated by discounting the future cash flows of net present values using appropriate market rates prevailing at the year end.

Under these assumptions, an increase or decrease of 0.5% in market interest rates, would impact respectively in an increase or decrease of profit before income tax of approximately EUR 15 thousand in 2019, and in an increase or decrease, respectively, of approximately EUR 89 thousand in 2018. There are no impacts on shareholders' equity without being those inherent to the impact on results.

c) *Credit Risk*

Credit risk is managed, simultaneously, on business units' level, for the amounts of outstanding trade and other receivables, and on Group basis, for financial instruments. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently well rated parties are accepted. Credit risk management of trade and other receivables is based in credit limits, considering the financial position of the customer and past experience.

At 31 December 2019, the 60 customers with greater balances of the Group represented approximately 84% of the total balance (2018: 86%).

The distribution by geographical market of those customers is shown in the table below:

	31.12.19	31.12.18
Portugal	52%	51%
Europe	33%	33%
Africa	11%	12%
Middle East	4%	4%
	<u>100%</u>	<u>100%</u>

The distribution by business sector of those customers is shown in the table below:

	31.12.19	31.12.18
Telecommunications	48%	44%
Financial Services	24%	11%
Energy	9%	6%
Public Administration	7%	25%
Information Technology	7%	7%
Transport	-	2%
Aeronautics	-	1%
Other	5%	4%
	<u>100%</u>	<u>100%</u>

The change by sector of activity is largely related to the sale of the subsidiary in the GTE Business, especially in the decrease in 'Public Administration' customers and the consequent adjustment of weights regarding other sectors.

The table below shows the ratings attributed by Moody's Investors Services (unless otherwise stated) to the financial institutions and to the Government of Angola with whom the Group has higher balances of bank deposits at 31 December 2019 (note 20) and Treasury Bonds (note 19), respectively. These balances are shown before impairment losses recognised according to IFRS 9.

	31.12.19	31.12.18
A2	3,136	4,079
A3	10,134	-
Baa1	18,012	18,652
Baa2	-	12,490
Baa3	8,248	-
Ba3	-	14,026
B2	7,666	-
B3	3,333	9,286
Caa1	-	4,866
(*) B	-	3,956
	<u>50,529</u>	<u>67,355</u>

(*) Rating attributed by Standard & Poor's (for short term) to Banco BIM (Mozambique), as the Group did not obtain rating from Moody's.

All bank deposits are highly liquid, readily convertible to known amounts of cash.

d) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions.

Management monitors rolling forecasts of the Group's liquidity reserve (which comprises undrawn committed borrowing facilities and cash and cash equivalents) on the basis of expected cash flows, taking into account the analysis of the remaining contractual maturity of the financial liabilities and the expected date of financial assets inflows. Additionally, the maturity concentration of derivative financial instruments, borrowings and liabilities of the Group are regularly monitored. Notes 17 and 24 present those Novabase's liabilities, respectively, by intervals of contractual residual maturity at 31 December 2019 and 31 December 2018.

Details on the borrowings balances and short term lines of credit negotiated by Novabase Group, by financial institution, are as follows:

	31.12.19		31.12.18	
	Euro	Kwanza	Euro	Kwanza
Banco BPI (BPI)	15,000	-	10,000	-
Banco Europeu de Investimento (BEI)	-	-	5,300	-
Novo Banco	12,000	-	7,000	-
Banco Comercial Português (BCP)	5,000	-	-	-
Caixa Geral de Depósitos (CGD)	5,000	-	5,000	-
Banco Santander Totta (Santander)	400	-	1,200	-
Bankinter	894	-	1,563	-
Novo Banco ES	1,000	-	1,000	-
Banco de Fomento de Angola (BFA)	-	200,000	-	200,000
	<u>39,294</u>	<u>200,000</u>	<u>31,063</u>	<u>200,000</u>

As stated in the Consolidated Statement of Cash Flows, Novabase finances itself through cash flows generated by its operations. Additionally, and as shown in the analysis of the table above, the Group maintains a diversified portfolio of loans and has access to credit amounts that are not fully used but that are at its disposal. These credits can cover all loans that are repayable in 12 months.

The available short term lines of credit not used amount to approximately EUR 20,858 thousand as at 31 December 2019 (31.12.18: EUR 20,362 thousand), being sufficient to meet any immediate demand. In addition to these credits, the Group has EUR 48,755 thousand of cash and cash equivalents as at 31 December 2019, as stated in the Consolidated Statement of Financial Position, which combined with the credit facilities amounts to EUR 69,613 thousand of liquidity.

e) *Capital management risk*

The Group's objectives when managing capital, which is a broader concept than 'equity' in the consolidated statement of financial position, are:

- (i) To safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders;
- (ii) To maintain a solid capital structure to support the development of its business;
- (iii) To maintain an optimal capital structure to reduce the cost of capital.

Management monitors the Return on Capital (ROC) ratio, which the Group defines as the 'Operating Profit' divided by 'Total Equity', to measure the Group ability to generate cash flows related to the capital invested in its business.

	31.12.19	31.12.18
Operating Profit (*)	4,644	4,015
Total Equity	<u>87,620</u>	<u>80,580</u>
Return on Capital	5.3 %	5.0 %

(*) The 2018 Operating Profit was restated in order to show the discontinuation of the GTE Business.

The Group has the objective to maintain ROC above the cost of capital (measured by WACC - Weighted Average Cost of Capital), which allows the Group to add value. The Group's WACC in 2019 is around 8.9% (2018: 7.7%). In 2019, the objective was not achieved.

4. Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates by the Management, that affect assets, liabilities, and the disclosure of assets and contingent liabilities at the reporting date in the financial statements, as well as income and expenses during the reporting period, consequently future results can differ from the estimated ones. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and judgements considered more relevant in the preparation of these financial statements are presented below.

a) *Goodwill impairment analysis*

The Group tests annually, on the second half of the year, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7.. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, to forecast the cash flows of each cash generating units, and the choice of a discount rate and a perpetual grow rate (see note 8).

b) *Financial instruments measured at fair value*

The fair value of financial instruments not quoted on an active market is determined based on valuation methods and financial theories. The use of valuation methodologies requires using assumptions, with some assumptions requiring the use of estimates. Therefore, changes in those assumptions could result in a change in the fair value reported.

c) *Income taxes and deferred taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes and the use of deferred tax assets and liabilities. Deferred tax assets and liabilities were determined based on tax legislation currently in effect for the Group's companies, or on legislation already published for future application. Changes in the tax legislation may influence the value of deferred taxes.

The Group recognises deferred tax assets related to tax incentives obtained under SIFIDE based on estimates. The final amount of these tax incentives is only known in future years based on the approval by the competent body of the Group's applications to these incentives. The booked amount of tax credits not yet approved reach EUR 1,553 thousand (2018: EUR 2,903 thousand).

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

d) *Revenue recognition*

Revenue recognition in respect of 'turn key' projects requires the use of judgements, starting with the application of the five-step model established in IFRS 15, namely, in the identification of performance obligations and in the allocation of the transaction price to defined performance obligations, based on their relative stand-alone selling prices. In addition, Management carries out analysis and estimates of the current and future developments of consulting projects in place, which may have a different development in the future from the present estimates performed by project managers.

Eventual changes in the estimates would be reflected under 'Accrued income' and 'Deferred income and other current liabilities' captions in the statement of financial position and under 'Services rendered' in the statement of profit and loss, however, historically there have been no material deviations in the estimates of costs to be incurred in ongoing projects from the year before (which represent approximately 3% in 2019 and 3% in 2018) nor in the outcome of the transaction.

e) *Impairment losses on financial assets*

Loss allowances for trade and other receivables are based on risk default assumptions and expected loss rates. The Group uses judgements for these assumptions and selects the inputs to the impairment calculation, based on the group's past history (such as the ageing of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms), existing market conditions and forward-looking estimates at the end of each reporting period. If the customer's financial conditions deteriorate, actual impairment losses and write-offs might be higher than expected. With regard to loss allowances for debt securities and bank balances, the Group also assesses whether credit risk has increased significantly since initial recognition.

f) *Legal claims provisions*

The Group exercises judgment in measuring and recognising provisions and its exposure to contingent liabilities related to legal proceedings, based on the assessment of its specialists and legal advisers (internal and/or external). This judgment is necessary to determine the probability of the outcome for each lawsuit. Provisions are recognised when the Group expects that the proceedings in progress will result in cash outflows or disclose it in the notes when the probability of having an unfavourable outcome is less than probable - unless the possibility of an outflow of resources is remote, where disclosure is not required. These estimates are subject to changes as new information becomes available. Due to the uncertainties inherent in the evaluation process, real losses may be different from those originally estimated.

The Group discloses in 'Contingencies' (note 42) all the legal proceedings in which it considers that there is a possibility of an outflow of resources, although it is not probable, reason why no liabilities have been recognised. The Management believes, based on the opinions of its specialists and legal advisers (internal and/or external), that there is sufficient substance for its defence in court and therefore considers that such actions will have a successful outcome.

g) *Bonus*

The Group recognises on a monthly basis an estimate for bonus and other variable remunerations, which considers the theoretical amounts agreed with employees, the monitoring of the expected objective's achievement rates and the general situation of the Company's business. The variable remuneration of the elements of the Board of Directors is set by the Remuneration Committee based on the evaluation of the previous year performance. Therefore, the cost estimate for the current exercise booked under 'Trade and other payables' caption, is prepared based on the Management's best estimate to the performance of the current year, where the actual final outcome is only known in the following exercise, after the Remuneration Committee's deliberation. More information about the Shareholders' remuneration can be found in the point regarding Remuneration, included in the Corporate Governance Report, which is an integral part of the Consolidated Annual Report, and in note 40.

h) *Leases*

The Group applies judgement to determine the lease term for some lease contracts that include renewal options, that is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

The Group also applies judgement to determine the incremental borrowing rate to apply to each portfolio of leases identified and to measure residual value guarantees, which forms part of lease payments. In this case, according to IFRS 16, the Management considers in the measurement of the lease liabilities the amount that it expects to pay under a residual value guarantee.

5. **Segment information**

In 2019, Novabase reorganised its activity into two new segments, which were identified based on the main guidelines of the future strategy: becoming a "Next-Gen IT Services Company". Therefore, as at 31 December 2019, in what concerns to operating segments, the Group is organised as follows:

- Next-Gen
- Value Portfolio

The "Next-Gen" segment comprise the assets held in Financial Services and Telecommunications. This segment aims to achieve an accelerated growth through focus on Next-Gen IT (Design & UX, Insights Through Data, Cloud native & scalable, Digital Architecture, API Exposure, AI / Analytics, Test Automation & Engineering, Continuous Delivery, Intelligent Operations) for the Telco and Financial Services industries and in Europe and Middle East geographies. This segment derives its revenues from time and materials consulting projects, turn-key consulting projects and outsourcing and maintenance projects, and may also include a small component of sales.

"Value Portfolio" segment comprise the assets held in Government, Transportation and Energy sectors, as well as IT Staffing, Novabase Capital and Collab. The main goal of this segment is to maximise its operating profitability in order to generate the necessary funds to support the focus on "Next-Gen" growth. This segment derives its revenues from time and materials consulting projects, turn-key consulting projects and outsourcing and maintenance projects, and may also include a small component of sales. Regarding the venture capital activity, this segment revenues also derives from the valuation and sale of Venture Capital Fund's investees and advisory services in purchase and sale and M&A processes.

Operating segments are reported consistently with the internal reporting that is provided to the Management, based on which it evaluates the performance of each segment and allocates the available resources. Comparatives from the same period were restated considering the new internal reporting organization.

This reorganization of operations under the 2019+ Strategic Update also led to a reallocation of goodwill, based on the new CGU identified (see note 8).

Additionally, in the last quarter of 2019, as a result of the agreement for the sale of the "Application and Data Analytics" business to the Government, Transport and Energy ("GTE Business") sectors signed with VINCI Energies Portugal, S.G.P.S., S.A., the GTE Business was discontinued (see notes 6 and 41). This situation led to the restatement of the amounts presented in 2018, to show continuing operations separately from discontinued operations.

The companies considered in each operating segment are presented in note 6. Novabase S.G.P.S., S.A. and Novabase Serviços, S.A. appear isolated in the referred note, to highlight the Parent Company which includes the top management of the Group and the company that includes the Group's shared services, respectively. However, for the purposes of preparing segment information, both belong to "Value Portfolio" segment.

Revenues from operating segments, as well as other measures of profit or loss and material items within the consolidated statement of profit and loss, can be analysed as follows:

	Value Portfolio	Next-Gen	Novabase
At 31 December 2018			
Total segment sales and services rendered	55,508	113,058	168,566
Inter-segment sales and services rendered	22,102	36,433	58,535
Sales and services rendered	33,406	76,625	110,031
Depreciation and amortisation	(1,685)	(832)	(2,517)
Operating Profit / (Loss)	1,387	2,628	4,015
Finance results	(1,178)	(341)	(1,519)
Share of loss of associates (note 35)	(62)	-	(62)
Gain on net monetary position	308	-	308
Income tax expense	269	(1,263)	(994)
Profit from continuing operations	724	1,024	1,748
Profit from discontinued operations (note 41)	3,266	-	3,266
Other information:			
(Provisions) / Provisions reversal	749	487	1,236
Net impairment losses on trade and other receivables	344	331	675

	Value Portfolio	Next-Gen	Novabase
At 31 December 2019			
Total segment sales and services rendered	61,161	105,099	166,260
Inter-segment sales and services rendered	22,578	23,427	46,005
Sales and services rendered	38,583	81,672	120,255
Depreciation and amortisation	(3,041)	(1,674)	(4,715)
Operating Profit / (Loss)	2,065	2,579	4,644
Finance results	6,823	(158)	6,665
Share of loss of associates (note 35)	(83)	-	(83)
Gain on net monetary position	-	-	-
Income tax expense	(823)	470	(353)
Profit from continuing operations	7,982	2,891	10,873
Profit from discontinued operations (note 41)	15,103	-	15,103
Other information:			
(Provisions) / Provisions reversal	804	(1,761)	(957)
Net impairment losses on trade and other receivables	156	97	253

* As of 1 January 2019, Novabase adopted IFRS 16 – 'Leases', and has not restated comparative information, as provided by the standard. The impact of IFRS 16 on segment information, during this year, is detailed in note 2.2. (d).

Novabase does not disclose information on assets and liabilities for each reportable segment since it does not provide such information to those responsible for operational decision making.

In line with the longstanding commitment to internationalization, Novabase Management was monitoring the Turnover in countries outside Portugal. In 2019, however, Management started to monitor this indicator based on the geography of the executed project instead of the geography of the invoiced customer, as it had done so far, considering that the former gives more relevant information in the scope of monitoring the execution of the new strategic plan, so the counterpart was restated.

Sales and services rendered, by project geography, in 2018, are analysed as follows:

	Portugal	Europe & Middle East	Others	Novabase
Sales and services rendered	45,686	52,584	11,761	110,031

Sales and services rendered, by project geography, in 2019, are analysed as follows:

	Portugal	Europe & Middle East	Others	Novabase
Sales and services rendered	50,855	60,456	8,944	120,255

Novabase does not disclose geographical information of non-current assets since the cost of preparing this information, which is not used by the Management, would be excessive (see note 6 - A. Subsidiaries with material non-controlling interests, for some information on non-current assets in Angola and Mozambique).

6. Companies included in consolidation

The companies consolidated by the full method, as at 31 December 2019, were the following:

Holding company and Subsidiaries	Principal place of business	Share capital 31.12.19	% Interest held	
			31.12.19	31.12.18
Parent company:				
Novabase S.G.P.S., S.A.	Portugal	54,638,426 €	-	-
Next-Gen:				
Novabase E.A., S.A.	Portugal	150,000 €	100.0%	100.0%
CelFocus, S.A.	Portugal	100,000 €	55.0%	55.0%
Novabase Solutions Middle East FZ-LLC	Dubai	699,670 €	100.0%	100.0%
Celfocus B. T. T. H. T. Limited Ş.	Turkey	100,000 TRY	55.0%	55.0%
Celfocus LTD	UK	15,000 GBP	55.0%	55.0%
(i) Celfocus B.V.	The Netherlands	20,000 €	55.0%	-
Novabase Business Solutions, S.A.	Portugal	3,366,000 €	100.0%	100.0%
Binómio, Lda.	Portugal	2,626 €	100.0%	100.0%
Value Portfolio:				
(ii) Novabase Digital, S.A.	Portugal		-	90.1%
(ii) NBMSIT, Sist. de Inf. e Tecnol., S.A.	Mozambique	8,235,000 MZN	74.0%	74.0%
Novabase Neotalent, S.A.	Portugal	52,630 €	95.0%	95.0%
Novabase Sistemas de Informacion, S.A.	Spain	1,000,000 €	95.0%	95.0%
(*) NBASIT-Sist. de Inf. e Telecomunic., S.A.	Angola	47,500,000 AOA	49.4%	49.4%
Novabase Capital S.C.R., S.A.	Portugal	2,500,000 €	100.0%	100.0%
FCR NB Capital Inovação e Internacionalização	-	11,360,000 €	51.6%	51.6%
FCR Novabase Capital +Inovação	-	7,021,278 €	53.1%	53.1%
COLLAB – Sol. I. Com. e Colab., S.A.	Portugal	63,833 €	77.8%	77.8%
Novabase Consulting S.G.P.S., S.A.	Portugal	11,629,475 €	100.0%	100.0%
NBASE S.G.P.S., S.A.	Portugal	328,125 €	100.0%	100.0%
NOVABASE IMS 2, S.A.	Portugal	220,500 €	100.0%	100.0%
TVLab, S.A.	Portugal	52,517 €	70.0%	70.0%
Nbase International Investments B.V.	The Netherlands	1,220,800 €	100.0%	100.0%
(iii) Evolvespace Solutions, Lda.	Portugal		-	100.0%
Novabase Shared Services:				
Novabase Serviços, S.A.	Portugal	50,000 €	100.0%	100.0%

(*) Novabase has control of this company, as described in note 2.3., therefore it is fully consolidated.

In the 2019, the following changes occurred in the consolidation perimeter:

- (i) Celfocus, B.V., with headquarters in Amsterdam, The Netherlands, was incorporated. This company is dedicated to develop, to commercialize and to give training in the field of information systems for the Telecommunications industry.
- (ii) Following the sale agreement with VINCI Energies Portugal, the Group discontinued the GTE Business, developed in the subsidiaries Novabase Digital, S.A. and NBMSIT, Sist. de Inf. e Tecnol., S.A., having sold 100% of the subsidiary Novabase Digital, S.A. as at 31 December 2019 (see note 41).
- (iii) The subsidiary Evolvespace Solutions, Lda. was liquidated in December 2019.

The company included in the consolidation using the equity method, as at 31 December 2019, under the Value Portfolio segment, was the following:

Associates (see note 9 and 35)	Principal place of business	Share capital 31.12.19	% Interest held		Equity 31.12.19	Net Profit 31.12.19
			31.12.19	31.12.18		
Fundo Capital Risco NB Capital	Portugal	7,142,857 €	30.0%	30.0%	602	(277)

A. Subsidiaries with material non-controlling interests

Novabase considers that the main subsidiaries with material non-controlling interests at 31 December 2019 are those set out below, which jointly account for 30% (2018: 68%) of the amount of 'Non-controlling interests' of profit or loss. The decrease in representativeness in 2019 is related to a significant gain recorded in another subsidiary, FCR NB Capital Inovação e Internacionalização held by 51.6%, related to the revaluation of one of its investments (see note 10). Management did not change its judgment due to the non-recurring nature of this gain. They have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Subsidiary	Principal activity
NBMSIT, Sist. de Inf. e Tecnol., S.A.	Consulting services and the development and implementation of information systems, applications, computer software and equipment
NBASIT-Sist. de Inf. e Telecomunic., S.A.	Production, commercialization, import and export of goods and IT services and related activities, and information systems
CelFocus, S.A.	Services and information systems solutions for the Telecommunications industry
COLLAB – Sol. I. Com. e Colab., S.A.	Design, production, commercialization and consulting services of communication systems and professional collaboration

Summarised financial information on subsidiaries with significant Non-controlling interests (amounts before inter-company eliminations):

At 31 December 2018	NBMSIT S.A.	NBASIT S.A.	CelFocus, S.A.	Collab, S.A.
Total Non-Current Assets	458	7,685	4,318	2,479
Total Current Assets	4,357	7,217	35,260	4,179
Total Non-Current Liabilities	(99)	(5)	(1,766)	(647)
Total Current Liabilities	(7,139)	(17,195)	(21,446)	(2,805)
Net Assets	(2,423)	(2,298)	16,366	3,206
Net Assets attrib. to NCI	(936)	(2,128)	7,654	761
Sales and Services rendered	6,465	1,105	55,690	5,782
Profit for the year	399	(54)	2,435	(1,194)
Total Comprehensive Income	399	(54)	2,435	(1,194)
Comprehensive Income attrib. to NCI	74	(508)	932	(311)
Cash and cash equiv. at beg. of year	376	3,849	10,734	1,787
Cash and cash equiv. at end of year	4,016	5,584	14,569	1,321
Change in cash and cash equiv.	3,640	1,735	3,835	(466)
Dividends paid to NCI (note 23)	-	-	821	-
At 31 December 2019	NBMSIT S.A.	NBASIT S.A.	CelFocus, S.A.	Collab, S.A.
Total Non-Current Assets	6	405	7,233	2,456
Total Current Assets	505	3,544	39,070	4,650
Total Non-Current Liabilities	(24)	(3)	(3,222)	(757)
Total Current Liabilities	(3,399)	(6,875)	(23,901)	(3,451)
Net Assets	(2,912)	(2,929)	19,180	2,898
Net Assets attrib. to NCI	(758)	(2,159)	9,023	663
Sales and Services rendered	864	853	64,983	6,478
Profit for the year	(440)	(1,667)	4,026	(308)
Total Comprehensive Income	(440)	(1,667)	4,026	(308)
Comprehensive Income attrib. to NCI	188	(370)	1,965	(98)
Cash and cash equiv. at beg. of year	4,016	5,584	14,569	1,321
Cash and cash equiv. at end of year	211	346	16,109	1,972
Change in cash and cash equiv.	(3,805)	(5,238)	1,540	651
Dividends paid to NCI (note 23)	-	-	548	-

B. Interests in associates that are material

Novabase considers that its 30% ownership interest in Fundo de Capital de Risco NB Capital is not a material interest to the Group (see note 9). However, in order to provide useful information to the users of the financial statements, some financial information on this associate is disclosed below, in addition to that presented in the table of the companies included in the consolidation by the equity method.

'Fundo de Capital de Risco NB Capital' presents in its financial statements as at 31 December 2019 a Total Non-Current Assets of EUR 609 thousand and a Total Current Assets of EUR 138 thousand. Liabilities (all Current) amounts to EUR 145 thousand, for a Total Net Asset of EUR 602 thousand. Given the venture capital activity developed by this associate, Turnover is nil, while Net Profit for the year is equal to Earnings Before Taxes, in the amount of EUR -277 thousand. In 2019, there was a variation in Cash and cash equivalents in the amount EUR -54 thousand, for a balance at the end of the period of EUR 77 thousand. This associate did not attribute or pay dividends in any of the periods of this report.

7. Property, plant and equipment

As at 1 January 2019, the Group adopted IFRS 16 in accordance with the modified retrospective approach, having not restated the figures for the comparative period presented (see note 2.2.). Accordingly, the amounts presented under 'Property, plant and equipment' caption comprise, since 1 January 2019, own assets and right of use assets.

The book values of right-of-use assets included in 'Property, plant and equipment' by asset class, as well as the movements occurred during the year, are detailed in note 2.2. (b).

	31.12.19			31.12.18		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Buildings and other constructions	31,090	22,064	9,026	3,201	2,829	372
Basic equipment	7,661	6,083	1,578	7,237	5,763	1,474
Transport equipment	2,728	1,624	1,104	9,733	1,641	8,092
Furniture, fittings and equipment	1,771	1,514	257	1,830	1,533	297
Other tangible assets	11	11	-	12	12	-
	<u>43,261</u>	<u>31,296</u>	<u>11,965</u>	<u>22,013</u>	<u>11,778</u>	<u>10,235</u>

During 2018, movements in property, plant and equipment were as follows:

	Balance at 01.01.18	Application IFRS 16	Acquisitions / increases	Write-offs	Exchange differences	Change in consolidation perimeter	Balance at 31.12.18
<i>Cost:</i>							
Buildings and other constructions	3,155	-	46	-	-	-	3,201
Basic equipment	6,517	8	769	(35)	(22)	-	7,237
Transport equipment	10,048	51	3,493	(3,718)	(141)	-	9,733
Furniture, fittings and equipment	1,807	2	37	(10)	(6)	-	1,830
Other tangible assets	12	-	-	-	-	-	12
	<u>21,539</u>	<u>61</u>	<u>4,345</u>	<u>(3,763)</u>	<u>(169)</u>	<u>-</u>	<u>22,013</u>
<i>Accumulated depreciation:</i>							
Buildings and other constructions	2,772	-	57	-	-	-	2,829
Basic equipment	5,103	8	700	(28)	(20)	-	5,763
Transport equipment	2,202	49	734	(1,205)	(139)	-	1,641
Furniture, fittings and equipment	1,432	1	114	(10)	(4)	-	1,533
Other tangible assets	11	-	1	-	-	-	12
	<u>11,520</u>	<u>58</u>	<u>1,606</u>	<u>(1,243)</u>	<u>(163)</u>	<u>-</u>	<u>11,778</u>

During 2019, movements in property, plant and equipment were as follows:

	Balance at 01.01.19	Application IFRS 16	Acquisitions / increases	Write-offs	Exchange differences	Change in consolidation perimeter	Balance at 31.12.19
<i>Cost:</i>							
Buildings and other constructions	3,201	24,410	3,707	-	-	(228)	31,090
Basic equipment	7,237	-	813	(202)	(7)	(180)	7,661
Transport equipment	9,733	(6,907)	689	(698)	(57)	(32)	2,728
Furniture, fittings and equipment	1,830	-	132	(30)	(1)	(160)	1,771
Other tangible assets	12	-	-	(1)	-	-	11
	<u>22,013</u>	<u>17,503</u>	<u>5,341</u>	<u>(931)</u>	<u>(65)</u>	<u>(600)</u>	<u>43,261</u>
<i>Accumulated depreciation:</i>							
Buildings and other constructions	2,829	16,442	2,801	-	-	(8)	22,064
Basic equipment	5,763	-	702	(197)	(7)	(178)	6,083
Transport equipment	1,641	-	685	(614)	(57)	(31)	1,624
Furniture, fittings and equipment	1,533	-	66	(27)	(2)	(56)	1,514
Other tangible assets	12	-	-	(1)	-	-	11
	<u>11,778</u>	<u>16,442</u>	<u>4,254</u>	<u>(839)</u>	<u>(66)</u>	<u>(273)</u>	<u>31,296</u>

'Application IFRS 16' includes the impact of the initial application of that standard, with the recognition of right-of-use assets related to building leases (which were previously classified as operating leases under IAS 17), in the gross amount of EUR 24,410 thousand and accumulated depreciation of EUR -16,442 thousand. It also includes the decrease of right-of-use assets after the initial application, in the amount of EUR 6,907 thousand, within the scope of the estimated residual value payable review of transport leases, which were previously classified as financial leases under IAS 17, since one of the factors that determined this classification was the existence of residual value guarantees that were being accumulated at its maximum value, having been reviewed to the amount that Management estimates to pay, according to IFRS 16 (see also note 24).

The acquisitions of property, plant and equipment that occurred in 2019 are essentially right-of-use of 'Buildings', in the amount of EUR 3,449 thousand, and refer to the accounting relevance of five new lease agreements with estimated durations between 35 and 60 months, and the extension of the term of existing lease agreements renegotiated during the year.

'Change in consolidation perimeter' reflects the effect of the discontinuation of the GTE Business, following the sale agreement entered into with VINCI Energies Portugal (see note 41).

Finally, it should be noted that the net impact on property, plant and equipment resulting from the application of the hyperinflation standard to Angola's accounts, reflected in 'Application IAS 29', was EUR +3 thousand in 2018. In 2019, the standard was no longer applied because this economy is no longer considered hyperinflationary (see note 5).

In 2019, no events or circumstances that indicated that the carrying amount of tangible assets exceeded its recoverable amount were identified. Consequently, no impairment tests have been performed.

Depreciation recognised in profit and loss and included in 'Depreciation and amortisation' amounts to EUR 4,221 thousand (2018: EUR 1,418 thousand), and included in 'Profit from discontinued operations' amounts to EUR 33 thousand (2018: EUR 188 thousand).

8. Intangible assets

	31.12.19			31.12.18		
	Cost	Accumulated amortisation	Net book value	Cost	Accumulated amortisation	Net book value
Internally generated intangible assets	13,622	12,790	832	14,431	13,439	992
Industrial property and other rights	11,439	11,077	362	11,059	11,055	4
Work in progress	272	-	272	183	-	183
Goodwill	11,501	-	11,501	14,886	-	14,886
	<u>36,834</u>	<u>23,867</u>	<u>12,967</u>	<u>40,559</u>	<u>24,494</u>	<u>16,065</u>

During 2018, movements in intangible assets were as follows:

	Balance at 01.01.18	Acquisitions / increases	Impairm. ch. / Write-offs	Transfers	Change in consolidation perimeter	Balance at 31.12.18
<i>Cost:</i>						
Internally generated intangible assets	14,020	-	-	411	-	14,431
Industrial property and other rights	11,059	-	-	-	-	11,059
Work in progress	357	237	-	(411)	-	183
Goodwill	14,886	-	-	-	-	14,886
	<u>40,322</u>	<u>237</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,559</u>
<i>Accumulated amortisation:</i>						
Internally generated intangible assets	12,117	1,322	-	-	-	13,439
Industrial property and other rights	11,043	12	-	-	-	11,055
	<u>23,160</u>	<u>1,334</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,494</u>

During 2019, movements in intangible assets were as follows:

	Balance at 01.01.19	Acquisitions / increases	Impairm. ch. / Write-offs	Transfers	Change in consolidation perimeter	Balance at 31.12.19
<i>Cost:</i>						
Internally generated intangible assets	14,431	-	(126)	312	(995)	13,622
Industrial property and other rights	11,059	372	-	8	-	11,439
Work in progress	183	546	-	(320)	(137)	272
Goodwill	14,886	-	-	-	(3,385)	11,501
	<u>40,559</u>	<u>918</u>	<u>(126)</u>	<u>-</u>	<u>(4,517)</u>	<u>36,834</u>
<i>Accumulated amortisation:</i>						
Internally generated intangible assets	13,439	472	(126)	-	(995)	12,790
Industrial property and other rights	11,055	22	-	-	-	11,077
	<u>24,494</u>	<u>494</u>	<u>(126)</u>	<u>-</u>	<u>(995)</u>	<u>23,867</u>

Change in Consolidation Perimeter column reflects the effect of the discontinuation of the GTE Business, following the sale agreement entered into with VINCI Energies Portugal (see note 41).

The amount of amortisation recognised in profit and loss and included in 'Depreciation and amortisation' is EUR 494 thousand (2018: EUR 1,099 thousand), and included in 'Profit from discontinued operations' is EUR 0 thousand (2018: EUR 235 thousand).

The captions 'Internally generated intangible assets' and 'Work in progress' include costs incurred in software development projects.

The amount with research and development recognised as a cost, related to the main research projects, reached EUR 2.6 Million (2018: EUR 4.0 Million).

Movements in **goodwill** were as follows:

	31.12.19	31.12.18
Balance at 1 January	16,413	16,413
Discontinued operations (GTE)	(4,912)	-
Balance at 31 December	<u>11,501</u>	<u>16,413</u>

Movements in **goodwill impairment** were as follows:

	31.12.19	31.12.18
Balance at 1 January	(1,527)	(1,527)
Discontinued operations (GTE)	1,527	-
Balance at 31 December	<u>-</u>	<u>(1,527)</u>

Impairment tests for goodwill

In the context of the Group's Strategic Update disclosed to the market on July 2019, Novabase reorganised its activity into two new operating segments (Next-Gen and Value Portfolio), a fact that, in light of the IFRS, requires a goodwill reallocation. Given that the goodwill previously allocated to the Business Solutions CGU could not be allocated or associated in a non-arbitrary way to a lower level than the said CGU, the Group reallocated this goodwill to the affected units using the "relative fair value model" provided by IAS 36.

Consequently, for the purposes of impairment tests for goodwill, the Group revaluated its Cash Generating Units, so that goodwill previously allocated to the Business Solutions CGU, of EUR 14,886 thousand, was allocated by three new units: Next-Gen (EUR 8,115 thousand), GTE (EUR 3,385 thousand) and NeoTalent (EUR 3,386 thousand). After goodwill reallocation, impairment tests were performed on the CGU and it was concluded that there was no impairment. Additionally, at the end of 2019, with the sale of the GTE Business, goodwill associated with this CGU was written-off (see notes 5 and 41).

	31.12.19	31.12.18
Next-Gen	8,115	-
NeoTalent	3,386	-
Business Solutions (BS)	-	14,886
	<u>11,501</u>	<u>14,886</u>

The impairment test for goodwill was performed based on the discounted cash flow method, using a 5 year business plan forecasted by Management, with the following key assumptions:

	31.12.19		31.12.18
	Next-Gen	NeoTalent	BS
Discount rate (post-tax)	8.7%	9.4%	7.7%
Perpetual growth rate	2.0%	2.0%	2.0%
Annual average growth rate of turnover	15.0%	9.8%	7.3%

The application of the previously described method generates a recoverable amount (determined by value in use) of assets that exceeds its carrying amount, concluding therefore that there is no need for an impairment charge to the goodwill allocated to the Cash Generating Units. A possible increase or decrease of 1 percentage point in the WACC would result in an Equity Value of Next-Gen CGU of EUR 58 Million and EUR 85 Million, respectively, and an Equity Value of Neotalent CGU of EUR 17 Million and EUR 23 Million, respectively, not becoming lower than the carrying amount of assets.

9. Investments in associates

	% Interest held directly		Amount	
	31.12.19	31.12.18	31.12.19	31.12.18
Fundo Capital Risco NB Capital (notes 6 and 35)	30.0%	30.0%	169	252
			<u>169</u>	<u>252</u>

10. Financial assets at fair value through profit or loss

	% Interest held directly		Amount	
	31.12.19	31.12.18	31.12.19	31.12.18
(i) Feedzai, S.A.	1.7%	1.7%	10,034	1,926
(ii) Globaleda, S.A.	25.1%	25.1%	598	598
(iii) FCR IStart I	11.6%	11.6%	391	459
(iv) CB Talents Global, S.A.	13.3%	13.3%	-	200
(v) Aixel Technologies, S.A.	5.7%	5.7%	218	188
(vi) Probely, Lda.	3.3%	3.3%	-	75
(vii) Bright Innovation, Lda. ("BI")	90.0%	90.0%	-	-
(viii) Powergrid, Lda.	88.9%	88.9%	-	-
(ix) Glarevision, S.A.	5.7%	-	120	-
(x) Habit Analytics PT, Lda.	4.6%	-	320	-
(xi) Other			494	422
			<u>12,175</u>	<u>3,868</u>

- (i) Company held by FCR NB Capital Inovação e internacionalização, dedicated to the development of solutions for processing large volumes of data in real time.
- (ii) Held by Novabase Business Solutions S.A., this company is a technology-based company in the area of information systems and telecommunications engineering.
- (iii) Venture Capital Fund established in 2011 and held by Novabase Capital S.C.R., S.A., focused on creating proofs-of-concept and prototypes and developing intellectual property and business models. This Fund is managed by Armilar Venture Partners SCR.
- (iv) Company held by FCR NB Capital +Inovação (established in 2017), specialized in the international recruitment of IT professionals.
- (v) Company held by FCR NB Capital Inovação e internacionalização and FCR NB Capital +Inovação, which developed FIBERCLOUD, a network management platform for the global market.
- (vi) Company held by FCR NB Capital +Inovação, focused on cybersecurity.
- (vii) Company specialized in incubate projects in the area of Information and Communication Technologies (ICT) and provide integrated services in the administrative and financial areas, training and assistance for ICT SMEs applications, supported by a multi-channel platform. This company is held by FCR NB Capital Inovação e Internacionalização.
- (viii) Company, held by FCR NB Capital Inovação e Internacionalização, focused on developing an application platform for SmartGrids.
- (ix) Company, held by Fundo de Capital de Risco Novabase Capital +Inovação, focused on developing solutions based on augmented reality for industrial maintenance.
- (x) Company, held by Fundo de Capital de Risco Novabase Capital +Inovação, focused on developing a real-time data platform that aggregates and analyses multiple sources of data, from Internet of Things ('IoT') devices.
- (xi) In 2019 and 2018, the amount of this caption refers to FCT - Labour Compensation Fund. This item also includes the companies held by FCR NB Capital Inovação e Internacionalização, PowerData and Radical Innovation ("RI"), with a fair value of nil.

Novabase does not have control of the companies held by FCR NB Capital Inovação e Internacionalização and FCR NB Capital +Inovação, understood as the power to manage the relevant activities of an entity, being exposed to the risks of variation of the return obtained and having the capacity to affect those returns through its power over the entity, therefore they were not considered subsidiaries or associates.

Movements in this caption were as follows:

	31.12.19	31.12.18
Balance at 1 January	3,868	2,796
Acquisitions / share capital increase	598	531
Net fair value adjustments	7,810	541
Change in consolidation perimeter	(101)	-
Balance at 31 December	<u>12,175</u>	<u>3,868</u>

In 2019, the acquisitions are related to the investments made by 'FCR Novabase Capital +Inovação' in the companies Glarevision, S.A. and Habit Analytics PT, Lda., in the total amount of EUR 440 thousand. This amount was fully paid in this exercise.

In 2019, the net fair value adjustments mainly reflect a significant appreciation of Feedzai, S.A., in the amount of EUR 8,107 thousand (note 33). This Portuguese data science startup uses artificial intelligence to make banking and e-commerce secure, analysing large amounts of data to detect and prevent fraud in electronic transactions, and has been a case of global success, having already integrated the Tech Tour Growth 50 list, the index of the 50 companies with the highest growth potential in Europe. It is recalled that in the past, the Group obtained gains on the sale of part of its investment in this company, in the amount of EUR 3,008 thousand in 2017 and EUR 1,110 thousand in 2015.

The net fair value adjustments recognised in profit and loss and included in the 'Finance income' and 'Finance costs' captions are EUR 7,807 thousand (2018: EUR 540 thousand), and included in 'Profit from discontinued operations' is EUR 3 thousand (2018: EUR 1 thousand).

A. Fair value measurements

Note 14 provides information on the fair value hierarchy of these financial assets.

There were no transfers between levels 3 and 2 for recurring fair value measurements during 2019.

For the FCT valuation, the fair value was determined with reference to observable input data: the value of 'Participation Units' at the reporting date (level 1 in the fair value hierarchy).

For the valuation of the companies held by FCR NB Capital Inovação e Internacionalização, the discounted cash flow method was used, considering a 5-year business plan forecasted by Management. The key assumptions used in Feedzai are set out below:

	Feedzai	
	31.12.19	31.12.18
Discount rate (post-tax)	16.3%	13.6%
Perpetual growth rate	0.5%	0.5%
Annual average growth rate of turnover	56.7%	16.8%

According to the sensitivity analysis performed on Feedzai, a possible increase or decrease of 1 percentage point in WACC would result in a fair value change of approximately EUR -727 thousand and EUR +832 thousand, respectively.

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts were determined after its offsetting:

	31.12.19	31.12.18
Deferred tax assets		
To be recovered within 12 months	1,347	349
To be recovered after more than 12 months	8,238	9,699
	<u>9,585</u>	<u>10,048</u>
Deferred tax liabilities		
To be recovered within 12 months	-	-
To be recovered after more than 12 months	-	-
	<u>-</u>	<u>-</u>

Movements in the deferred tax assets were as follows:

	31.12.19	31.12.18
Balance at 1 January	10,048	10,448
Adjustment on initial application of IFRS 9 and IFRS 15	-	662
Adjustment on initial application of IFRS 16 (see note 2.2.)	301	-
Profit or loss charge	438	(911)
Other comprehensive income charge	136	(147)
Exchange differences	(4)	(4)
Tax related to net invest. in foreign entities of discount. op. (see note 41)	829	-
Change in consolidation perimeter	(2,163)	-
Balance at 31 December	<u>9,585</u>	<u>10,048</u>

The amount recognised in profit and loss and included in 'Income tax expense' is EUR 857 thousand (2018: EUR -1,289 thousand), and included in 'Profit from discontinued operations' is EUR -419 thousand (2018: EUR 378 thousand).

The amount recognised in other comprehensive income of EUR 136 thousand in 2019 (2018: EUR -147 thousand) refers to the tax related to the net investment in foreign entities of discontinued operations, which was terminated with effect from 1 July 2019, and to the economic hedge of the operations in Angola (see note 19).

The movement in deferred tax assets during the year, without considering the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax Losses / Other	Tax Incentives	Provisions / Adjustments	Total
Balance at 1 January 2018	(823)	9,754	1,517	10,448
Adjustment on initial application of IFRS 9 and IFRS 15	662	-	-	662
Profit or loss charge	(1,069)	362	(204)	(911)
Other comprehensive income charge	(147)	-	-	(147)
Reclassifications	600	(600)	-	-
Exchange differences	(4)	-	-	(4)
Balance at 31 December 2018	(781)	9,516	1,313	10,048
Adjustment on initial application of IFRS 16	301	-	-	301
Profit or loss charge	(487)	599	326	438
Other comprehensive income charge	136	-	-	136
Exchange differences	(4)	-	-	(4)
Tax related to net invest. in foreign entities of discount op.	829	-	-	829
Change in consolidation perimeter	2	(2,047)	(118)	(2,163)
Balance at 31 December 2019	(4)	8,068	1,521	9,585

Deferred tax assets related to tax incentives result from projects of research and development submitted under the incentive program SIFIDE.

The expiry date of the deferred tax assets can be analysed as follows:

	Tax Losses / Other	Tax Incentives	Provisions / Adjustments	Total
Between 2 and 3 years	-	1,793	-	1,793
Between 3 and 4 years	-	1,479	-	1,479
Between 4 and 5 years	-	1,731	-	1,731
Between 5 and 6 years	-	1,461	-	1,461
Over 6 years	-	1,604	-	1,604
With no defined date	(4)	-	1,521	1,517
	(4)	8,068	1,521	9,585

12. Other non-current assets

	31.12.19	31.12.18
Loans to related parties (note 40 iii)	5,033	4,769
Provision for impairment of loans to related parties (note 40 iii)	(3,125)	(3,125)
	<u>1,908</u>	<u>1,644</u>

The fair value of 'Other non-current assets' balance approximates its carrying amount.

Movements in the provision for impairment of loans to related parties are analysed as follows:

	31.12.19	31.12.18
Balance at 1 January	3,125	2,747
Impairment (note 34)	-	378
Balance at 31 December	<u>3,125</u>	<u>3,125</u>

13. Inventories

	31.12.19	31.12.18
Merchandise	43	50
Raw materials, subsidiary goods and consumables	-	119
	<u>43</u>	<u>169</u>
Inventory impairment	(9)	(136)
	<u>34</u>	<u>33</u>

Movements in inventory impairment are analysed as follows:

	31.12.19	31.12.18
Balance at 1 January	136	135
Exchange differences	-	1
Change in consolidation perimeter	(127)	-
Balance at 31 December	9	136

14. Financial instruments by category

	Financial assets at amortised cost	Assets/ liabilities at fair value through P&L	Other financial liabilities	Non-financial assets/ liabilities	Total
At 31 December 2018					
Assets					
Financial assets at fair value through profit or loss	-	3,868	-	-	3,868
Debt securities	8,878	-	-	-	8,878
Other non-current assets	1,644	-	-	-	1,644
Trade and other receivables	41,625	-	-	4,033	45,658
Accrued income	5,464	-	-	-	5,464
Derivative financial instruments	-	26	-	-	26
Other current assets	-	-	-	3,851	3,851
Cash and cash equivalents	63,614	-	-	-	63,614
	121,225	3,894	-	7,884	133,003
Liabilities					
Borrowings	-	-	19,680	-	19,680
Other non-current liabilities	-	-	990	-	990
Trade and other payables	-	-	40,399	-	40,399
Derivative financial instruments	-	24	-	-	24
Deferred income and other current liabilities	-	-	22,267	-	22,267
	-	24	83,336	-	83,360
At 31 December 2019					
Assets					
Financial assets at fair value through profit or loss	-	12,175	-	-	12,175
Debt securities	3,196	-	-	-	3,196
Other non-current assets	1,908	-	-	-	1,908
Trade and other receivables	73,947	-	-	4,481	78,428
Accrued income	3,843	-	-	-	3,843
Derivative financial instruments	-	24	-	-	24
Other current assets	-	-	-	6,211	6,211
Cash and cash equivalents	48,755	-	-	-	48,755
	131,649	12,199	-	10,692	154,540
Liabilities					
Borrowings	-	-	30,362	-	30,362
Other non-current liabilities	-	-	770	-	770
Trade and other payables	-	-	39,635	-	39,635
Derivative financial instruments	-	17	-	-	17
Deferred income and other current liabilities	-	-	14,854	-	14,854
	-	17	85,621	-	85,638

For more information about the categories of financial assets and liabilities, see policy in note 2.8..

The following table shows the Group's financial assets and liabilities that are measured at fair value according to the following hierarchy levels:

- **Level 1:** The fair value of financial instruments is based on quoted prices in active and liquid markets at reporting date.
- **Level 2:** The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Key inputs used on these valuation models are based on observable market data.
- **Level 3:** The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, and key inputs are not based on observable market data.

	31.12.19			31.12.18		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value						
(*) Financial assets at fair value through profit or loss	494	-	-	422	-	-
Financial assets at fair value through profit or loss	-	-	11,681	-	-	3,446
Derivative financial instruments	-	24	-	-	26	-
	<u>494</u>	<u>24</u>	<u>11,681</u>	<u>422</u>	<u>26</u>	<u>3,446</u>
Financial liabilities at fair value						
Derivative financial instruments	-	17	-	-	24	-
	<u>-</u>	<u>17</u>	<u>-</u>	<u>-</u>	<u>24</u>	<u>-</u>

(*) Refers to FCT - Labour Compensation Fund (see note 10).

15. Trade and other receivables

	31.12.19	31.12.18
Trade receivables	37,558	42,475
Impairment allowance of trade receivables	(1,154)	(2,212)
	<u>36,404</u>	<u>40,263</u>
Financial holdings disposal (see note 41)	36,000	-
Capital subscribers of 'Fundo de Capital de Risco NB Capital +Inovação'	2,469	2,469
Value added tax	1,789	1,298
Receivables from financed projects	1,663	1,946
Prepayments to suppliers	159	167
Employees	64	87
Amount receivable from non-controlling interests	-	12
Other receivables	941	558
Impairment allowance of other receivables	(1,061)	(1,142)
	<u>42,024</u>	<u>5,395</u>
	<u>78,428</u>	<u>45,658</u>

The decrease of trade receivables reflects mainly the exit of the consolidation perimeter of the subsidiaries sold in GTE Business.

The fair value of 'Trade and other receivables' balance approximates its carrying amount.

The carrying amount of this caption plus the balance of 'Accrued income' (see note 16) represents the maximum exposure to credit risk.

As of 1 January 2018, with the entry into force of IFRS 9, the Group uses an allowance matrix to measure the ECLs of trade receivables, which comprise a very large number of small balances. Loss rates are calculated using a method based on the probability of a receivable progressing through successive stages of delinquency to write-off. The following tables provides information about the exposure to credit risk and ECLs for the Group's trade receivables as at 31 December 2018 and 31 December 2019.

At 31 December 2018	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	0.43%	32,946	140	No
1-180 days past due	2.37%	6,679	157	No
181-360 days past due	14.49%	882	128	No
More than 360 days past due	90.82%	1,968	1,787	Yes
		<u>42,475</u>	<u>2,212</u>	

At 31 December 2019	Weighted- average loss rate	Gross carrying amount	Loss allowance	Credit- impaired
Current (not past due)	0.64%	26,468	38	No
1-180 days past due	3.78%	8,944	31	No
181-360 days past due	57.15%	833	31	No
More than 360 days past due	88.59%	1,313	1,054	Yes
		37,558	1,154	

Details on the customer concentration / dependency as well as the distribution of the customers with greater balances of the Group by geographical market and business sector can be found in note 3 c) about credit risk.

Movements in impairment allowances of trade and other receivables are analysed as follows:

	Trade receivables		Other receivables		Total	
	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18
Balance at 1 January	2,212	2,802	1,142	1,205	3,354	4,007
Adjustment on initial application of IFRS 9	-	542	-	-	-	542
Impairment	285	490	-	-	285	490
Impairment reversal	(794)	(1,267)	(9)	(8)	(803)	(1,275)
Recovery of bad debts	-	12	-	-	-	12
Exchange differences	(100)	(361)	(25)	(55)	(125)	(416)
Write-offs	(62)	(6)	(47)	-	(109)	(6)
Change in consolidation perimeter	(387)	-	-	-	(387)	-
Balance at 31 December	1,154	2,212	1,061	1,142	2,215	3,354

Impairment and impairment reversal of trade and other receivables recognised in results and included in 'Net impairment losses on trade and other receivables' is EUR 253 thousand (2018: EUR 675 thousand), and included in 'Profit from discontinued operations' is EUR 265 thousand (2018: EUR 110 thousand).

16. Accrued income

	31.12.19	31.12.18
- Ongoing projects	3,787	4,106
- Other accrued income	56	1,358
	3,843	5,464

17. Derivative financial instruments

The fair value of derivative financial instruments can be analysed as follows:

	Assets		Liabilities	
	31.12.19	31.12.18	31.12.19	31.12.18
- Forward foreign exchange contracts	24	26	17	24
	24	26	17	24

The Group is exposed to foreign exchange risk in sales and purchases in various currencies, primarily with respect to the U.S. Dollar, Kwanza and Metical, since some of its subsidiaries carry out transactions in these currencies. Novabase's exposure to currency risk also arises from its presence in various markets, namely, in Angola and Mozambique, although in 2019 the exposure to these geographies decreased considerably.

The forward foreign exchange contracts are the financial instruments used to manage this risk, and they are contracted on the net exposure to currencies, according to the terms of receipts and payments agreed with third parties, in order to set the exchange rate associated with these operations. The nature of the hedged risk is the exchange variation recorded in foreign currency denominated transactions.

The fair value is classified as a non-current asset or liability if the remaining maturity is greater than 12 months and as current asset or liability if the remaining maturity is less than 12 months. In 2019, derivative financial instruments were classified as current assets and liabilities. Although contracted with the purpose of economic hedge in accordance with the Group's risk management policies, changes in the fair value of these derivatives were recognised in profit or loss (see note 2.22. (2)). Note 14 provides information on the fair value hierarchy of these financial assets and liabilities.

At 31 December 2019, the Group had forward foreign exchange contracts of EUR Call / USD Put with the notional amount of USD 3,751,947 and forward foreign exchange contracts of EUR Put / USD Call with the notional amount of USD 968,589.

18. Other current assets

The amounts recorded regarding prepayments of contracted services are as follows:

	31.12.19	31.12.18
- Rents	119	294
- Software licensing	18	3
- Hardware and software maintenance and specialized services	6,074	3,554
	6,211	3,851

In order to ensure the proper balancing of the services provided by third parties, expenses and revenues were deferred and will be recognised in profit or loss in the next period.

19. Debt securities

	Debt securities (*)	
	31.12.19	31.12.18
Non-Current		
Government of Angola Treasury Bonds	403	7,680
	403	7,680
Current		
Government of Angola Treasury Bonds	2,793	1,198
	2,793	1,198

(*) In 2019 includes accumulated impairment losses in the amount of EUR 138 thousand (2018: EUR 408 thousand).

Since 2014, the Group has been investing part of the cash surplus of its Angolan subsidiary in Government of Angola Treasury Bonds indexed to USD. At 31 December 2019, the Group has 5 Treasury Bonds, for a universe of 3,108 securities, in the total amount net of impairment losses of EUR 3,196 thousand, with maturities in 2020 (EUR 2,793 thousands) and in 2022 (EUR 403 thousands).

As disclosed in note 2.5. (3) Group companies, Novabase was applying the net investment in foreign entities until 30 June 2019. Since the purpose of contracting these Government of Angola Treasury Bonds was to provide economic hedge of the Angolan operation, the impact of this hedge, in that period, was recognised in other comprehensive income, in the amount of EUR 1,274 thousand in 2019. As of July, the Group reassessed the receiving perspective and stopped applying the net investment in foreign entities.

Movements in impairment allowance of debt securities are analysed as follows:

	31.12.19	31.12.18
Balance at 1 January	408	-
Adjustment on initial application of IFRS 9	-	449
Impairment reversal (note 33)	(270)	(41)
Balance at 31 December	138	408

20. Cash and cash equivalents

With reference to the statement of cash flows, the detail and description of **cash and cash equivalents** is analysed as follows:

	31.12.19	31.12.18
- Cash	15	35
- Short-term bank deposits	48,767	63,608
Cash and cash equivalents at 31 December	48,782	63,643
- Impairment allowance of short-term bank deposits	(27)	(29)
Cash and cash equivalents	48,755	63,614

'Cash and cash equivalents' evolution in 2019 reflects mainly two effects: the exit of the consolidation perimeter of the subsidiary Novabase Digital, S.A., in a total amount of EUR 6,724 thousand (see note 41) and the payment of dividends to shareholders and non-controlling interests, in a total amount of EUR 20,714 thousand (see notes 22 and 23).

39% of the balance of cash and cash equivalents (net of impairment losses) refers to wholly-owned Novabase subsidiaries. Of the remainder, 2% is related to subsidiaries based outside Portugal.

At 31 December 2019 and 31 December 2018, no restrictions exist as to the use of the amounts recorded in the caption 'Cash and cash equivalents', considering the text below about Angola. In 2019, there was a decrease in restrictions on transfers outside the country, with Novabase repatriated from Angola around EUR 9 Million, significantly lowering its exposure to this geography.

The ratings attributed to the financial institutions with which the Group has higher balances of bank deposits are detailed in note 3 c).

The fair value of 'Cash and cash equivalents' balance approximates its carrying amount.

Movements in impairment allowance of short-term bank deposits are analysed as follows:

	31.12.19	31.12.18
Balance at 1 January	29	-
Adjustment on initial application of IFRS 9	-	36
Impairment	10	7
Impairment reversal	(12)	(14)
Balance at 31 December	<u>27</u>	<u>29</u>

The Impairment allowance of short-term bank deposits recognised in the income statement and included in 'Finance costs' is EUR 10 thousand (2018: EUR 3 thousand), and included in 'Profit from discontinued operations' is EUR 0 thousand (2018: EUR 4 thousand). The impairment reversal recognised in profit or loss and included in 'Finance income' is EUR -9 thousand (2018: EUR -14 thousand), and included in 'Profit from discontinued operations' is EUR -3 thousand (2018: EUR 0 thousand).

21. Share Capital, share premium and treasury shares

The share capital at 31 December 2019, fully subscribed and paid of 54,638,426 Euros, is represented by 31,401,394 shares with a nominal value of 1.74 Euros each.

	No. Shares (thousands)	Share capital	Treasury shares	Share premium	Total
Balance at 1 January 2018	31,401	15,701	(188)	43,560	59,073
Treasury shares purchased	-	-	-	-	-
Balance at 31 December 2018	<u>31,401</u>	<u>15,701</u>	<u>(188)</u>	<u>43,560</u>	<u>59,073</u>
Share capital reduction	-	(4,397)	-	-	(4,397)
Share capital increase	-	43,334	(467)	(43,334)	(467)
Balance at 31 December 2019	<u>31,401</u>	<u>54,638</u>	<u>(655)</u>	<u>226</u>	<u>54,209</u>

According to the resolutions of the Extraordinary General Meeting of Shareholders of Novabase S.G.P.S. held on 26 September 2019, the following operations were carried out in 2019:

- (i) The reduction of the share capital to 15,700,697.00 Euros to 11,304,501.84 Euros, for the release of excessive capital, by reducing the nominal value of all the shares representing the share capital from 0.50 EUR to 0.36 EUR; and
- (ii) The increase of the share capital to 11,304,501.84 Euros to 54,638,425.56, by incorporation of the amount of 43,333,923.72 Euros from the share premium reserve, through an increase of the nominal value of all the shares representing the share capital from 0.36 EUR to 1.74 EUR.

As a result of these operations, the nominal value of all shares representing Novabase's share capital, at 31 December 2019, is 1.74 Euros.

'Treasury shares' reflects the number of shares held by the Group at its nominal value.

Therefore, and as a consequence of the operations described above, the value of 'Treasury shares' was updated in order to reflect the new nominal value, of 1.74 Euros per share, against Reserves.

According to the legislation in force, by deliberation of the General Meeting of Shareholders held on 7 May 2019, the purchase of treasury shares by Novabase S.G.P.S. is allowed up to a maximum of 10% of its share capital.

At 31 December 2018, Novabase S.G.P.S. held 376,611 treasury shares, representing 1.20% of its share capital. During 2019, there were no treasury shares transactions. Therefore, at 31 December 2019, Novabase S.G.P.S. held 376,611 treasury shares, representing approximately 1.20% of its share capital.

It is important to mention that the Extraordinary General Meeting approved a buy-back programme of own shares of the Company (the "Buy-back Programme"), following the resolution, also adopted by this Meeting, to approve a Stock Option Plan for the Society (see next section). Until 31 December 2019, Novabase did not start trading under the Buy-Back Programme.

Issuance share premiums resulted from gains obtained with share capital increases. According to the current legislation, the amounts included under this caption can be used only to increase share capital or to absorb losses carried forward (no need for prior use of other reserves), but it cannot be used for attribution of dividends or purchase of treasury shares.

Stock options

At 31 December 2019, a Stock Option Plan is in effect, approved at the General Meeting of Shareholders held on 26 September 2019, which covers members of the Board of Directors of the Company and Novabase employees. This Stock Option Plan provides for the allocation of Novabase ordinary stock options as a form of remuneration capable of promoting the alignment of the interests of the members of the management bodies with the interests of the Company.

The assigned options have as sole condition of acquisition, the employee's permanence on the dates defined in the terms of the plan, and automatically expire whenever the employee ceases to be at the service of any of the Group companies.

The options exercised, according to the plan, are settled in 1/2 by means of the allocation of Novabase shares ('net share settlement') held in its own portfolio and in 1/2 by means of the allocation of Novabase shares ('net share settlement') or, alternatively, in cash ('net cash settlement'), by participant's choice.

In 2019, 400 thousand options were granted, under the terms and according to the Regulation of the Stock Options Allocation Plan approved in the General Meeting of Shareholders held on 26 September 2019.

The fair value of options granted during the period using the Monte Carlo model was EUR 0.6457. The significant inputs into the model were the following:

- (i) Spot: 2.79€
- (ii) Exercise price: 2.295€
- (iii) Volatility: 25.681% - obtained using a sample mean of a series of historical volatilities based on 180 daily closing prices
- (iv) Expected maturity: 2.0858 years
- (v) Risk free interest rate: -0.4505% (2 years) and -0.4508% (3 years)

According to the regulation, the share options exercise price is adjusted by dividends' distribution, therefore the options may be evaluated based on the exercise price already set and assuming a dividend yield null.

The total estimated value of the Stock Option Plan currently in effect is EUR 271 thousand. In the statement of profit and loss, under the heading 'Employee benefit expense', a cost of EUR 23 thousand was recorded in 2019 (see note 30) against: i) reserves relating to stock options, in the amount of EUR 7 thousand - 'equity-settled' part; ii) a liability, in the amount of EUR 16 thousand - 'cash-settled' part (see note 27).

22. Reserves and retained earnings

In 2019, they were distributed to Novabase S.G.P.S. amounts corresponding to 0.51 Euros per share (EUR 0.15 related to a regular dividend and EUR 0.36 related to a distribution of reserves and accumulated results). The total amount paid corresponded to EUR 15,823 thousand, while the amount related to treasury shares that was not delivered amounted to EUR 192 thousand, having remained in retained earnings. Additionally, in November 2019, the amounts released were paid due to the capital reduction detailed in the previous note, corresponding to 0.14 Euros per share. The total amount paid corresponded to EUR 4,343 thousand while the value related to treasury shares that was not delivered amounted to EUR 53 thousand, having been transferred to retained earnings.

	31.12.19	31.12.18
Payment of dividends / shareholders remuneration	15,823	4,654
Remuneration of the treasury shares held by the Company	192	56
	<u>16,015</u>	<u>4,710</u>

It should also be noted, as a result of the reduction and increase of capital operations above described, a transfer in the amount of EUR 467 thousand was recorded between the captions 'Reserves and retained earnings' and 'Treasury shares', to bring the latter to the new nominal value of each share after these operations (EUR 1.74), referring to the number of own shares in portfolio at that date (see also note 21).

According to the legislation in force, Portuguese based companies that integrate Novabase Group are required to transfer a minimum of 5% of annual net profit to legal reserves until this balance reaches at least 20% of the share capital. This reserve cannot be distributed to shareholders, though it may be used to absorb losses carried forward or to increase share capital. Also, according to article 324, paragraph 1 b) of the Portuguese Companies Code, Novabase constitutes an unavailable reserve of an amount equal to the amount recorded in treasury shares.

23. Non-controlling interests

	31.12.19	31.12.18
Balance at 1 January	13,754	13,597
Adjustment on initial application of IFRS 9 and IFRS 15 (net of tax)	-	(736)
Adjustment on initial application of IFRS 16 (net of tax) - see note 2.2.	(47)	-
Transactions with non-controlling interests	-	629
(*) Distribution of dividends to non-controlling interests	(548)	(821)
Exchange differences on foreign operations	322	808
Profit attributable to non-controlling interests	5,576	277
Change in consolidation perimeter (note 41)	(728)	-
Balance at 31 December	<u>18,329</u>	<u>13,754</u>

(*) In 2019 and 2018, CelFocus, S.A. approved dividends to its shareholders. These dividends were paid in the year of their attribution (see note 6 - A. Subsidiaries with material non-controlling interests).

24. Borrowings

	31.12.19	31.12.18
Non-current		
Bank borrowings	13,600	6,294
Finance lease liabilities	-	7,066
Lease liabilities	7,681	-
	<u>21,281</u>	<u>13,360</u>
Current		
Bank borrowings	5,194	4,959
Finance lease liabilities	-	1,361
Lease liabilities	3,887	-
	<u>9,081</u>	<u>6,320</u>
Total borrowings	<u><u>30,362</u></u>	<u><u>19,680</u></u>

As at 1 January 2019, the Group adopted IFRS 16 in accordance with the modified retrospective approach, and therefore the amounts of the comparative period were not restated (see note 2.2.). Accordingly, Novabase recognised additional lease liabilities in the amount of EUR 9,400 thousand regarding the leases that were previously classified as operating leases under IAS 17.

Additionally, for leases that were previously classified as finance leases under IAS 17, Novabase recognised lease liabilities at the date of initial application by the carrying amount of the lease liabilities immediately before that date, having transferred the amounts from 'Finance lease liabilities' to 'Lease liabilities', in the total amount of EUR 8,427 thousand. The measurement principles in IFRS 16 are only applied after that date. This resulted in measurement adjustments of EUR -6,907 thousand for residual value guarantees. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application (see note 7).

Movements during the exercise in lease liabilities are detailed in note 2.2. (b).

The exposure of the Group's current bank borrowings to the contractual repricing dates are as follows:

	6 months or less	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Bank borrowings	2,824	2,135	3,594	2,700	-	11,253
Finance lease liabilities	633	728	1,221	5,845	-	8,427
At 31 December 2018	<u>3,457</u>	<u>2,863</u>	<u>4,815</u>	<u>8,545</u>	<u>-</u>	<u>19,680</u>
Bank borrowings	2,937	2,257	4,400	9,200	-	18,794
Lease liabilities	2,069	1,818	3,301	4,380	-	11,568
At 31 December 2019	<u><u>5,006</u></u>	<u><u>4,075</u></u>	<u><u>7,701</u></u>	<u><u>13,580</u></u>	<u><u>-</u></u>	<u><u>30,362</u></u>

The weighted average effective interest rate of bank borrowings at the reporting date is 1.546% (31.12.18: 2.112%). Regarding the responsibilities associated with leases, these are presented above discounted of the future finance charges, amounting to EUR 1,041 thousand as at 31 December 2019 (31.12.18: EUR 593 thousand).

During 2019, the Group negotiated new loans with three banking institutions, in the total amount of EUR 16 Million, and proceeded to the early repayment of the loan with BEI in the amount of EUR 4 Million, in order to, on the one hand, diversify borrowings, and on the other, to align them with the contractual needs and obligations of lease liabilities. In addition, loan repayments with other banking institutions in the year amounted to EUR 4.5 Million.

The covenants of the Group's bank borrowings are as follows:

- Solvability ratio $\geq 40\%$; Net Debt / EBITDA ≤ 3
- Net Debt / EBITDA ≤ 3
- Solvability ratio $\geq 35\%$; Net Debt / EBITDA ≤ 2.5 ; Net Debt / Total Equity ≤ 0.5
- Solvability ratio $\geq 35\%$; Net Debt / EBITDA ≤ 4
- Bond seniority determined pari passu
- Cross Default
- Good standing with tax and social security authorities
- Published accounts
- Information disclosure obligations regarding court disputes
- Active insurance policies

At 31 December 2019, the Group was complying with the covenants.

(a) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	31.12.19	31.12.18
Cash and cash equivalents (amount before impairment losses)	48,782	63,643
Borrowings - repayable within one year (including overdrafts)	(9,081)	(6,320)
Borrowings - repayable after one year	(21,281)	(13,360)
Net debt	18,420	43,963

	Cash and cash equivalents	Bank borrow. due within 1 year	Bank borrow. due after 1 year	Resp. assoc. with leases due within 1 year	Resp. assoc. with leases due after 1 year	Net debt
Balance at 1 January 2018	56,136	(4,963)	(10,563)	(1,944)	(6,274)	32,392
Cash flows	9,560	4,273	-	805	-	14,638
Acquisitions - finance lease liabilities	-	-	-	-	(3,478)	(3,478)
Exchange rate changes	(2,053)	-	-	-	-	(2,053)
Other non-cash movements	-	(4,269)	4,269	(222)	2,686	2,464
Balance at 31 December 2018	63,643	(4,959)	(6,294)	(1,361)	(7,066)	43,963
Cash flows	(5,747)	4,959	(12,500)	3,406	-	(9,882)
Acquisitions - lease liabilities	-	-	-	-	(4,138)	(4,138)
Exchange rate changes	(2,179)	-	-	-	-	(2,179)
Change in consolidation perimeter	(6,935)	-	-	-	-	(6,935)
Other non-cash movements	-	(5,194)	5,194	(5,932)	3,523	(2,409)
Balance at 31 December 2019	48,782	(5,194)	(13,600)	(3,887)	(7,681)	18,420

25. Provisions

Movements in provisions for other risks and charges are analysed as follows:

	31.12.19	31.12.18
Balance at 1 January	8,252	10,369
Additional provisions	3,244	1,464
Reversals / utilisations	(2,844)	(3,581)
Exchange differences	(4)	-
Change in consolidation perimeter	(25)	-
Balance at 31 December	8,623	8,252

The amount of provisions for other risks and charges, net of reversals, recognised in profit or loss and included in 'Other gains/(losses) - net' is EUR 957 thousand (2018: EUR 1,236 thousand), and included in 'Profit from discontinued operations' is EUR -557 thousand (2018: EUR 881 thousand).

The balance of 'Provisions' refers to liabilities with costs to be incurred with possible contractual penalties relating to ongoing projects and to risks related to miscellaneous events / disputes of various kinds, the settlement of which may result in cash outflows, and other probable liabilities related to several transactions from previous periods, and whose outflow of cash is probable, for which it is not possible to estimate reliably the time of occurrence of the expense. These risks related to miscellaneous events / disputes include, among others, contingencies of tax and labour natures, and involve customers, suppliers, business partners, employees or others. At 31 December 2019, this caption also includes amounts related to costs to be incurred resulting from the alignment of labour capacity with the strategy disclosed to the market on July 2019.

26. Other non-current liabilities

	31.12.19	31.12.18
Research and development grants	770	990
	770	990

This caption corresponds to the amount of grants for research and development with a maturity of more than 12 months. The amount of grants for research and development with a maturity of less than 12 months is included in 'Deferred income and other current liabilities' (note 28).

The fair value of 'Other non-current liabilities' balance approximates its carrying amount.

27. Trade and other payables

	31.12.19	31.12.18
Trade payables	8,215	5,469
Remunerations, holiday and holiday allowance	7,531	8,997
Bonus	8,819	8,256
Acquisition of financial holding to non-controlling interests (note 41)	3,564	-
Ongoing projects	2,138	4,551
Value added tax	2,070	3,106
Social security contributions	2,123	2,389
Income tax withholding	1,404	1,518
Employees	105	130
Stock options plan (note 21)	16	-
Amount to be paid to non-controlling interests	2	2
Prepayments from trade receivables	2	2
Other accrued expenses	3,364	5,748
Other payables	282	231
	39,635	40,399

The fair value of 'Trade and other payables' balance approximates its carrying amount.

The maturity of these liabilities is as follows:

	31.12.19	31.12.18
No later than 1 year	39,635	40,399
	39,635	40,399

28. Deferred income and other current liabilities

	31.12.19	31.12.18
Research and development grants	220	170
Consulting projects	14,634	22,097
	14,854	22,267

The decrease in the amount of this caption essentially reflects the effect of leaving the consolidation perimeter of the subsidiary sold in the GTE Business.

The table below shows the financial incentives for research and development at 31 December 2019, by type of incentive program:

	Contracted amount	Acum. received amount
Grants:		
- FAI - Innovation Support Fund	1,706	718
- P2020 - Portugal 2020	1,265	589
	2,971	1,307

29. External supplies and services

	31.12.19	31.12.18
Subcontracts	21,782	19,464
Supplies and services		
Commissions, consultancy fees and rents	3,837	5,189
Transportation, travel and accommodation expenses	4,581	5,018
Freight	21	21
Advertising and promotion	816	871
Water, electricity and fuel	504	513
Communications	368	451
Insurance	307	291
Utensils, office supplies and technical documentation	458	442
Other supplies and services	679	702
	11,571	13,498
	33,353	32,962

30. Employee benefit expense

	31.12.19	31.12.18
Key management personnel compensation (note 40 i)	4,979	2,594
Wages and salaries of the employees	57,180	55,795
Employees social security contributions	11,246	10,045
Stock options granted (note 21)	23	-
Other employee expenses	3,328	3,584
	76,756	72,018

Other employee expenses include labour accident insurance, social responsibility costs, training costs and indemnities.

The increase in employee benefit expense is in line with the growth in Turnover and is justified by the acquisition of new talents.

Average number of employees is analysed as follows:

	31.12.19	31.12.18
(*) Value Portfolio	881	745
Next-Gen	957	949
	1,838	1,694

(*) The amounts presented do not consider employees assigned to the GTE Business. Includes holding / shared services representing 89 employees in 2019 (2018: 87).

At the end of the year, the number of employees was 1,899 (2018: 1,741).

At 31 December 2019, 30% of Novabase's employees are women (2018: 30%). This gender imbalance is in line with trends in the information technology industry in Portugal and abroad, and also reflects the higher education choices of each gender.

31. Other gains/(losses) - net

	31.12.19	31.12.18
Provisions for other risks and charges (note 25)	(957)	1,236
Other operating income and expense	170	(430)
	(787)	806

32. Depreciation and amortisation

	31.12.19	31.12.18
<i>Property, plant and equipment (note 7):</i>		
Buildings and other constructions	2,793	57
Basic equipment	690	636
Transport equipment	678	617
Furniture, fittings and equipment	60	107
Other tangible assets	-	1
	<u>4,221</u>	<u>1,418</u>
<i>Intangible assets (note 8):</i>		
Internally generated intangible assets	472	1,087
Industrial property and other rights	22	12
	<u>494</u>	<u>1,099</u>
	<u><u>4,715</u></u>	<u><u>2,517</u></u>

33. Finance income

	31.12.19	31.12.18
Interest received	354	149
Foreign exchange gains	2,652	1,517
Fair value of financial assets adjustment (note 10)	8,150	562
Reversal of impairment losses on bank balances (note 20)	9	14
Reversal of impairment losses on debt securities (note 19)	270	41
	<u>11,435</u>	<u>2,283</u>

In 2019, the increase in 'Finance income' is mainly due to the EUR 8.1 Million revaluation of the Group's investment in Feedzai within the scope of its venture capital activity.

34. Finance costs

	31.12.19	31.12.18
Interest expenses		
- Borrowings	(295)	(291)
- Lease liabilities (*)	(540)	(246)
- Other interest	(2)	(61)
Bank guarantees charges	(12)	(17)
Bank services	(225)	(195)
Foreign exchange losses	(3,343)	(2,405)
Fair value of financial assets adjustment (note 10)	(343)	(22)
Provisions for loans to related parties (note 12)	-	(378)
Impairment losses on bank balances (note 20)	(10)	(3)
Other financial losses	-	(184)
	<u>(4,770)</u>	<u>(3,802)</u>

(*) The increase of this caption in 2019 relates to the adoption of IFRS 16, which started to include the interest expenses (unwinding of discount) calculated on the liabilities regarding the rents due from lease contracts measured at present value (see note 2.2.).

In 2019, the variation in 'Finance costs' is mainly due to the increase in foreign exchange losses in year-on-year terms, however, considering a joint reading with the foreign exchange gains presented in 'Finance income', it is concluded that the results with foreign exchange differences of the Group remained stable.

35. Share of loss of associates

	31.12.19	31.12.18
Fundo Capital Risco NB Capital (notes 6 and 9)	(83)	(62)
	<u>(83)</u>	<u>(62)</u>

36. Income tax expense

Novabase and its subsidiaries with head offices in Portugal are subject to Corporate Income Tax at the nominal rate of 21%, which can be increased by a Municipal Surcharge up to a maximum rate of 1.5% of taxable income, resulting in a total tax rate of 22.5%. Additionally, taxable income exceeding EUR 1,500 thousand and up to EUR 7,500 thousand is subject to a State Surcharge at the rate of 3%, from EUR 7,500 thousand and up to EUR 35,000 thousand is subject to a State Surcharge at the rate of 5%, and the part of taxable income exceeding EUR 35,000 thousand is subject to a State Surcharge at the rate of 9%.

Since 1 January 2009, Novabase is being taxed in Corporate Income Tax under the Special Taxation Regime for Groups of Companies (Group taxation relief). For taxation purposes, this group includes companies detained in 75% or more by Novabase S.G.P.S. which comply with the further requirements under article 69 and following of the Corporate Income Tax Code.

The remaining subsidiaries, not contemplated by this mechanism, are taxed individually, based on their taxable profits and the tax rates applicable.

The net income generated by foreign subsidiaries is taxed at local tax rates, namely, those generated in Spain, in Angola, in Mozambique, in The Netherlands, in the United Kingdom and in Turkey are taxed at 25%, 30%, 32%, 25%, 19% and 22%, respectively.

According to the current tax legislation, in general terms tax returns can be reviewed by the tax authorities during a subsequent period. In Portugal, this period is 4 years or, if any deduction is made or tax benefit granted, the exercise term of that right. Therefore, all annual tax returns for the year 2016 through 2019 are still open to such review.

Legislative changes that became effective on 1 January 2019

With regard to the changes introduced by 2019 State Budget (Law no. 71/2018), worthy of note only the automatic waiver of the special payment on account for taxpayers that comply with the requirements.

These changes didn't have a significant impact on the income tax expense of Novabase's Group.

Legislative changes introduced by 2020 State Budget

Regarding the State Budget Law for 2020, no significant changes were made about Income tax expense. Worthy of note is that charges for passenger vehicles, commercial vehicles, motorbikes and motorcycles are now subject to the 10% rate, with an acquisition cost of up to EUR 27,500 (currently EUR 25,000).

Management considers that these changes will not have a significant impact on the income tax expense of Novabase's Group.

This caption is analysed as follows:

	31.12.19	31.12.18
Current tax	1,210	(295)
Deferred tax on temporary differences (note 11)	(857)	1,289
	353	994

The tax on the Group's earnings before taxes differs from the theoretical amount that would arise using the weighted average rate applicable to profits of the consolidated entities as follows:

	31.12.19	31.12.18
Earnings before taxes	11,226	2,742
Income tax expense at nominal rate (21% in 2019 and 2018)	2,357	576
Provisions and amortisations not considered for tax purposes	-	64
Provisions reversal	(40)	(358)
Recognition of tax on the events of previous years	(82)	-
Associates' results reported net of tax	17	13
Autonomous taxation	487	465
Results in companies where no deferred tax is recognised	(806)	275
Expenses not deductible for tax purposes	83	509
Differential tax rate on companies located abroad	(138)	5
Research & Development tax benefit	(1,894)	(1,305)
Municipal surcharge and State surcharge	268	83
Impairment of SIFIDE R&D	-	591
Impairment of Special Payment on Account, tax losses and withholding taxes	101	76
Income tax expense	353	994
Effective tax rate	3.1%	36.3%

37. Earnings per share**Basic**

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (note 21).

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all potential dilutive ordinary shares. In theoretical terms, Novabase has only one type of potential dilutive ordinary shares: the stock options. The number of shares that would be acquired at fair value (determined by the average over the period of the market price of Novabase shares) was determined. This number of shares thus determined was compared with the number of shares that would be issued if all options were exercised.

Earnings per share are analysed as follows:

	31.12.19	31.12.18
Weighted average number of ordinary shares in issue	31,024,783	31,024,783
Stock options adjustment	116,711	-
Adjusted weighted average number of ordinary shares in issue	31,141,494	31,024,783
Profit attributable to owners of the parent	20,400	4,737
Basic earnings per share (Euros per share)	0.66 Euros	0.15 Euros
Diluted earnings per share (Euros per share)	0.66 Euros	0.15 Euros
Profit from continuing operations attributable to owners of the parent	5,297	1,471
Basic earnings per share (Euros per share)	0.17 Euros	0.05 Euros
Diluted earnings per share (Euros per share)	0.17 Euros	0.05 Euros
Profit from discontinued operations attributable to owners of the parent	15,103	3,266
Basic earnings per share (Euros per share)	0.49 Euros	0.11 Euros
Diluted earnings per share (Euros per share)	0.48 Euros	0.11 Euros

38. Dividends per share

The amounts distributed in 2019 and 2018 reached EUR 16,015 thousand (0.51 Euros per share, of which 0.15 Euros per share corresponding to a regular dividend and 0.36 Euros per share to an extraordinary distribution of reserves) and EUR 4,710 thousand (0.15 Euros per share). These amounts differ from those shown in the Consolidated Statement of Cash Flows due to the remuneration of treasury shares held by the Company, which remained in Novabase, having been transferred to retained earnings (note 22). In 2019, the amounts released were also paid due to a reduction in share capital, in the amount of EUR 4,397 thousand (0.14 Euros per share). Regarding 2019, the Board of Directors has resolved to revert its initial intention, disclosed to the market on 20 February 2020, of proposing to the Annual General Meeting of 2020 the distribution of approximately EUR 26,691 thousand to the shareholders through the reduction of the share capital of Novabase in the same amount, which would represent a remuneration of 0.85 Euros per share, as a prevention measure that aim at ensuring the financial resilience of the company and its competitiveness during and after the Covid-19 pandemic (see note 44).

39. Commitments

The financial commitments not included in the Consolidated Statement of Financial Position related with bank guarantees provided to third parties for ongoing projects and group leases, are detailed as follows:

	Bank	31.12.19	31.12.18
Novabase S.G.P.S., S.A.	Santander	2,500	2,500
Novabase Business Solutions, S.A.	BCP	2,952	3,848
Novabase Business Solutions, S.A.	Santander	465	281
Novabase Business Solutions, S.A.	Novo Banco	48	48
Novabase Business Solutions, S.A.	BPI	33	33
Novabase Business Solutions, S.A.	Bankinter	107	12
Novabase Serviços, S.A.	BPI	135	-
Novabase Serviços, S.A.	Novo Banco	505	505
CelFocus, S.A.	BPI	-	72
CelFocus, S.A.	Santander	50	50
Novabase Digital, S.A.	BCP	-	1,144
NOVABASE IMS 2, S.A.	BCP	4	4
Novabase Sistemas de Informacion, S.A.	Novo Banco	164	100
NBMSIT, Sist. de Inf. e Tecnol., S.A.	BIM	180	249
		<u>7,143</u>	<u>8,846</u>

Following the sale of GTE Business at the end of 2019, Novabase undertook the following commitments:

- A Liability Cap of EUR 3.87 Million by irrevocable bank guarantee of equal amount for a period of 18 months (duration of guarantees), which means, between 9 January 2020 and 9 July 2021, reduced to EUR 1.935 Million between 18 months and 5 years (expiry of tax and Social Security guarantees), that is, between 10 July 2021 and 9 January 2025;
- Constitution of a basket deductible for further corrections in the amount of EUR 306 thousand, minimis of EUR 30.6 thousand, until the end of the period, which means, 9 January 2025;
- Non-competition obligation for 3 years between VINCI Energies Portugal, S.G.P.S., S.A. and Novabase in its core business areas, which means, until 9 January 2023.

Following the sale of IMS Business at the end of 2016, Novabase undertook the following commitments:

- A Liability Cap of EUR 5 Million by irrevocable bank guarantee of equal amount for a period of 18 months (duration of guarantees), which means, between 5 January 2017 and 5 July 2018, reduced to EUR 2.5 Million between 18 months and 5 years (expiry of tax and Social Security guarantees), that is, between 6 July 2018 and 5 January 2022;
- Constitution of a basket deductible for further corrections in the amount of EUR 400 thousand, minimis of EUR 40 thousand, until the end of the period, which means, 5 January 2022;
- Non-competition obligation for 3 years between VINCI Energies Portugal, S.G.P.S., S.A. and Novabase in its core business areas, which means, until 5 January 2020.

In 2019, the Group had the following grouped credit line contracted:

Group of companies	Plafond
Novabase S.G.P.S.; NB Business Solutions, S.A.	EUR 5.0 Million
Novabase S.G.P.S.; Novabase Serviços, S.A.; Novabase Neotalent, S.A.; NB Business Solutions, S.A.	EUR 7.0 Million

40. Related parties

For reporting purposes, related parties include subsidiaries and associates, other participated companies classified as financial assets at fair value through profit or loss, shareholders and key elements in the management of the Group, and companies related to them that provide management services to the Group (Autonomy Mastery and Purpose, S.A. and Groovesnore Investimentos Imobiliários, Lda.).

i) Key management personnel compensation

Remuneration assigned to the Board of Directors, other key management personnel and related companies providing management services to the Group, during the years ended 31 December 2019 and 31 December 2018, are as follows:

	31.12.19	31.12.18
Short-term employee benefits	3,481	2,813
Other long-term benefits	1,475	690
Stock options granted	23	-
	<u>4,979</u>	<u>3,503</u>

From the total amount of key management personnel compensation, which includes remuneration, social security charges and other costs, EUR 4,979 thousand were recognised in 'Employee benefit expense' (31.12.18: EUR 2,594 thousand) and EUR 0 thousand in 'External supplies and services' (31.12.18: EUR 909 thousand).

'Other long-term benefits' caption corresponds to 50% of the variable remuneration recognised in the year on the accrual basis (the final amount is only known in the following exercise), with payment to be deferred for more than 1 year after the reporting date.

The total variable remuneration assigned to the Board of Directors of Novabase S.G.P.S. and other key management elements of the Group, regardless the year of allocation, which payment is deferred, amounts to EUR 1,542 thousand (31.12.18: EUR 1,751 thousand).

In addition, there are outstanding current account balances with key management personnel in the amount of EUR 3 thousand at 31 December 2019 (31.12.18: EUR 14 thousand).

The remuneration policy of the Board of Directors and of the Supervisory Board of Novabase S.G.P.S. is stated in this Consolidated Report and Accounts, in the Remuneration Chapter of the Corporate Governance Report, which is summarised below.

By unanimous decision of the Remuneration Committee, fixed remuneration components were set for members of the Novabase Board of Directors in 2019, along with annual variable remuneration, as shown in the chart below. This remuneration is distributed among the members of the Board of Directors in accordance with the breakdown stipulated by the Remuneration Committee, whereby directors receive (i) fixed remuneration in cash, (ii) variable remuneration in cash and (iii) variable remuneration based on stock options; this remuneration is distributed among the directors in accordance with the following table, in view of their responsibilities at Novabase and as indicated by the Remuneration Committee.

The remuneration of non-executive, non-independent directors may include a variable component. The performance of remunerated duties by these members of the Board of Directors allows Novabase to leverage their extensive know-how acquired as company founders and accumulated over 30 years, especially since these directors continue to have major responsibilities in the Group.

The variable component in cash of directors' remuneration is determined with a view to aligning this component with the organization's performance in the year in question, measured by the net profits generated, and correlates with the responsibility and performance of each director in particular. A proper balance is also ensured between the fixed and variable portions of these remunerations.

Regarding the stock options plan, since its approval, 400,000 stock options of Novabase have been granted to the executive director Paulo Jorge de Barros Pires Trigo, according to a resolution from the Remuneration Committee.

Director ¹	Fixed annual remuner. (€)	Annual variable remuner. in cash paid in 2019 (€) ^{2, 3}	Total partial (fixed + variable in cash paid in 2019) (€)	Variable in cash paid in 2019 / Total partial (%)	Deferred annual variable remuner. (€) ⁴	Variable remuner. No. options @ 2.295
João Nuno da Silva Bento	293,700	100,653	394,353	25.52	100,653	-
Álvaro José da Silva Ferreira	200,520	63,076	263,596	23.93	63,076	-
Francisco Paulo Figueiredo Morais Antunes	126,000	127,454	253,454	50.29	118,063	-
María del Carmen Gil Marín	144,420	50,326	194,746	25.84	50,326	-
Paulo Jorge de Barros Pires Trigo	25,249	-	25,249	-	-	400,000
Executives Total	789,889	341,508	1,131,397	30.18	332,117	400,000
(% total)	65.30	48.90	59.30			
Luís Paulo Cardoso Salvado	293,700	254,909	548,609	46.46	236,126	-
José Afonso Oom Ferreira de Sousa	42,000	50,987	92,987	54.83	47,225	-
Pedro Miguel Quinteiro de Marques Carvalho	42,000	50,987	92,987	54.83	47,225	-
Marta Isabel dos Reis G. R. do Nascimento	42,000	-	42,000	-	-	-
Non-Executives Total	419,700	356,883	776,583	45.96	330,576	-
(% total)	34.70	51.10	40.70			
TOTAL	1,209,589	698,391	1,907,980	36.60	662,693	400,000

¹ Director Paulo Jorge de Barros Pires Trigo was elected in the General Meeting held on 26 September 2019. The remuneration shown here for this director only refers to after his election. The amounts received up until the election date from other group companies are shown below.

² The amount shown represents the total amount paid to each director in 2019: 50% of the total amount allocated for 2018 in 2019, and 1/6 of the amount allocated for 2017 in 2018, 1/6 of the amount allocated for 2016 in 2017 and 1/6 of the amount allocated for 2015 in 2016. The remaining 50% of the amount allocated for 2018 in 2019 will be paid in the following 3 years (2020, 2021 and 2022) in equal parts (corresponding to 1/6 of each year's total), conditional upon positive company performance during this time period.

³ Amount used to reinforce capitalization insurance contributions currently in effect at the company.

⁴ Amounts allocated for 2018 in 2019 but deferred for the following 3 years. There are also deferred amounts referring to amounts allocated for 2017 in 2018, and allocated for 2016 in 2017 according to the results disclosed in the Corporate Governance Reports of the respective years.

In 2019, an additional amount of EUR 12,376 thousand was paid to the members of the Board of Directors in meal allowances. There are no relevant amounts of non-monetary benefits considered as remuneration and not covered by the previous situations.

Novabase's Directors are paid only by this entity, not receiving any other remuneration by any other company in a domain or group relationship with Novabase, or by a company subject to common domain with Novabase. Nevertheless, in 2019, and before his election as director approved at the Extraordinary General Meeting on September 26, the director Paulo Jorge de Barros Pires Trigo received the amounts shown in the table below by Celfocus, S.A., a company indirectly held at 55 % by Novabase S.G.P.S., S.A.. Also in relation to the director María del Carmen Gil Marín, the amounts below were / will be settled in Novabase Capital - Sociedade de Capital de Risco, S.A., a company 100% owned by Novabase S.G.P.S., S.A.:

Director	Fixed annual remuner. (€)	Annual variable remuner. in cash paid in 2019 (€) ^{5, 6}	Total partial (fixed + variable in cash paid in 2019) (€)	Variable in cash paid in 2019 / Total partial (%)	Deferred annual variable remuner. (€) ⁷
María del Carmen Gil Marín	-	113,702	113,702	100.00	160,013
Paulo Jorge de Barros Pires Trigo	128,100	173,486	301,586	57.52	183,558

⁵ The amount shown represents the total amount paid in 2019: 50% of the amount allocated for 2018 in 2019, plus 1/6 of the amount allocated for 2017 in 2018, 1/6 of the amount allocated for 2016 in 2017 and 1/6 of the amount allocated for 2015 in 2016. The remaining 50% of the amount allocated for 2018 in 2019 will be paid in the following 3 years (2020, 2021 and 2022) in equal parts (corresponding to 1/6 of each year's total), conditional upon positive company performance during this time period.

⁶ Amount used to reinforce capitalization insurance contributions currently in effect at the company.

⁷ Amounts allocated for 2019 in 2018 but deferred for the following 3 years. There are also deferred amounts referring to amounts allocated for 2018 in 2017, and allocated for 2017 in 2016 according to the results disclosed in the Corporate Governance Reports of the respective years.

In 2019, an additional amount of EUR 1,264 thousand in meal allowances was paid by Celfocus, S.A. to the director Paulo Jorge de Barros Pires Trigo.

In 2019, no additional remuneration was awarded in the form of profit sharing and/or payment of bonuses. No compensations were paid, nor are any compensations owed, to former executive directors as a result of their duties no longer being performed in 2019.

ii) Balances and transactions with related parties

Group companies have commercial relations with each other that qualify as related parties transactions. All of these transactions are performed on an arm's length basis, meaning, the transaction value corresponds to prices that would be applicable between non-related parties.

In consolidation, all of these transactions are eliminated, since the consolidated financial statements disclose information regarding the holding company and its subsidiaries as if they were a single entity.

Balances and transactions with related parties are as follows:

	Trade and other receivables		Trade and other payables	
	31.12.19	31.12.18	31.12.19	31.12.18
Associates	142	-	-	-
Other participated companies	141	489	-	95
Shareholders and other entities	-	-	-	-
	283	489	-	95
Provision for impairment of trade and other receivables	-	(31)		
	283	458		

	Services rendered		Supplementary income		Purchases (*)	
	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18
Associates	181	181	-	-	-	-
Other participated companies	1,064	635	9	-	1,331	1,697
Shareholders and other entities	-	-	-	-	-	-
	1,245	816	9	-	1,331	1,697

(*) In 2018, purchases include EUR 1,034 thousand of passing-through invoicing on behalf of Globaleda S.A. to external client. Once the Group acted as an agent on behalf of the principal, the purchases (and the associated turnover) were eliminated in the consolidated financial statements. In 2019 this situation ceased to exist.

In addition to the balances and transactions described in the tables above and below, no other balances or transactions exist with the Group's related parties.

Outstanding balances of accounts receivable and payable between Group Companies and related parties will be cash settled and are not covered by any guarantees.

iii) Other balances with related parties

	Non-current (note 12)	
	31.12.19	31.12.18
Associates	-	-
Other participated companies		
Loan to Powergrid, Lda.	2,050	2,050
Loan to Bright Innovation, Lda.	1,477	1,477
Loan to Radical Innovation, Lda.	994	994
Loan to Power Data, Lda.	248	248
Loan to Glarevision, S.A.	180	-
Loan to Probe.ly, Lda.	75	-
Loan to Habit Analytics, Inc.	9	-
Shareholders and other entities		
Loans to other shareholders	-	-
	5,033	4,769
Provisions for impairment of loans to related parties	(3,125)	(3,125)
	1,908	1,644

41. Discontinued operations

At 4 November 2019, Novabase has entered into a sale and purchase agreement with VINCI Energies Portugal, S.G.P.S., S.A. ("VEP") for the sell of its "Application and Data Analytics" business for the Government, Transport and Energy ("GTE Business"), through the sale of the shares representing the entire share capital of Novabase Digital, S.A., as well as the transfer of the economic value and of employees assigned to the GTE Business who are in other companies of the Group. The agreed purchase price was of EUR 33,000 thousand, to be paid on the completion date and subject to any eventual adjustments as foreseen in the sales and purchase agreement. As a matter of fact, depending on the final performance of the GTE Business in the financial year of 2019, it may be added a potential earn-out of EUR 3,000 thousand to the agreed purchase price.

Following this agreement of 4 November 2019, the Group discontinued its GTE Business, developed in the referred subsidiary under the agreement but also in the Mozambican subsidiary NBMSIT, Sist. de Inf. e Tecnol., S.A. (see note 6), for which the Group decided to initiate the procedures for the cessation of activity.

Novabase Digital S.A. was 90.1% owned by the Group, however, the agreement for the sale of this subsidiary had as condition precedent the acquisition of the non-controlling interests. Thus, Management assessed that these transactions qualified as a single transaction because it was verified that the sale of 100% of the subsidiary was dependent on the purchase of the minority interest and the purchase was economically justified only when considered together with the subsequent sale. Accordingly, the consideration to be paid for the acquisition of non-controlling interests (EUR 3,564 thousand - see note 27) was recognised as a reduction to the fair value of the consideration received for the sale of the interest initially held, there being no place to register the transaction with non-controlling interests separately from the sale with loss of control.

The sale was substantially completed at the end of 2019 after verification of the relevant conditions precedent under the agreement, and at 9 January 2020, the agreed purchase price was paid. The final price is still subject to positive and negative adjustments, resulting from the final calculation of price mechanisms clauses in the sale agreement.

As a result, as at 31 December 2019 Novabase recorded the gain on the sale of GTE Business to VEP, in the amount of EUR 11,956 thousand. The gain considers 100% of the earn-out, and also: a) the write-off of the Goodwill associated with this business of EUR 3,385 thousand; b) a provision for Reps & Warranties of EUR 7,500 thousand; c) the transfer of the exchange difference on foreign operations in the amount of EUR 3,016 thousand, and of the related tax of EUR -829 thousand, of the subsidiary NBMSIT; and d) a provision for risks associated with the closure of the activity of the Mozambican entity of EUR 783 thousand.

Regarding the IMS Business (sold at the end of 2016), during 2019 it was registered an additional use of provisions in the amount of EUR 15 thousand and the recovery of bad debts. This situation led to the recognition of a profit of EUR 335 thousand. The provision for this business, included in 'Liabilities from discontinued operations', shows a very residual balance at the end of 2019, of EUR 48 thousand.

A. Results of discontinued operations

	31.12.19		31.12.18	
	GTE	IMS	GTE	IMS
Revenue	35,262	335	39,025	-
Expenses	(30,746)	-	(35,653)	-
Results from operating activities	4,516	335	3,372	-
Income tax	(1,704)	-	(106)	-
Results from operating activities, net of tax	2,812	335	3,266	-
Gain on sale of Business	11,956	-	-	-
Income tax on gain on sale of Business	-	-	-	-
Profit from discontinued operations, net of tax	14,768	335	3,266	-

B. Assets and Liabilities from discontinued operations

	31.12.19		31.12.18
	GTE	IMS	IMS
Property, plant and equipment	6	-	-
Trade and other receivables	236	-	-
Other current assets	7	-	-
Cash and cash equivalents	211	-	-
Assets from discontinued operations	460	-	-
Provisions	8,308	48	63
Trade and other payables	298	-	-
Deferred income and other current liabilities	41	-	-
Liabilities from discontinued operations	8,647	48	63

The net assets (external) of the subsidiary NBMSIT, Sist. de Inf. e Tecnol., S.A. represent EUR 96 thousand of the total presented for the GTE Business.

C. Cash flows from discontinued operations

	31.12.19		31.12.18	
	GTE	IMS	GTE	IMS
Cash flows from operating activities	(1,322)	-	6,325	(816)
Cash flows from investing activities	(453)	-	27	-
Cash flows from financing activities	(32)	(15)	216	(23)
Net cash flows for the year from discontinued operations	(1,807)	(15)	6,568	(839)

D. Effect of disposal on the financial position of the Group

	31.12.19
Property, plant and equipment	(321)
(*) Intangible assets	(137)
Financial assets at fair value through profit or loss	(101)
Deferred tax assets	(2,163)
Inventories	-
Trade and other receivables	(8,853)
Accrued income	(3,878)
Income tax receivable	(409)
Derivative financial instruments	(7)
Other current assets	(174)
Cash and cash equivalents	(6,724)
Trade and other payables	10,056
Derivative financial instruments	2
Deferred income and other current liabilities	5,356
Net assets	(7,353)
Net assets attributable to NCI	(728)

(*) It does not include the Goodwill allocated to the GTE Business, in the amount of EUR 3,385 thousand - see note 8.

42. Contingencies

At 31 December 2019, the Group was part intervenient in the following legal process:

- Novabase S.G.P.S. has been served with a procedure from the Instituto de Gestão Financeira da Segurança Social regarding the alleged absence of payment of social security contributions of some months of 2015, in the amount of 25,758 Euros. The company has filed opposition regarding the allegations demonstrating compliance with applicable laws, payment of all amounts due and providing documents to that respect. The procedure is pending analysis and decision from the IGFSS.

43. Additional information required by law

In accordance with article 508-F of the Portuguese Commercial Companies Code, we hereby inform of the following:

- In addition to all operations described in the notes above, as well as in the Management's Report, there are no other operations considered relevant which are not already contained either in the consolidated statement of financial position or its notes;
- The total remuneration of the Statutory Auditor in 2019 was 110,350 Euros (2018: 110,350 Euros), which corresponds in full to the legal accounts audit services;
- Note 40 of the Notes to the Consolidated Financial Statements includes all the related parties' disclosures, in accordance with the International Financial Reporting Standards.

44. Events after the reporting period

In 2020, until the issuance of this report, have occurred the following material events:

- **Completion of the sale of the GTE Business**

On 9 January 2020, Novabase informed that completed the sale of the “Application and Data Analytics” business to the Government, Transport and Energy sectors to VINCI Energies Portugal, SGPS, SA, communicated to the market on 4 November 2019. The price paid on this date is still subject to positive or negative adjustments, resulting from the final calculation of the price clauses defined in the Contract. It is recalled that the agreed price was EUR 33 Million, to be paid on the date of completion of the transaction, subject to adjustments under the terms of the Contract, to which can be added a potential earn-out of EUR 3 Million, depending on the final performance of the GTE Business in 2019.

- **Start of trading in the context of the own shares buy-back programme**

On 14 January 2020, Novabase started trading in the context of the own shares buy-back program (“Buy-back Program”), pursuant to the terms and limitations set forth in the Extraordinary General Meeting of Shareholders of Novabase, that took place on the 26th of September 2019. Under the terms of this program, and until the issuance of this report, Novabase acquired 160,198 shares, holding, as a result of the transactions indicated herein, an aggregated total of 536,809 own shares, representing 1.71% of the share capital.

- **Novabase is included in PSI20 Index as of March, 23**

As part of the annual review of the national stock exchange index, Euronext - the Lisbon stock exchange's management entity, announced in the news of 11 March 2020, that Novabase will enter the main stock exchange index of Lisbon, PSI20, from 23 March. The PSI20 index is reviewed quarterly in June, September and December, with the full annual review in March.

- **Sale of subsidiary Collab, S.A.**

On 19 March 2020, Novabase and Netadmin System i Sverige AB entered into a purchase and sale agreement for all shares representing COLLAB – Sol. I. Com. e Colab., S.A. share capital, subsidiary held in 72.45% by Novabase Business Solutions, S.A. and in 17.75% by Fundo Capital Risco NB Capital. The completion of the purchase and sale also occurred on this date, with the delivery of the shares against payment of part of the price. The agreed initial purchase price is of EUR 6 million, to which a potential annual earn-out may be accreted, up to a maximum of three annual periods, depending on COLLAB's performance, as set out in the agreement. Of the agreed initial purchase price, EUR 4.5 Million have been paid on this date, and the remaining EUR 1.5 Million will be temporarily held by the purchaser. The agreed purchase price is also subject to positive or negative price adjustment clauses agreed between the parties. This sale falls within the Group focus on Next-Gen's segment growth, freeing resources for the execution of the goals of the Strategic Update 2019+. This subsidiary represented a EUR 6.5 Million Turnover in 2019, employing around 60 employees.

- **Covid-19**

On 11 March 2020, the World Health Organization declared the outbreak of the Covid-19 to be a pandemic situation, and on 18 March 2020 the Portuguese president declared a state of emergency in an attempt to contain the spread of Covid-19, the disease caused by the new coronavirus.

The Novabase Board of Directors is closely and permanently monitoring all developments related to the Covid-19 pandemic that arrive by the relevant international authorities, namely the World Health Organization and the European Centre for Disease Prevention and Control, as well as the Portuguese Health Management Authority (‘Direção Geral de Saúde’). In this context, a Contingency Coordinating Group (CCG) was created to manage this crisis, led by the CFO in alignment with the Management of each business, which has been working in a coordinated manner to ensure the necessary conditions to promptly address the recommendations and orders of the authorities. Having as absolute priority to assure the health and safety of all its personnel and their families, as well as to ensure its clients business operations continue to run without interruptions, the CCG has developed prevention/contingency plans based on concrete and concerted actions, covering the entire organisation, from the operational areas to central structures, across all the Group's businesses, namely the reinforcement of infrastructures to accommodate all employees to teleworking and the adaptation of all bureaucratic processes in order to eliminate or minimise travel.

As of the date of approval of these financial statements, the virus continues to spread in Portugal and overall in European countries. Novabase is not immune to the contingencies of the markets in which it operates, whether in delivering solutions to customers or in the talent market. Therefore, this situation and its evolution could have impacts on the future financial performance. At this stage, it is not possible to quantify the magnitude of the impacts, namely on the Group's activity and profitability during the 2020 financial year. However, Novabase is implementing all the measures that consider appropriate to minimise the potential negative impacts of this situation, in line with the recommendations of the competent authorities and in the best interest of all its stakeholders. The Board of Directors considers that, in view of the information currently available, the liquidity situation and the capital levels will be sufficient to continue Novabase's activity.

- **Resolution of the Board of Directors regarding the intention previously announced of presenting a shareholder remuneration proposal to the 2020 Annual General Meeting of Shareholders**

On 30 March 2020, Novabase has informed that, due to the current context of great uncertainty, its Board of Directors has resolved to revert its intention of proposing to the 2020 Annual General Meeting the distribution of approximately EUR 26.7 Million to the shareholders through the reduction of the share capital of Novabase in the same amount, as previously disclosed to the market on 20 February, having resolved within this context not to propose the aforementioned remuneration to the Annual General Meeting of 2020. This resolution is taken in the context of the current prevention measures that aim at ensuring the financial resilience of the company and its competitiveness during and after the Covid-19 pandemic. This payment would represent a remuneration of 85 Euro cents per share. The commitment assumed towards the shareholders, on 25 July 2019 upon disclosure of the Novabase Strategic Update 2019+, of distributing 1.5€/share in the period 2019-2023 remains, but will be postponed to a more suitable moment.

45. Note added for translation

These financial statements are a translation of financial statements originally issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.

II. REPORTS ISSUED BY THE SUPERVISORY BOARD AND BY THE CMVM REGISTERED AUDITOR

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REPORT AND OPINION OF THE AUDIT BOARD ON THE CONSOLIDATED FINANCIAL STATEMENTS OF NOVABASE – SOCIEDADE GESTORA DE PARTICIPAÇÕES SOCIAIS, S.A. FOR THE FINANCIAL YEAR ENDED ON DECEMBER 31, 2019

To the Shareholders

INTRODUCTION

In compliance with the Law and for the purposes of paragraph g) of article 420 of the Portuguese Companies Code and the Company's bylaws, the Audit Board hereby presents for appreciation its Report on the supervising activity that was carried out and issues its Opinion on the Management Report and Consolidated Financial Statements of Novabase – Sociedade Gestora de Participações Sociais, S.A. for the financial year ended on December 31, 2019.

ACTIVITIES CARRIED OUT

Supervision of the Company

During the financial year, the Audit Board regularly followed up the evolution of the company's business and the business of its subsidiaries, ensuring compliance with the law and the relevant bylaws, and monitored the Company's management, the efficiency of the risk management and internal control systems and the preparation and disclosure of financial information, as well as the regularity of the accounting records, the accuracy of the consolidated financial statements and the accounting policies and metrical valuation criteria adopted by the company, in order to verify that they lead to an adequate expression of its consolidated assets, results and cash flows.

During the year, the Audit Board met six times and the respective meetings were formally recorded in minutes. At these meetings there was an attendance of 100% by the Chairman and one of the members, and of 33.3% by the second member. In addition, the Audit Board took part in the meeting of the Board of Directors that approved the Management Report and the Consolidated Financial Statements for the 2019 financial year.

Within its duties, the Audit Board maintained the necessary contacts with the representatives of the Chartered Accountants Company and External Auditor, in order to monitor the planning and audit work that was carried out and to take note of the respective findings. The meetings held with the representatives of the Chartered Accountants Company and External Auditor enabled the Audit Board to reach a positive opinion on the integrity, rigor, skill, quality of work and objectivity with which they carried out their work, as well as the reliability of the financial information.

Relevant matters concerning auditing were also analyzed with the representatives of the Chartered Accountants Company and External Auditor; the Audit Board refers to their report on the consolidated financial statements for the description of the essential elements subject to analysis.

During the meetings of the Audit Board, the main risks affecting Novabase - Sociedade Gestora de Participações Sociais, S.A. and the companies included in the consolidation perimeter were analyzed and discussed with Management and the Statutory Auditor, based on presentations prepared by these corporate bodies. The Audit Board considers that it has obtained the explanations and clarifications considered relevant.

Whistleblowing procedures

We declare that during the financial year of 2019 we received, through the means defined for this purpose, a communication on irregularities, which was dealt with within the competent forums for this purpose. The process is in the final stage of resolution, and the Audit Board believes that there are no material implications relevant to Novabase's accounts.

Related Party Transactions

During the 2019 financial year, no related party transactions, in accordance with the regulation in force, were submitted to assessment by the Audit Board.

Independence of the External Auditor

The Audit Board received the statement by the Statutory Auditor confirming its independence in relation to the Company and communicating all relationships that may be perceived as a threat to its independence, as well as the safeguards that were implemented.

RESPONSIBILITY STATEMENT

Pursuant to paragraph 1/c) of article 245 of the Portuguese Securities Code, applicable by virtue of paragraph 1/a) of article 8 of the CMVM Regulation no. 5/2008 (Information Duties), we hereby declare that, to the best of our knowledge and belief, the aforementioned financial statements were prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union, giving a true and appropriate view of the assets and liabilities, financial position and results of Novabase - Sociedade Gestora de Participações Sociais, S.A. and the companies included in the consolidation perimeter, and the management report faithfully describes the evolution of the business, performance and position of Novabase - Sociedade Gestora de Participações Sociais, S.A. and the companies included in the consolidation perimeter, containing an adequate description of the main risks and uncertainties which they face.

OPINION

The Audit Board analyzed the Management Report and the Consolidated Financial Statements for the 2019 financial year, which comprise the Consolidated Statement on the Financial Position as of December 31, 2019, the Consolidated Income Statement, the Consolidated Statement on Comprehensive Income, the Consolidated Statement on the Changes to Equity and the Consolidated Statement on the Cash Flows, as well as the accompanying notes, which were prepared in accordance with the International Financial Reporting Standards, as adopted in the European Union.

Within its duties the Audit Board has analyzed the Legal Certification of Accounts and the Audit Report on the Consolidated Financial Information for the 2019 financial year, prepared by the Statutory Auditor, document which does not present any reservation and with which the Audit Board agrees.

The Audit Board further analyzed the Corporate Governance Report for the 2019 financial year, which is attached to the Management Report prepared by the Board of Directors in compliance with the CMVM Regulation no. 4/2013 (Corporate Governance of Listed Companies), and the Audit Board certifies that it includes all the elements referred to in article 245-A of the Portuguese Securities Code.

In this context, it is the Audit Board's opinion that:

- There are no objections to the approval of the Management Report for the 2019 financial year;
- There are no objections to the approval of the Consolidated Financial Statements for the 2019 financial year.

Lisbon, April 15, 2020

The Audit Board

Álvaro Nascimento – Chairman

Fátima Farinha – Member

Miguel Ribeiro Ferreira – Member

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STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of **Novabase, S.G.P.S., S.A.** (the Group), which comprise the consolidated statement of financial position as at 31 December 2019 (showing a total of 191,888 thousand euros and equity of 87,620 thousand euros, including non-controlling interests of 18,329 thousand euros and a net profit attributable to the shareholders of Novabase of 20,400 thousand euros), the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of **Novabase, S.G.P.S., S.A.** as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas the Portuguese Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section below. We are independent of the entities that comprise the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

As described in note 44 to the consolidated financial statements, in 11 March 2020 the pandemic resulting from the spread of the "Covid-19" was declared by the World Health Organization, which is a non-adjustable event. This situation and its evolution will probably have negative effects on the Group's activity and profitability during 2020, however at this date it's still not possible to measure it. The Board of Directors



considers that, in view of the information currently available, the liquidity situation and the capital levels will be sufficient to continue the operations of the Group. Our opinion is not modified with respect to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

The Risk

The revenue recognition policy regarding turnkey consulting projects, which represent a significant part of the Group's business, requires judgment as disclosed in note 4 (d) of the notes to the consolidated financial statements.

The recognition of such projects overtime in accordance with IFRS 15, as described in note 2.19 (b), involves a number of qualitative factors such as estimated billing, estimated costs, including contingency values for contractual risks, which justify the consideration of this issue as a relevant matter to the audit of the Group's consolidated financial statements as at 31 December 2019.

Our response to the identified risk

Our audit procedures included, among others, the following:

- We have analyzed the revenue recognition policy adopted by the Group with reference to the applicable accounting standards;
 - Evaluation of the design and implementation of the relevant controls, including application controls and general IT controls, related to the revenue recognition process;
 - We have critically analyzed the estimates and assumptions made by management, namely regarding estimated billing, estimated costs and contingencies;
 - Substantive analytical procedures and tests of detail regarding the accounting records in order to identify and test the risk of fraud and eventual override of controls implemented; and,
 - Review of the Group's disclosures over revenue recognition considering the applicable accounting standards.
-

Recoverability of goodwill

The Risk

As disclosed in note 8, as at 31 December 2019, the net book value of goodwill of Next-Gen and NeoTalent business units amounted to 11,501 thousand euros.

The determination of the recoverable value of these assets is subjective due to the uncertainty inherent to the financial projections and to the discount of future cash flows, since many key assumptions are based on management expectations, not observable in the market.

The Group performs, on an annual basis, goodwill impairment tests based on the discounted cash flows method, considering a 5-year business plan estimated by management, as mentioned in notes 2.7 (1), 4 (a) and 8.

The complexity and the inherent degree of judgment justify the consideration of this issue as a relevant matter to the audit of the Group's consolidated financial statements as at 31 December 2019.

Our response to the identified risk

Our audit procedures included, among others, the following:

- We have analyzed the budgeting procedures on which the projections are based, by comparing current performance with estimates made in prior periods, and the integrity of the discounted cash flow model;
 - We have compared the internal and external assumptions used and we have considered their reasonableness such as current business trends, market performance, inflation, projected economic growth and discount rates;
 - We have involved specialists in the measurement of the average cost of capital ratio; and,
 - Review of the Group's disclosure over recognition of deferred tax assets considering the applicable accounting standards.
-



Recoverability of deferred tax assets

The Risk

As disclosed in note 11, as at 31 December 2019, the amount of deferred tax assets was of 9,585 thousand euros, of which 8,068 thousand euros related to tax benefits arising from Research and Development projects presented under the SIFIDE incentive scheme.

The deferred tax assets recorded by management are based on its best estimate on the timing and future amounts required for its recovery, using assumptions that require judgment, as mentioned in notes 2.15 and 4 (c).

The level of uncertainty associated and the inherent degree of judgment justify the consideration of this issue as a relevant matter to the audit of the Group's consolidated financial statements as at 31 December 2019.

Our response to the identified risk

Our audit procedures included, among others, the following:

- We have analyzed the budgeting procedures on which the projections are based, by comparing current performance with estimates made in prior periods;
- We have analyzed the assumptions and methodology used by management to assess the recoverability of deferred tax assets, namely projections of taxable income; and,
- Review of the Group's disclosure over recognition of deferred tax assets considering the applicable accounting standards.



Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards, as adopted by the European Union;
- the preparation of the management report and the corporate governance report, in accordance with applicable laws;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and,
- assessing the Group's ability to continue as a going concern and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material

uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies' Code, as well as the verification that the non-financial information was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment of the Group, we have not identified any material misstatements.

On the Corporate Governance Report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Group to provide under article 245-A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of that article.



On the non-financial information defined in the article 508º-G of the Portuguese Companies' Code

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Group inform that the Group included in its management report the non-financial information defined in article 508-G of the Portuguese Companies' Code.

On the additional matters provided in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were first appointed as auditors of Novabase, S.G.P.S., S.A. in the shareholders general assembly held on 29 April 2015 for a first mandate from 2015 to 2017. We were appointed in the shareholders general assembly held on 10 May 2018 for a second mandate from 2018 to 2020;
- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the consolidated financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the Group's supervisory body on 15 April 2020; and,
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas' statutes, and we have remained independent of the Group in conducting the audit.

16 April 2020

SIGNED ON THE ORIGINAL

KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Paulo Alexandre Martins Quintas Paixão (ROC nr. 1427)

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III. SECURITIES ISSUED BY THE COMPANY AND OTHER GROUP COMPANIES, HELD BY BOARD MEMBERS

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**DETAIL ON SECURITIES ISSUED BY THE COMPANY AND OTHER GROUP COMPANIES, HELD BY BOARD MEMBERS OF
NOVABASE S.G.P.S.**

	Share Capital	Total Number of Shares / Quotas	Number of Shares / Quotas held by Board Members at 31.12.18	Transactions	Number of Shares / Quotas held by Board Members at 31.12.19	% held by Board Members at 31.12.19
Novabase S.G.P.S., S.A.	15,700,697 €	31,401,394	12,652,542	0	12,652,542	40.3%
HNB - S.G.P.S., S.A. (a)			10,501,589	0	10,501,589	33.4%
Pedro Miguel Quinteiro Marques de Carvalho			2,097,613	0	2,097,613	6.7%
Francisco Paulo Figueiredo Morais Antunes			30,335	0	30,335	0.1%
María del Carmen Gil Marín			23,001	0	23,001	0.1%
Luís Paulo Cardoso Salvado			1	0	1	0.0%
João Nuno da Silva Bento			1	0	1	0.0%
Álvaro José da Silva Ferreira			1	0	1	0.0%
José Afonso Oom Ferreira de Sousa			1	0	1	0.0%
Paulo Jorge de Barros Pires Trigo (b)			0	0	0	0.0%
Marta Isabel dos Reis da Graça Rodrigues do Nascimento			0	0	0	0.0%
NBASIT - Sist. Inf e Telecomunicações, S.A.	47,500,000 AOA	100,000	800	0	800	0.8%
Álvaro José da Silva Ferreira			400	0	400	0.4%
Luís Paulo Cardoso Salvado			200	0	200	0.2%
Francisco Paulo Figueiredo Morais Antunes			200	0	200	0.2%
CelFocus, S.A.	100,000 €	100,000	2	0	2	0.0%
José Afonso Oom Ferreira de Sousa			1	0	1	0.0%
Paulo Jorge de Barros Pires Trigo (b)			1	0	1	0.0%
FeedZai, S.A.	170,154 €	21,768,183	112,500	0	112,500	0.5%
Pedro Miguel Quinteiro Marques de Carvalho			112,500	0	112,500	0.5%

(a) José Afonso Oom Ferreira de Sousa, Luís Paulo Cardoso Salvado, Álvaro José da Silva Ferreira and João Nuno da Silva Bento are the only shareholders of HNB - S.G.P.S., S.A., where they hold management positions.

(b) Designated as a member of the board of directors of the Company as of 26 September 2019.

Novabase reports as directors the company HNB - S.G.P.S., S.A. and the members of the board of directors of the Company.

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STATEMENT OF COMPLIANCE

NOVABASE S.G.P.S., S.A.

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Statement of the Board of Directors
(Free translation from the original version in Portuguese)
SIGNED ON THE ORIGINAL

Pursuant to the terms of sub-paragraph c), paragraph 1 of article 245 of the Portuguese Securities Code, the members of the Board of Directors of Novabase, Sociedade Gestora de Participações Sociais, S.A., below identified declare, in the quality and scope of their duties as referred to therein, that, to the best of their knowledge and based on the information to which they had access within the Board of Directors:

(i) the information contained in the management report, annual accounts, Auditors' Report and all other accounting documentation required by law or regulation, regarding the year ended 31 December 2019, was prepared in compliance with the applicable accounting standards and gives a true and fair view of the assets and liabilities, financial position and results of Novabase S.G.P.S., S.A. and the companies included in the consolidation perimeter; and

(ii) the management report faithfully states the evolution of the businesses, performance and position of Novabase S.G.P.S., S.A. and the companies included in the consolidation perimeter, containing (namely) an accurate description of the main risks and uncertainties which they face.

Lisbon, 16 April 2020

Luís Paulo Cardoso Salvado
Chairman of the Board of Directors

João Nuno Bento
Executive member of the Board of Directors and CEO

Álvaro José da Silva Ferreira
Executive member of the Board of Directors and Value Portfolio COO

Francisco Paulo Figueiredo Morais Antunes
Executive member of the Board of Directors and CFO

María del Carmen Gil Marín
Executive member of the Board of Directors and Value Portfolio COO

Paulo Jorge de Barros Pires Trigo
Executive member of the Board of Directors and Next-Gen COO

José Afonso Oom Ferreira de Sousa
Non-Executive member of the Board of Directors

Pedro Miguel Quinteiro Marques de Carvalho
Non-Executive member of the Board of Directors

Marta Isabel dos Reis da Graça Rodrigues do Nascimento
Non-Executive member of the Board of Directors

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Statement by the members of the Audit Board under paragraph 1, c) of article 245 of the Portuguese Securities Code

Álvaro Nascimento, chairman of the Audit Board of Novabase S.G.P.S. S.A. declares that, to the best of his knowledge, the information contained in the management report, the annual accounts, the chartered accountant legal certification and all other financial statement documentation was drafted in accordance with the applicable accounting standards, give a true and appropriate view of the assets and liabilities, the financial position and the results of the issuer and, when applicable, of the companies included in the consolidation perimeter, and the management reports faithfully state the evolution of the businesses, performance and position of the issuer and, when applicable, of the companies included in the consolidation perimeter, containing a description of the main risks and uncertainties which they face.

Lisbon, April 15, 2020

Fátima Farinha, member of the Audit Board of Novabase S.G.P.S. S.A. declares that, to the best of her knowledge, the information contained in the management report, the annual accounts, the chartered accountant legal certification and all other financial statement documentation was drafted in accordance with the applicable accounting standards, give a true and appropriate view of the assets and liabilities, the financial position and the results of the issuer and, when applicable, of the companies included in the consolidation perimeter, and the management reports faithfully state the evolution of the businesses, performance and position of the issuer and, when applicable, of the companies included in the consolidation perimeter, containing a description of the main risks and uncertainties which they face.

Lisbon, April 15, 2020

Miguel Ribeiro Ferreira, member of the Audit Board of Novabase S.G.P.S. S.A. declares that, to the best of his knowledge, the information contained in the management report, the annual accounts, the chartered accountant legal certification and all other financial statement documentation was drafted in accordance with the applicable accounting standards, give a true and appropriate view of the assets and liabilities, the financial position and the results of the issuer and, when applicable, of the companies included in the consolidation perimeter, and the management reports faithfully state the evolution of the businesses, performance and position of the issuer and, when applicable, of the companies included in the consolidation perimeter, containing a description of the main risks and uncertainties which they face.

Lisbon, April 15, 2020

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