Nexi S.p.A.

Annual Financial Report

For the year ended December 31, 2018 in respect of
€2,200,000,000 Senior Secured Notes, consisting of:

€825,000,000 4 1/8% Senior Secured Notes due 2023
€1,375,000,000 Senior Secured Floating Rate Notes due 2023

16 April, 2019

Overview

Background

On May 18, 2018, Nexi Capital S.p.A. (the "Issuer") which was, at that time, a direct subsidiary of Nexi S.p.A. (the "Company"), issued €825,000,000 4⅛% Senior Secured Notes due 2023 (the "Fixed Rate Notes") and €1,375,000,000 Senior Secured Floating Rate Notes due 2023 (the "Floating Rate Notes" and, together with the Fixed Rate Notes, the "Public Notes"). On July 2, 2018, the Issuer issued additional €400,000,000 Senior Secured Floating Rate Notes due 2024 (the "Privately Placed Notes" and, together with the Public Notes, the "Notes"). The Notes are listed on the official list of the Luxembourg Stock Exchange (the "Exchange") and admitted for trading on the Euro MTF market thereof. The application for listing of the Public Notes was based on listing particulars (the "Public Notes Listing Particulars") dated May 17, 2018, which are available on the website of the Exchange at https://www.bourse.lu/security/XS1819648129/265822. The application for listing of the Privately Placed Notes was based on listing particulars (the "Private Notes Listing Particulars" and, together with the Public Notes Listing Particulars, the "Listing Particulars") dated July 2, 2018, which are available on the website of the Exchange at https://www.bourse.lu/security/XS1844176773/267554. The Public Notes were issued pursuant to an indenture dated May 18, 2018 (the "Public Notes Indenture"). The Privately Placed Notes were issued pursuant to an indenture dated July 2, 2018 (the "Private Notes Indenture" and, together with the Public Notes Indenture, the "Indentures").

With effect as of December 31, 2018, the Issuer merged into Nexi S.p.A. As a result of this merger, Nexi S.p.A. is now the successor issuer of the Notes.

Non-GAAP Financial Measures

In this Report, we present certain financial measures that are not recognised by IFRS or any other generally accepted accounting principles and that may not be permitted to appear on the face of the financial statements or notes thereto (our "non-GAAP measures"). The primary non-GAAP measures used in this Report include Normalised EBITDA and EBITDA including Initiatives (previously reported as "Adjusted EBITDA"). Each of the EBITDA-based measures presented in this Report is defined and calculated differently from the definition of "Consolidated Net Income" and "Consolidated EBITDA" presented in each of the Indentures. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortisation methods, historical cost and age of assets, financing and capital structures and taxation positions or regimes, we believe Normalised EBITDA and EBITDA including Initiatives can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe that our non-GAAP measures and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. Our non-GAAP measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to performance measures derived in accordance with IFRS or any other generally accepted accounting principles. Our non-GAAP measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. Because of these limitations, our non-GAAP measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our financial statements and using these non-GAAP measures only supplementally to evaluate our performance.

Definitions and Glossary

Capitalised terms not otherwise defined herein shall have the meanings assigned to such terms in the Listing Particulars. For a glossary of industry terms used in this Report, please refer to the Listing Particulars.

Industry and Market Data

For a discussion of the limitations applicable to the industry and market data included in this Report, please refer to the section entitled "Industry and Market Data" in the Listing Particulars.

Disclaimer

This Report is for informational purposes only and does not constitute an offer to sell or the solicitation of an offer to buy the Notes or any other security. This Report contains information that prior to its disclosure may have constituted inside information under European Union Regulation 596/2014 on market abuse. None of the Issuer or the Company makes any representation or warranty or other assurance, express or implied, that this Report or the information contained herein or the assumptions on which they are based are accurate, complete, adequate, fair, reasonable or up to date and they should not be relied upon as such. None of the Issuer or the Company accepts any liability for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on all or any part of this document and any liability is expressly disclaimed.

Financial statements

Attached below is the noteholder report, including the consolidated financial statements of Nexi S.p.A. and its subsidiaries.

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1 CERTAIN DEFINITIONS

"Advent"	Advent International Corporation and its affiliates and, where applicable, the funds and limited partnerships managed or advised by them
"Bain Capital"	Bain Capital Investors, LP and its affiliates and, where applicable, the funds and limited partnerships managed or advised by them
"Bassilichi Payments"	Bassilichi S.p.A. and its subsidiaries, merged into Nexi Payments with effect from 31 December 2018
"business unit"	means each of the business units specified in Nexi's Financial Statements: Merchant Services & Solutions, Cards & Digital Payments, Digital Banking Solutions and Other Services
"Cards & Digital Payments".......	The business unit referred to as "Cards & Digital Payments" in Nexi's Financial Statements
"Carige Acquiring" …	The merchant acquiring and POS businesses of Banca Carige S.p.A. acquired by Nexi in 2018
"Carve-out consolidated financial statements"	The special purpose consolidated financial statements that include the financial statements of Latino/Nexi S.p.A., Nexi Payments, Oasi, Help Line, Mercury Payment Services, DepoBank business unit and Bassilichi
"Clessidra SGR"	Clessidra SGR S.p.A. on behalf of the fund Clessidra Capital Partners 3
"DB Cards Acquiring"................	The merchant acquiring business acquired by Nexi Payments
"DEPObank"	DEPObank – Banca Depositaria Italiana S.p.A. (formerly Nexi S.p.A.)
"DEPObank business unit"	The group of assets, liabilities, revenue and costs related to DEPObank's non-regulated payment services, corporate centre resources and IMEL services contributed to Nexi Payments following completion of the Reorganization
"Digital Banking Solutions"........	The business unit referred to as "Digital Banking Solutions" in Nexi's Financial Statements
"Equinova"	Equinova UK Holdco Limited
"financial statements"..............	As the context requires, the financial statements of the Nexi Group
"Help Line"	Help Line S.p.A.
"Holdco" or "Mercury UK Holdco" or "Mercury UK"	Mercury UK Holdco Limited, the direct parent of the Company
"Mercury UK Group" or "Mercury UK Holdco Group"	Mercury UK Holdco and its subsidiaries.
"Holdco Annual Report"	Mercury UK Holdco Annual Report for the year ended 31 December 2018
"Indentures".............................	(i)The base indenture and the supplementary indenture entered into among, *inter alios*, Nexi S.p.A. (previously, Nexi Capital S.p.A.) and U.S. Bank Trustees Limited, in respect of the €825,000,000 4 1⁄8% Senior Secured Notes due 2023 and the €1,375,000,000 Senior Secured Floating Rate Notes due 2023 (both issued on 18 May 2018) and (ii) the indenture entered into among, inter alios, Nexi S.p.A.

	(previously, Nexi Capital S.p.A.) and U.S. Bank Trustees Limited, in respect of the €400,000,000 Senior Secured Floating Rate Notes due 2024 (issued on 2 July 2018)
"IMEL and PI"	Electronic Money Institution and Payment Institution
"Listing Particulars"	The listing particulars related to the Public Notes dated May 17, 2018, and the listing particulars related to the Privately Placed Notes dated July 2, 2018
"Merchant Services & Solutions"	The business unit referred to as "Merchant Services & Solutions" in Nexi's Financial Statements
"Mercury Payments"	Mercury Payments Services S.p.A.
"MPS Acquiring"	The merchant acquiring and POS businesses of Banca Monte dei Paschi di Siena S.p.A. acquired by Nexi Payments
"Nexi Capital"	Nexi Capital S.p.A., incorporated in 2018 and merged into Nexi with effect as of 31 December 2018
"Nexi Payments"	Nexi Payments S.p.A. (formerly CartaSi S.p.A.)
"Nexi"	Nexi S.p.A. (formerly Latino Italy S.p.A)
"Nexi Group" or "Group"	Collectively, Nexi, Nexi Payments, Mercury Payments, and Help Line
"Oasi"	Oasi Diagram S.p.A.
"Other Services"	The business unit referred to as "Other Services" in Nexi's Financial Statements
"Reorganization"	The reorganization of the Nexi Group which was completed on July 1, 2018, pursuant to which the regulated banking activities of the Group were spun off in favour of DEPObank with the objective of concentrating Nexi Group's operations on payment related services.
"Revolving Credit Facility"	The revolving credit facility established under the Revolving Credit Facility Agreement, for a principal amount of €325 million
"Revolving Credit Facility Agreement"	The super senior revolving credit facility agreement which was entered into on 4 May 2018 (and amended and restated on 18 May 2018) between, amongst others, Nexi Capital S.p.A., Nexi, the Agent (as defined therein), the Security Agent and the Arrangers (as defined therein)
"Security Agent"	U.S. Bank Trustees Limited, in its capacity as security agent for the secured creditors, the holders of the Notes, the trustee and the lenders under the Revolving Credit Facility
"Sponsors"	Collectively, Advent, Bain Capital and Clessidra
"Sponsors' HoldCos"	Mercury A Capital Limited, Mercury B Capital Limited and Mercury ABC Capital Limited
"Sponsors' NewCos"	Mercury (AI) S.à.r.l, Mercury (BC) S.à.r.l and Fides S.p.A.
"Sparkling 18" ………………………	Sparkling 18 S.r.l., the digital payments startup acquired by and merged into Nexi Payments with effect from 31 December 2018

2 GLOSSARY OF PAYMENT AND BANKING TERMS

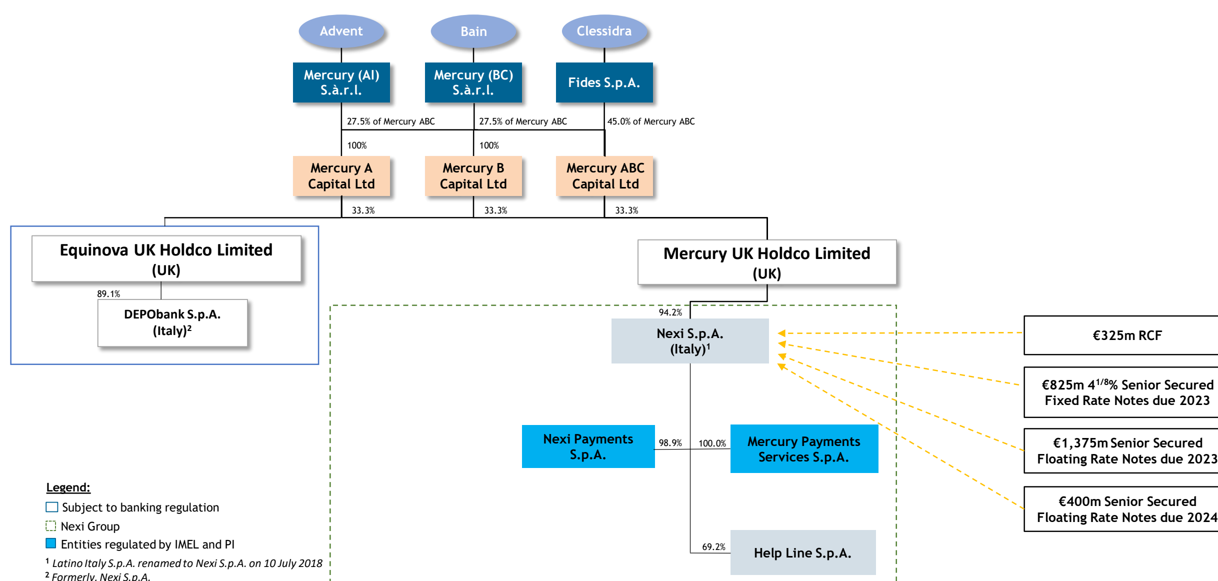
For a glossary of payment and banking terms used in this Annual Financial Report, please refer to the Listing Particulars.

3 GROUP STRUCTURE

The following chart presents Nexi Group's current corporate and financing structure, following the Reorganization and the sale of Bassilichi Payments' non-core subsidiaries and Oasi (refer to section 7 for more details).

With a view to streamline the group structure, with effect from 31 December 2018, Bassilichi Payments and Sparkling 18 merged into Nexi Payments S.p.A. On the same date, Nexi Capital S.p.A. merged into Nexi S.p.A. and became the successor issuer of the Notes.

As of the date of this Annual Financial Report and excluding the entities for which binding sale agreements are in place and other minor IFRS5-accounted subsidiaries, the Nexi Group comprises Nexi S.p.A., Nexi Payments S.p.A. (regulated IMEL), Mercury Payments S.p.A. (regulated PI), and Help Line S.p.A.



4 PRESENTATION OF FINANCIAL AND OTHER INFORMATION

4.1 Basis of preparation of the pro forma financial information

This Annual Financial Report presents managerial pro forma financial information of the Nexi Group, which has been extracted and aggregated from the audited carve-out consolidated financial statements and the underlying management accounts of the entities within the Nexi Group, as defined in the page entitled "Certain Definitions", for the year ended 31 December 2018.

The pro forma financial information presents the results of the Nexi Group as if all of the entities within the Nexi Group as at 31 December 2018 had been included within the Nexi Group from the beginning of the earliest reporting period presented (i.e. 1 January 2018). The pro forma financial information also reflects the current Nexi Group's structure and is presented to illustrate the estimated effects of the acquisition of MPS Acquiring, DB Cards Acquiring, Bassilichi Payments, Sparkling 18, and Carige Acquiring, as well as the disposal of Oasi and certain Bassilichi non-core operations (for which binding sale agreements are in place), on the Nexi Group's historical financial position and results of operations as if all such transactions had occurred on the first day of the periods presented. The unaudited pro forma financial information is presented for information purposes only and is not intended to represent or be indicative of the financial condition or results of operations that would have been reported had the transactions described above actually occurred during the periods and as at the dates presented, and the unaudited pro forma financial information does not purport to project our results of operations or financial condition for any future period. The unaudited pro forma financial information has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Directive or any generally accepted accounting standards. Neither the assumptions underlying the pro forma adjustments nor the resulting unaudited pro forma financial information have been audited or reviewed.

Unless otherwise indicated, the financial information for the year ended 31 December 2018 and 31 December 2017 presented in this Annual Financial Report has been prepared in accordance with IFRS as endorsed by the EU ("IFRS").

The Annual Financial Statements do not include all the information required in accordance with IFRS and should be read in conjunction with the Listing Particulars.

The financial information and various other numbers and percentages set forth in this Annual Financial Report are presented in euros, rounded to the nearest thousand, unless otherwise noted. Therefore, discrepancies in the tables between totals and the sums of the amounts listed may occur due to such rounding. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Nexi Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to our Financial Statements, are disclosed in the Listing Particulars. Since the date of the Private Notes Listing Particulars, there have been no material changes to these critical accounting judgments.

4.2 Non-IFRS financial information

This Annual Financial Report presents (i) certain financial measures that are not recognised by IFRS and that may not be permitted to appear on the face of IFRS compliant financial statements or footnotes thereto; (ii) certain key performance indicators and other non-financial operating data that is derived from management estimates and does not form part of the financial statements or the accounting records and (iii) certain data derived from the management accounts that has not been prepared in compliance with IFRS and differs in important respects from the financial statements.

For a discussion of further limitations that apply to the financial statements, please refer to the section entitled "Presentation of Financial and Other Information" in the Listing Particulars.

5 INDUSTRY RANKING AND OTHER DATA

For certain macroeconomic data please refer to the section entitled "Industry-Payments Industry Key Trends" in the Listing Particulars, based on data provided by the Bank of Italy, the International Monetary Fund, the Operation for Economic Co-operation and Development and other third-party sources. We have not independently verified such third-party data and make no representation as to the accuracy of such data.

For a discussion of the limitations applicable to the industry, ranking and other data included in this Annual Financial Report, please refer to the section entitled "Industry and Market Data" in the Listing Particulars.

6 FORWARD LOOKING STATEMENTS

This Annual Financial Report is provided pursuant to Section 4.09(a)(ii) of each of the Indentures. This Annual Financial Report contains forward-looking statements, including statements about market consolidation and our strategy, investment program, future operations, industry forecasts, expected acquisitions, transactions and investments, and target levels of leverage and indebtedness. Forward-looking statements provide our current expectations, intentions or forecasts of future events. Forward-looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not statements of historical fact are, or may be deemed to be, forward-looking statements.

Words or phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “ongoing”, “plan”, “potential”, “predict”, “project”, “seek”, “target” or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Our actual results could differ materially from those expected in our forward-looking statements for many reasons, including the factors described in “Risk Factors” below. In addition, even if our actual results are consistent with the forward-looking statements contained in this Annual Financial Report, those results or developments may not be indicative of results or developments in subsequent periods. For example, factors that could cause our actual results to vary from projected future results include, but are not limited to, the risks described under the section entitled “Risk Factors” in this Annual Financial Report.

The risks described in this Annual Financial Report should not be construed as exhaustive. Other sections of the Listing Particulars, including the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Industry” and “Business” as well as Annual and annual financial reports released from time to time may describe additional risk factors that could adversely affect our financial position, results of operations and liquidity. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. You should review the discussions in the Listing Particulars as well as future Annual and annual financial reports of the Issuer for a more complete view of the factors that could affect our future performance and the industry in which we operate.

Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only as at the date of the particular statement and we do not intend, and do not assume any obligation, to update forward-looking statements set out in this Annual Financial Report. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this section and contained elsewhere in this Annual Financial Report or the Listing Particulars, including those described under the section entitled “Risk Factors” in this Annual Financial Report. In light of these risks, our results could differ materially from the forward-looking statements contained in this Annual Financial Report.

7 OVERVIEW OF RESULTS

7.1 Summary Overview of Results

The Nexi Group

The current structure of the Nexi Group is the result of the corporate Reorganization of the HoldCo's group, occurred in the course of 2018, which resulted in the separation of the digital payments and ancillary businesses from the regulated banking operations ("DEPObank"). To support the Reorganization and refinance outstanding debt at the Holdco level, Nexi Capital (which merged into Nexi S.p.A. as at 31 December 2018) raised €2.6 billion, by issuing €2.2 billion in aggregate principal amount of public Notes and €400 million aggregate principal amount of Privately Placed Notes.

On 28 September 2018, Nexi Payments closed the acquisition of Banca Carige's merchant acquiring book.

After the reporting date of this Annual Financial Report, Nexi agreed to sell 100% of the share capital of Oasi.

The figures for the fiscal years ended 31 December 2018 and 2017 commented in the below sections "Financial performance" and "Non-Financial KPIs" are based on the Nexi Group's same current perimeter, on an aggregated basis, and represent like-for-like trends occurred during the reference periods. As such, the below-commented financial results for the year ended 31 December 2018 differ from the pro forma results for the same period illustrated on section 7.3.2.

Financial performance

Nexi Group operating revenue and Normalised EBITDA, on an aggregated basis, increased for the year ended 31 December 2018 compared to the year ended 31 December 2017.

Operating revenue increased by €54.0 million, or 6.2%, to €920.2 million for the year ended 31 December 2018 compared to €866.2 million for the year ended 31 December 2017, primarily due to higher transaction volumes in both the issuing and acquiring businesses.

Normalised EBITDA increased by €54.8 million, or 14.9%, to €423.6 million for the year ended 31 December 2018 compared to €368.8 million for the year ended 31 December 2017, as a result of a consistent revenue growth, generated in all the customer-facing business units.

Non-Financial KPIs

The value and number of managed transactions grew in both Merchant Services & Solutions and Cards & Digital Payments (see table 7.6 *"Non-financial key performance indicators"* for more information).

As of 31 December 2018, the total number of managed cards exceeded 41 million, of which ca. 11.6 million charge and credit cards, 6.7 million prepaid cards and 23 million debit cards on national and international circuits.

The number of managed POS and ATM terminals were approximately 1.4 million and 13,400, respectively.

In the course of 2018 the Digital Banking Solutions unit managed 936 million clearing transactions and over 3 billion e-banking transactions (+9.2% compared to the previous year). At the end of the year it managed ca. 420,000 e-banking licenses.

7.2 Nexi Group Summary Financial Information

The following table shows operating revenue and EBITDA for the years ended 31 December 2018 and 2017 on an aggregated basis.

	Year ended 31 December		
	2018	2017	*% change*
	(*in € millions*)		
Operating revenue [(1)]	**920.2**	**866.2**	***6.2%***
Merchant Services & Solutions [(2)]	448.0	415.4	*7.8%*
Cards & Digital Payments	360.6	342.1	*5.4%*
Digital Banking Solutions	111.5	108.6	*2.7%*
Normalised EBITDA [(1)(3)]	**423.6**	**368.8**	***14.9%***

(1) Operating revenue and normalised EBITDA are extracted and aggregated from the management accounts of the Nexi Group, Carige Acquiring, and net consolidation adjustments.

(2) Includes "Other Services", such as Helpline.

(3) Normalised EBITDA is defined as operating profit for the period after adding back the charges for depreciation, amortisation and impairment losses on property, equipment, investment property and intangible assets, and net non-recurring or extraordinary items. For more information, see "*Presentation of Financial and Other Information—Non-GAAP Financial Information*" in the Listing Particulars.

7.3 Nexi Group

7.3.1 Overview of the results of operations

The following table provides an overview of the results of operations of the Nexi Group for the years ended 31 December 2018 and 2017 on an aggregated basis.

	Year ended 31 December	
	2018	2017
	(*in € millions*)	
Merchant Services & Solutions [(1)]	448.0	415.4
Cards & Digital Payments	360.6	342.1
Digital Banking Solutions	111.5	108.6
Operating revenue	**920.2**	**866.2**
Payroll and related costs	(147.2)	(137.2)
Other administrative expenses	(346.3)	(351.3)
Administrative expenses	**(493.5)**	**(488.6)**
Other net operating income	4.1	(0.8)
Net accruals to provisions for risks and charges	(7.2)	(8.0)
Operating costs (before depreciation and amortisation)	**(496.5)**	**(497.4)**
Normalised EBITDA[(2)]	**423.6**	**368.8**

(1) Includes "Other Services", such as Helpline

(2) Normalised EBITDA is defined in section 7.2, note (3).

7.3.2 Pro forma results for the year ended 31 December 2018

The following table provides financial information on the results of operations of the Nexi Group for the year ended 31 December 2018 on a pro-forma basis, prepared in accordance with CONSOB Communication no. DEM/1052803 of 5 July 2001 to illustrate the expected effects on the Group's 2018 financial statements of: i) acquisitions and disposals closed in 2018 and 2019 or for which binding agreements are in place, ii) the Reorganization (including the issuance of the Notes) and iii) certain agreements with DEPObank, as if they had occurred on the first day of the reference period (i.e. 1 January 2018).

	Year 2018
	(€ millions)
Merchant Services & Solutions [1]	448.0
Cards & Digital Payments	360.6
Digital Banking Solutions	121.9
Operating revenue	**930.6**
Payroll and related costs	(149.9)
Other administration costs	(353.5)
Administrative expense	**(503.4)**
Other net operating income	4.1
Net accruals to provisions for risks and charges	(7.2)
Operating costs (before depreciation and amortisation)	**(506.4)**
EBITDA	**424.1**
Depreciation and amortisation (included in operating profit)	(74.8)
Operating profit	**349.3**
Depreciation and amortisation on customer contracts	(40.2)
Profit from assets for sale and discontinued operations	0.3
Interest expenses on net debt	(108.5)
Non-recurring / extraordinary items	(130.6)
Pre-tax profit	**70.4**
Income taxes	(49.0)
Post-tax profit	**21.5**
Profit for the period attributable to non-controlling interests	(1.5)
Profit for the period attributable to the owners of the parent	**20.0**

(1) Includes "Other Services", such as Helpline.

7.4 Nexi Group Summary Pro Forma Financial Information: EBITDA reconciliation

The following table shows the pro forma EBITDA reconciliations of the Nexi Group for the year ended 31 December 2018:

	Year ended 31 December 2018
	(in € millions)
Pro forma profit for the period attributable to the owners of the parent	**20.0**
Pro forma profit for the period attributable to non-controlling interests	1.5
Income taxes	49.0
Profit from assets for sale and discontinued operations	(0.3)
Interest expenses on net debt	108.5
Non-recurring / extraordinary items	130.6
Depreciation, amortisation and impairment losses on customer contracts	40.2
Pro forma operating profit	**349.3**
Depreciation, amortisation and impairment losses on property, equipment, investment property and intangible assets (included in operating profit)............	74.8
Pro forma normalised EBITDA	**424.1**

Non-recurring/extraordinary items in the year ended 31 December 2018 (€130.6 million) mainly consisted of one-off projects costs for the Nexi Group's transformation program (€37.9 million), HR restructuring (€20.6 million), and other charges mainly arising from the Reorganization and M&A transactions.

7.5 Other Financial and Operating Information - Nexi Group

7.5.1 Other performance indicators

	Ref	**Twelve months ended 31 December 2018**
		(*in € millions*)
Pro forma operating revenue		930.6
Pro forma normalised EBITDA [(1)]	*7.5.2*	424.1
Pro forma normalised EBITDA margin [(2)]		45.6%
Pro forma EBITDA improvements from Initiatives	*7.5.2*	94.9
Ratio of pro forma EBITDA improvements from Initiatives to pro forma normalised EBITDA........		0.22x
Pro forma EBITDA including Initiatives [(1)]	*7.5.2*	519.0
Pro forma EBITDA margin including Initiatives [(2)]		54.4%
Pro forma profit for the period attributable to the owners of the parent....................................		20.0
Net debt [(3)]		2,564
Pro forma cash interest expense [(4)]		(108.5)
Ratio of net debt to pro forma EBITDA including Initiatives		4.9x
Ratio of pro forma EBITDA including Initiatives to pro forma cash interest expense		4.8x

(1) Set forth below are the definitions of the pro forma normalised EBITDA-based measures used in this Annual Financial Report:

- "Pro forma normalised EBITDA" is defined as pro forma operating profit for the period after adding back the charges for depreciation, amortisation and impairment losses on property, equipment, investment property and intangible assets, and net non-recurring or extraordinary items.

- "Pro forma EBITDA including Initiatives" is defined as pro forma normalised EBITDA plus the run-rate increase in pro forma normalised EBITDA from the "Initiatives" as set forth in section 7.5.2.

For a reconciliation of pro forma normalised EBITDA to pro forma EBITDA including Initiatives, see sections 7.5.2. Management believe that these EBITDA-based measures are useful to investors in evaluating operating performance and the ability of the Nexi Group to incur and service its indebtedness. These non-IFRS measures are not indicators of performance recognised under IFRS. These non-IFRS measures are not necessarily comparable to the performance figures published by other companies. Caution should be exercised in comparing these non-IFRS measures as reported here to the non-IFRS measures of other companies. For more information, see "*Presentation of Financial and Other Information—Non-GAAP Financial Information*" in the Listing Particulars.

(2) Pro forma normalised EBITDA margin represents pro forma normalised EBITDA divided by pro forma operating revenue. Pro forma EBITDA margin including Initiatives represents pro forma EBITDA with Initatives divided by "pro forma operating revenue with Initiatives", defined as pro forma operating revenue plus the potential impact that such Initiatives (Innovation and CVM Initiatives-related, as detailed below) may have on pro forma operating revenue.

(3) Net debt represents the combined gross debt of Nexi S.p.A. (as successor to Nexi Capital) and Bassilichi Payments (merged with and into Nexi Payments with effect as at December 31, 2018), minus cash and cash equivalents.

(4) Represents the estimated cash interest expense on Nexi S.p.A. debt and Bassilichi Payments debt on a pro forma basis for the period ended 31 December 2018.

7.5.2 Reconciliation of pro forma normalised EBITDA to pro forma EBITDA with Initiatives

	Twelve months ended 31 December 2018 (*in € millions*)
Pro forma normalised EBITDA	**424.1**
Cost savings[A]	35.6
Post-merger synergies[B]	35.8
Innovation and CVM initiatives[C]	23.5
Pro forma EBITDA with Initiatives	**519.0**

(A) Represents the estimated run-rate increase in Normalised EBITDA that we believe is achievable within one to three years following the implementation of the measures set forth below, which aim to further improve our operational efficiency and each of which relates to steps and actions that have been taken or have been identified:

i. *Purchasing*: gives effect to the run-rate impact of cost-cutting initiatives targeting our production costs and general and administrative expenses, which we launched in 2017 and are currently outperforming the targets we had set. We also give effect to the estimated run-rate impact of similar initiatives that we launched in the first quarter of 2018.
ii. *Human Resources*: gives effect to the run-rate impact of headcount rationalizations we contractually agreed in 2017, some of which become effective after the expiration of a transitional period, such that the full run-rate impact is expected to be realized by 2020.
iii. *IT Processing & Running*: gives effect to the run-rate impact of the successful renegotiation of our processing arrangements with key suppliers on more favorable terms, which we recently agreed pursuant to binding contracts. In addition, gives effect to the estimated run-rate impact of additional savings on IT operating costs, which we have identified and which were included in our management forecast for 2018.

iv. *IT Strategy*: gives effect to estimated cost savings to be realized from a renegotiation of our arrangements with certain key suppliers, certain of which have been agreed pursuant to definitive agreements, and our IT costs savings initiatives relating to our IT infrastructure, ATMs, our CBI Gateway infrastructure, our software and our licensing activities.

v. *Operations*: gives effect to estimated cost savings from other initiatives targeting our operational efficiency, including, among other things, measures aimed at the reduction of our shipping costs, the streamlining of our production, the improvement of our fraud management and a reduction in maintenance interventions. Launched in 2017, these initiatives fully achieved their targets for the fiscal year 2017 and are expected to generate additional run-rate savings, beyond the current levels, within the next few years.

vi. *Customer Contact Center*: gives effect to the estimated cost-savings from initiatives targeting operational excellence at our customer contact center, including providing online Q&As as alternatives to reduce the number of calls, operator trainings to increase the rate of first contact resolutions and digital care. Launched in 2017, these initiatives fully achieved their targets for the fiscal year 2017 and are expected to deliver additional run-rate savings over the next one to two years.

(B) Represents the estimated run-rate increase in Normalised EBITDA that we believe is achievable within one to three years following the implementation of the measures set forth below, which seek to achieve synergies from the integration of our recent acquisitions:

i. *Bassilichi Payments*: gives effect to (i) expected savings in general and administrative expenses from, among other things, the renegotiation of contracts, elimination of indemnities in favor of Bassilichi's board of directors and centralization of services and (ii) the run-rate impact of procurement savings generated by initiatives that have already launched and, in part, completed.

ii. *Mercury Payments*: gives effect to the expected run-rate impact of cost-synergies in our operations and the integration of Mercury Payments' central functions into our own, which we believe we can realize by the end of 2019.

iii. *IT Strategy (M&A)*: gives effect to the expected run-rate impact of cost-synergies from the integration of the IT platforms, technology and corporate systems of Bassilichi and Mercury Payments with Nexi's.

We estimate that we will incur approximately €20.0 million in non-recurring restructuring and integration expenses in the next one to three years to achieve the post-merger synergies related to Bassilichi Payments. We believe we will incur only limited amounts of non-recurring expenses to achieve the post-merger synergies related to Mercury Payments. With respect to our M&A related IT strategy, we expect to incur predominantly capital expenditures.

(C) Represents the estimated run-rate increase in Normalised EBITDA that we believe is achievable within one to three years following the implementation of the initiatives set forth below, which target untapped potential in the areas of innovation and customer value management:

i. *Innovation bundle:* gives effect to the expected run-rate impact from the launch of a new VAS/innovation bundle offering, which was defined in 2017 and launched in 2018, and the expansion of the services provided under two existing customer contracts. It was estimated on a run-rate basis, giving effect to contracts already signed.

ii. *E-Commerce:* gives effect to the expected run-rate impact of the commercialization of a state-of-the-art eCommerce solution launched in the fourth quarter of 2017. It was estimated on a run-rate basis, giving effect to re-pricings that have already been agreed.

iii. *Apple Pay*: gives effect to the expected run-rate impact of the launch of our Apple Pay and Samsung Pay solutions, which were gradually implemented over the course of 2018, with the run-rate impact expected to materialize starting in 2019. It was estimated on the basis of contracts that have already been signed with client banks.

iv. *Customer Value Management:* gives effect to the expected run-rate impact of the acquisition of Carige Acquiring and CVM initiatives with respect to both our existing customer base and our recently acquired merchant books, also in relation to upgrades required to fully comply with Payment Card Industry Data Security Standards ("PCI DSS"). It was estimated on the basis of the CVM initiatives that were already launched in the fourth quarter of 2017 or first quarter of 2018 or were included in our management forecast for 2018. We expect that the full run-rate impact from these initiatives will materialize starting in 2019.

v. *International Debit:* gives effect to the expected run-rate impact of new product launches in the debit cards segment to complement the traditional, domestic debit card products currently available in the Italian market. It was estimated on the basis of contracts that have already been signed with client banks.

vi. *ACH Instant Payments:* gives effect to the expected run-rate impact of ACH Instant Payments, which is a product that is already developed. It was estimated on the basis of two contracts that have already been signed.

vii. *PSD2 Gateway*: gives effect to the minimum guaranteed payment we are entitled to pursuant to our exclusive right to develop the PSD2 Gateway, which was awarded to us by the CBI Consortium (the consortium that manages the CBI Gateway) following a competitive tender. We believe it reflects a conservative business case in terms of Normalised EBITDA growth.

We believe that the large majority of product development and CVM costs related to the implementation of the innovation and CVM initiatives set forth above have already been incurred in the year ended December 31, 2017. As a result, we do not currently expect to incur a material amount of additional costs in the next one to three years to achieve the benefit from these initiatives.

The run-rate increases in EBITDA from the Initiatives described in footnotes (A) through (C) above are based upon forecasts and estimates and are in part based upon historical information of acquired entities which cannot be independently verified by our management. Our estimates of cost savings, post-merger synergies and innovation and CVM initiatives are based upon a number of expectations and assumptions, which may prove to be incorrect. As such, although we believe that we will be able to realize the earnings from the described initiatives, our actual results of these initiatives may differ and any anticipated cost savings, synergies and run-rate revenue uplifts may not be achieved to the extent and within the time frame anticipated, if at all, and we may be required to expend more funds in respect of these initiatives than we currently anticipate. See “Risk Factors—Risks Related to Our Business—Our selective acquisition strategy exposes us to risks, including the risk that we may not be able to successfully integrate acquired businesses” and “Risk Factors—Risks Related to the Transactions,” in the Listing Particulars.

The financial information presented in this Annual Financial Report has been formulated subject to significant assumptions and limitations and may not reflect what our actual results of operations and financial condition would have been had the transactions accounted for therein occurred as of and for the periods presented, and such financial information may not be indicative of our future operating performance.

7.5.3 Cash and other sources of funding

The following table provides an overview of the main sources of funding potentially available to Nexi S.p.A., as the successor entity to Nexi Capital S.p.A. following the merger effective as at December 31, 2018.

Dividends from Nexi Payments and Mercury Payments, along with drawings on the Revolving Credit Facility, are intended to be Nexi S.p.A.'s principal source of liquidity and thus a key determinant of the Nexi Group's ability to pay cash interest on the Notes:

	31 December 2018
	(*in € millions*)
Cash and other available sources of funding	**365.7**
thereof: Revolving Credit Facility[(A)]	*325.0*
thereof: cash and cash equivalents[(B)]	*40.7*

(A) Represents amounts available for drawing under the Revolving Credit Facility.

(B) Reflects the cash available within the Nexi Group on the reporting date.

As detailed in the Listing Particulars, Nexi S.p.A. distributed available reserves to its shareholders following the offering of the Notes. The main component, payable to Holdco in its capacity as its major shareholder, was set off against any loans under which the proceeds of the Notes and the €0.4 billion Privately Placed Notes were passed on to Holdco, while any payments to minority interests in Nexi S.p.A. capital (other than Holdco) was settled in cash.

As at February 28 2019, following the closing of the Oasi disposal, the balance of cash and cash equivalents amounted to €165.7 million. Such amount does not include the effects of the dividend distribution resolved by the shareholders' meetings of Nexi Payments and Mercury Payment Services for the year ended December 31, 2018, equal to ca. €66 million and €64.5 million respectively.

7.6 Non-financial key performance indicators

The following table provides an overview of the non-financial key performance indicators for the Nexi Group as of and for year ended 31 December 2018 and 31 December 2017. Investors should read the following presentation in conjunction with the section entitled *"Management's discussion and analysis of financial condition and results of operations"* in the Listing Particulars.

The figures presented below aggregate the number and value of transactions under the licensing, servicing and direct issuing and acquiring models.

	For the year ended 31 December	
	2018	**2017**
Number of managed transactions (in millions)	5,553	4,990
Issuing	*2,357*	*2,135*
Acquiring	*3,196*	*2,855*
Value of card transactions (€ millions)	445,848	419,250
Issuing	*196,771*	*186,107*
Acquiring	*249,077*	*233,143*

7.7 Key Subsequent Events

On January 22, Nexi announced the signing of an agreement to sell 100% of capital of Oasi for a total consideration of €151 million (Enterprise Value, as adjusted for the company's net financial position). The closing occurred on February 25.

On the shareholders' meeting held on 13 February 2019, Nexi S.p.A. has appointed Marinella Soldi and Luisa Torchia, as new members of the Board of Directors. At the same meeting, the shareholders also (i) nominated the members of the Board of Statutory Auditors, appointing Pietro Alonzo as Chairman, Marco Giuseppe Zanobio as Standing Auditor, and Tommaso Ghelfi and Andrea Carlo Zonca as Alternate Auditors and (ii) appointed PricewaterhouseCoopers S.p.A. as new external auditor of the company starting from the current fiscal year. See February 15 2019 Press Release for further information.

On the same date, Nexi shareholders and Board of Directors approved the commencement of a process leading to a list of the ordinary shares of Nexi S.p.A. ("Mercato Telematico Azionario" of Borsa Italiana) and a potential capital increase to be carried out in the context of the listing.

Furthermore, the Board of Directors approved the 2019-2023 Business Plan (the "Plan"), confirming Nexi's investment strategy to strengthen its role as the leading Italian PayTech in the development of digital payments in partnership with banks. In the context of the Plan, Nexi aims to achieve the following targets: i) Net Operating Revenues: Medium term Net Operating Revenues CAGR of 5-7%, with 2019 growth targeted to be in the lower end of this range; ii) Normalised EBITDA: Medium-term EBITDA CAGR of 13-16%, with 2019 growth targeted to be in the upper end, also thanks to continuous focus on driving operating efficiencies; iii) Capital Expenditure: Total capital expenditure (including ordinary capex and transformation capex) is targeted between 16-17% of total Net Operating Revenues for 2019. Ordinary capex targeted at c. 8-10% of total Net Operating Revenues over the long term with total capex trending towards this level over the medium to long term (see March 1 2019 Press Release for further information).

In a March 18 2019 Press Release, Nexi announced that it had filed an application with Borsa Italiana for the admission to listing of its ordinary shares on the Mercato Telematico Azionario. In particular, the free float required for the purposes of the listing will be realized through a private placement (the "Offering") reserved for qualified investors in Italy and institutional investors abroad pursuant to Regulation S of the United States Securities Act of 1933, as subsequently amended (the "Securities Act"), and, in the United States of America, limited to "Qualified Institutional Buyers" ("QIBs") pursuant to Rule 144A of the Securities Act, with the exclusion of those countries where the Offering is not permitted without specific authorization of the relevant authorities, in accordance with applicable laws or by way of exception to such provisions.

Consob approved the Registration Document, the Securities Note and the Summary Note (collectively, the "Prospectus") relating to the listing on March 28. Trading of the Shares on the MTA commenced on April 16.

The offer price was set at Euro 9.00 per Share (the "Offer Price"). At such price level, the capitalization of Nexi amounts to Euro 5.7 billion including the Capital Increase amounting to Euro 700 million. The Enterprise Value is equal to Euro 7.3 billion.

The free float of Nexi shares will be equal to 35.6% of the share capital, which could be increased up to 40.9% following the possible exercise of Greenshoe Option, with total proceeds of approximately Euro 2,011 million - net of any exercise of the Greenshoe Option.

The Offering comprised 223,405,054 Shares, of which: 125,000,000 Shares offered by Mercury UK Holdco Ltd ("Mercury UK"); 20,627,277 Shares offered by Banco BPM S.p.A., Banca Popolare di Sondrio S.C.p.A., Banca di Cividale S.C.p.A., Credito Valtellinese S.p.A. and Iccrea Banca S.p.A.; and 77,777,777 Shares deriving from a capital increase by Nexi, excluding option rights.

The net proceeds of the capital increase, amounting to Euro 684.1 million, will be used, together with the funds deriving from the new loan agreement available following the completion of the Offer (the "Loan Agreement"), for the purpose,

respectively, of (i) reducing the Group's financial debt and (ii) refinancing part of the debt itself through partial repayment of the bonds issued by the Company.

The selling shareholder Mercury UK has granted the Managers in the Offering an option, exercisable by Credit Suisse Securities (Europe) Limited or one of its affiliates, as stabilization manager (the “Over-allotment Option) for the purchase at the Offer Price of a maximum of 33,510,758 Shares, corresponding to 15% of the Shares in the Offering.

Following the Offering, Mercury UK will hold approximately 62.6% of the total share capital (or 57.3% in the event of full exercise of the Greenshoe Option).

No other events took place after the reporting period that would have had a significant impact on the Nexi Group that would have required adjustments to the financial statements captions. Pending corporate transactions are expected to close in accordance with the financial terms accounted for in the present reporting.

8 OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of financial condition and results of operations of the Nexi Group are based on aggregated financial data for the years ended 31 December 2017 and 2018, which is extracted from the audited carve-out consolidated financial statements of Nexi S.p.A., prepared to illustrate the effects on the Group's historical financial statements of the acquisitions completed over the period, as if they had occurred on January 1, 2017).

The carve-out consolidated financial statements for the year ended 31 December 2017 and the year ended 31 December 2018 in the table in section 8.1.1 are not comparable due to the significant changes to the perimeter of the Nexi Group in 2018. For more information relating to the Reorganization see the Listing Particulars. The financial performance of the Nexi Group should not be judged based on the table in section 8.1.1. due to the lack of comparability between the results.

The table in section 8.1.2 provides a reconciliation of the Nexi Group's management accounts in order to improve comparability of results for the year ended 31 December 2017 and the year ended 31 December 2018.

8.1 Results of Operations – Nexi Group

8.1.1 Nexi Group financial statements

	Year ended 31 December	
	2018	**2017**
	(*in € millions*)	
Fee and commission income and fees for services	1,575.9	1,417.0
Fee and commission expense and cost of services	(620.9)	(582.5)
Net fee and commission income	**955.0**	**834.5**
Interest and similar income	56.1	22.1
Interest and similar charges	(99.1)	(37.7)
Net interest income	**(43.0)**	**(15.6)**
Net trading/hedging income (expense)	(2.3)	(0.5)
Dividends and gains/losses on the sale of financial assets at fair value through OCI	(5.2)	0.3
Total income	**904.5**	**818.7**
Personnel expenses	(178.8)	(183.6)
Other administrative expenses	(458.4)	(427.0)
Total administrative expenses	**(637.3)**	**(610.6)**
Other net operating income/(expense)	4.1	(0.8)
Impairment losses on financial assets and net accruals for risk and charges	(35.4)	(2.7)
Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets	(114.9)	(88.6)
Operating profit	**121.1**	**116.1**
Net gains of investments	20.5	2.3
Pre-tax profits from continuing operations	**141.6**	**118.4**
Income taxes	(66.7)	(46.5)
Post-tax profit (loss) from discontinued operations	(6.1)	0.2
Profit for the period	**68.7**	**72.1**
Profit for the period attributable to non-controlling interests	(1.5)	1.0
Profit for the period attributable to the owners of the parent	**67.2**	**73.1**

8.1.2 Nexi Group: Reconciliation of consolidated financial statements to management accounts

We have presented in this Annual Financial Report certain data extracted from the Nexi Group's carve-out consolidated financial statements and business unit management accounts.

The management accounts are prepared on an aggregated basis and differ in important ways from the Nexi Group's consolidated financial statements presented in accordance with IFRS. In particular, the management accounts have been compiled starting from the financial statements of the companies or business lines acquired or from the consolidated financial statements of their respective parent companies. These data have been added together and then added to the data contained in the carve-out Financial Statements without further processing or pro-forma adjustment and are therefore arithmetic sums. Such data do not represent the results that would have been achieved if the acquisitions had actually been made by Nexi in the period presented.

The consolidated financial statements present the revenues and costs of certain activities not core to the operations of a financial institution under the line items other net operating expenses/income, as part of operating costs.

EBITDA in the Nexi Group's management accounts comprises the net of operating revenues and operating costs (before depreciation and amortisation). Adding the line items depreciation, amortisation and impairment losses on property, equipment, investment property and intangible assets, net gains on equity investments, non-recurring/extraordinary operating costs/income, post-tax profit from discontinued operations, income taxes and profit for the period attributable to non-controlling interests reconciles EBITDA in the Nexi Group's management accounts to profit for the period attributable to the owners of the parent in the consolidated financial statements.

The line items presented in the Nexi Group's management accounts are not recognised by IFRS. Different companies and analysts may calculate these non-IFRS measures differently, so making comparisons among companies on this basis should be done very carefully. These non-IFRS measures have limitations as analytical tools, are not measures of performance or financial condition under IFRS and should not be considered in isolation or construed as substitutes for operating profit or net profit as an indicator of our operations in accordance with IFRS.

8.1.3 Nexi Group: Management accounts

This financial information for the periods ended 31 December 2018 and 2017, as reported below, presents the results of the Nexi Group as if, since the beginning of the reporting period presented: i) all of the entities within the Nexi Group as at 31 December 2018 had been included within the Nexi Group, ii) the Notes had been outstanding and interest-bearing (including the amortized debt issue costs); iii) Oasi and certain Bassilichi Payments non-core operations had been excluded from the Nexi Group. The financial information is presented to illustrate the estimated effects of the acquisitions of MPS Acquiring, DB Cards Acquiring, Bassilichi Payments, Sparkling 18, and Carige Acquiring, as well as the disposal of Oasi and certain Bassilichi non-core activities on the Nexi Group's results of operations as if all of such transactions had occurred on the first day of the periods presented.

The unaudited financial information is presented for information purposes only and is not intended to represent or be indicative of the financial condition or results of operations that would have been reported had the transactions described above actually occurred during the periods and as at the dates presented, and the unaudited financial information does not purport to project our results of operations or financial condition for any future period.

The below-reported aggregated financial data for the years ended 31 December 2017 and 2018 is extracted from the audited carve-out consolidated financial statements of Nexi S.p.A., prepared to illustrate the effects on the Group's historical financial statements of the acquisitions completed over the period, as if they had occurred on 1 January 2017.

Due to certain regulatory restrictions, the below income statement does not include certain aggregated financial data for both the years ended 31 December 2017 and 2018.

	Year ended 31 December	
	2018	**2017**
	(*in € millions*)	
Operating revenue	**920.2**	**866.2**
Payroll and related costs	(147.2)	(137.2)
Other administration costs	(346.3)	(351.3)
Administrative expense	**(493.5)**	**(488.6)**
Other net operating income	4.1	(0.8)
Net accruals to provisions for risks and charges	(7.2)	(8.0)
Operating costs (before charges for depreciation and amortisation)	**(496.5)**	**(497.4)**
EBITDA	**423.6**	**368.8**

8.1.4 Nexi Group: Discussion of Results of Operations

The following tables are extracts from the management accounts of the Nexi Group for the year ended 31 December 2018 and 31 December 2017.

Nexi Group Operating Revenue by Business Unit

	Year ended 31 December	
	2018	**2017**
	(*in € millions*)	
Operating Revenue	**920.2**	**866.2**
Merchant Services & Solutions [(1)]	*448.0*	*415.4*
Cards & Digital Payments	*360.6*	*342.1*
Digital Banking Services	*111.5*	*108.6*

(1) Includes "Other Services", such as Helpline

Operating revenue increased by €54.0 million, mostly driven by client-related transaction volume growth in the Merchant Services & Solutions and Cards & Digital Payments business units.

Operating revenue generated by the Merchant Services & Solutions business unit increased by 7.8%, as a result of a higher number and value of managed transactions, as well as an enlarged POS terminal fleet.

Card & Digital Payments operating revenue increased by 5.4%, due to increases in the number and value of card transactions.

Operating revenue generated by the Digital Banking Services business unit increased by 2.7% compared to the year ended 31 December 2017, mainly due to new services related to acquired DEPObank contracts (namely, Check Image Truncation).

Nexi Group Operating Costs (before charges for depreciation and amortisation)

	Year ended 31 December	
	2018	**2017**
	(*in € millions*)	
Administrative expenses	(493.5)	(488.6)
thereof: Payroll and related costs	*(147.2)*	*(137.2)*
thereof: Other administrative expenses	*(346.3)*	*(351.3)*
Other net operating income	4.1	(0.8)
Net accruals to provision for risks and charges	(7.2)	(8.0)
Operating costs (before charges for depreciation and amortisation)	**(496.5)**	**(497.4)**

Operating costs (before charges for depreciation and amortisation) in the year ended 31 December 2018 were consistent with the prior year's level.

Payroll and related costs increased compared to the year ended 31 December 2017, partly due to key-people hiring resulting in an increase in the number of employees and the related compensation, while other administrative expenses decreased over the same period, reflecting – amongst others - post-merger synergies and other efficiency-enhancing measures, which offset increased costs related to customer-retention campaigns. Higher other net operating income was due to contingent items.

Nexi Group EBITDA

	Year ended 31 December	
	2018	**2017**
	(*in € millions*)	
Operating revenue	920.2	866.2
Operating costs (before charges for depreciation and amortisation charges)	(496.5)	(497.4)
EBITDA	**423.6**	**368.8**

EBITDA increased by €54.8 million, or 14.9%, compared to the year ended December 31, 2017, largely on the back of a volume-driven operating revenue growth in the Merchant Services & Solutions and Cards & Digital Payments business units.

Liquidity and Capital Resources

Liquidity, Funding and Intragroup Funding

Nexi's ordinary course of business activities involve daily settlement of issuing and acquiring activities which generate a temporary funding need, although it does not imply any material credit risk, when such activities relate in substance to the licensing model.

The largest funding requirement arises in our issuing licensing business in connection with charge cards. In general terms, the exposure is the result of the amount spent by the cardholders in a reference month and anticipated by Nexi to the international circuits.

Such amounts are recorded in a monthly statement for each cardholder and the month-end balance of this statement is debited, on average, on the 15th day of the following month, to the current account held by the cardholder in Nexi's partner bank, thus the related exposure ranges from 15 to 45 days. It must be noted that such an exposure is granted by the bank which autonomously sets the card spending limit (monthly rolling) for its client.

By means of the Settlement Obligations Factoring Agreement granted by UniCredit Factoring S.p.A. ("UCF"), Nexi provides for the daily sale and assignment to UCF of daily receivables outstanding, receiving the related purchase price on the same day when the factored cardholder receivables have to be funded, up to the maximum committed amount of around €3.2 billion in receivables at any time outstanding.

The Settlement Obligations Factoring Agreement is further described in the Listing Particulars.

The first sale took place on 2 July 2018 when the reorganization became effective and involved all the receivables accrued and unpaid starting from the 1 June 2018. Since inception to date, such Factoring facility has been drawn by approximately €1.8 billion on a daily average basis.

The Settlement Obligations Factoring Agreement also provides for a secondary line, i.e. a bridge facility in an amount of up to €350 million, devoted to cover an amount equal to the amount of receivables Nexi expects to incur that day or on one or more subsequent days if such days are bank holidays.

As regards the acquiring licensing business, its ordinary course implies Nexi to credit its merchants network the amount spent by other card issuers' cardholders before receiving back these amounts through the international circuits' settlement. The duration of such exposure ranges from 1 to 3 business days and is supported by bilateral credit lines provided by primary banks, granted to Nexi following and in connection with the effective reorganization which took place on 1 July 2018.

As of the date of this Annual Financial Report, the total amount of such available funding lines is equal to ca. €1.5 billion, 25% of which represented by committed credit lines.

Capital Expenditures

To support the business strategy and development plans, capital expenditures are incurred regularly.

Net cash outflows for expansion capital expenditures mainly relate to the purchase of assets, joint ventures and acquisitions of other businesses. Maintenance capital expenditures mainly relate to purchases and upgrades of the ICT infrastructure, software, POS terminals, and ATMs.

	Year ended 31 December	
	2018	2017
	(*in € millions*)	
Expansion capital expenditures	6.4	713.2
Maintenance capital expenditures	150.5	82.3
Capital expenditures[(1)]	**157.0**	**795.5**

(1) Carve-out data

Expansion capital expenditure incurred for the year ended 31 December 2018 related to the acquisitions of Carige Acquiring and the digital payment start-up Sparkling 18. For the year ended 31 December 2017, the Nexi Group incurred expansion capital expenditures due to the DB Cards Acquiring, MPS Acquiring, and Bassilichi Payments acquisitions.

Maintenance capital expenditure increased for the year ended 31 December 2018, partly due to the investments associated with the IT transformation program and other strategic initiatives.

9 THE BUSINESS

The Nexi Group is the leading paytech company in Italy, connecting banks, merchants and consumers and enabling them to make and receive digital payments.

Its business is built on deeply-ingrained relationships with approximately 150 partner banks, covering 80% of the domestic banking sector (in terms of no. of branches) and serving approximately 30 million cardholders and 890,000 merchants.

The Nexi Group conducts its business through the following four business units:

Merchant Services & Solutions: This business unit supplies merchants with the necessary infrastructure to enable digital payment acceptance, and executes card payments on the merchant's behalf. The services performed within the Merchant Services & Solutions business unit can be divided into core acquiring services and POS management. Core acquiring services are financial services such as the settlement of card payments to our merchants, technology services aimed at the fast, reliable and secure authentication and execution of payment transactions, and administrative services such as payment tracking and data analytics. POS management involves the configuration, activation and maintenance of the hardware and software required for digital payments, which is installed both at physical POS such as shops, grocery stores, restaurants, taxis, hotels and vending machines and online POS such as websites and mobile applications. Core acquiring and POS management services are usually sold as a bundle, which offers customers a full service benefit. The Nexi Group provides the majority of acquiring services in partnership with its partner banks – benefitting, as a result, from the existing relationships and extensive branch networks for customer origination, while providing them with the benefit of its expertise and scale in the areas of procurement, processing and data security. However, the Nexi Group also serves certain merchants directly through direct acquiring activities, with the partner bank acting solely as referral partner.

Cards & Digital Payments: This business unit, in partnership with its partner banks, provides a wide spectrum of services in connection with the issuance of payment cards to cardholders, including product development and procurement services relating to the design and production of durable and secure payment cards, anti-fraud and customer support services, pricing services, banking services such as the provision of an underlying credit allowance or savings account and credit scoring services, financial services such as the prefunding of card payments, technology services to ensure the fast, reliable and secure authentication and execution of payment transactions, administrative services such as payment tracking and monthly billing and data analytics services. The Nexi Group almost exclusively acts alongside partner banks in the provision of issuing services, with its partner banks assuming the underlying cardholders' credit risk. The Nexi Group services most of the card issuing needs of the partner banks, allowing them to focus on their core lending business.

Digital Banking Solutions: This business unit provides clearing services, digital corporate banking services, financial supply chain services and ATM management services. Clearing services comprise the provision of infrastructure for and management of the execution of account-based payments. It also operates as a clearing house for domestic and international SEPA payments. Corporate banking services provide digital solutions to banks and corporate clients to help them manage their bank accounts and payments, such as a customizable e-banking platform. The Digital Banking Solutions business unit also provides market-leading CBI Gateway services. The CBI Gateway is an Italian payment platform allowing for direct payment collection and the delivery of supporting documentation between banks, corporations, tax authorities, pension schemes and other public and private bodies. ATM management services range from the complete management of an ATM fleet for banks to the management of discrete parts of the ATM management value chain based on customer needs.

Other Services: This business unit includes the Nexi Group's remaining business activities, broadly consisting of the Help Line call-center services.

10 RISK FACTORS

Important factors that could cause actual results to differ materially from those referenced in forward-looking statements, some of which are beyond our control, include, but are not limited to:

- an inability to fulfill our obligations under our existing debt and guarantee arrangements or any inability to secure adequate funding for our future operations;
- exposure to interest rate volatility;
- an inability to maintain relationships with our partner banks;
- a disruption of our ICT and information systems;
- a deterioration in the economic or political situation in Italy;
- a failure to adequately protect data;
- a failure to successfully integrate acquired businesses and identify opportunities for future acquisitions and liabilities relating to disposed businesses;
- increased scrutiny of antitrust regulators as a result of our market position;
- credit risk from our customers and partner banks;
- an inability to adequately protect our intellectual property rights and/or infringement of or failure to obtain the intellectual property rights of third parties;
- fraud by third parties;
- development of the Italian payments market below our expectations;
- vulnerability or weakness of our IT infrastructure or those of our outsourcers;
- significant impairments of goodwill, other intangible assets or investments;
- uncertainty regarding the financial situation of Banca Carige;
- inefficiencies due to relationships with related parties;
- liquidity risk;
- regulatory changes in Italy or Europe;
- inadequate risk management policies and procedures;
- a failure to attract and retain key employees;
- adverse results of litigation;
- inadequate insurance coverage, or increased insurance costs;
- liability for the actions of our directors, employees, and others;

- adverse changes to payment network rules or standards;
- liabilities and losses in relation to Visa Europe;
- exposure to outstanding liabilities of DEPObank;
- reliance on financial institutions for our clearing activities;
- condition of the Italian banking sector;
- a reduction in our number of customers due to consolidation in the Italian banking market;
- increased competition from third parties;
- increased insourcing of operations by our bank customers;
- the impact of privacy and data protection regulation;
- political uncertainty in Italy;
- the cost of adapting to and providing new technologies and services;
- adverse changes to interchange regulations and other payment regulations; and
- changes to our tax laws or challenges or changes to our tax position.

11 APPENDIX – NOTES TO THE FINANCIAL STATEMENTS

CARVE-OUT CONSOLIDATED FINANCIAL STATEMENTS OF THE NEXI GROUP AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2018, 2017 AND 2016

STATEMENT OF FINANCIAL POSITION

€'000	Note	31 December 2018	31 December 2017	31 December 2016
Assets				
Cash and cash equivalents	3	40,688	134,420	8,426
Financial assets at fair value through profit or loss	4	10	154	136
Financial assets at fair value through other comprehensive income	5	100,114	83,255	47,596
Financial assets at amortised cost	6	1,668,452	3,112,352	2,877,838
a) loans and receivables with banks		561,209	332,986	329,506
b) loans and receivables with customers		1,107,243	2,779,365	2,548,332
Equity investments	7	730	-	-
Property and equipment	8	156,193	156,907	109,816
Investment property	9	3,151	6,206	6,495
Intangible assets	10	2,668,293	2,607,637	1,906,458
of which: goodwill		2,097,379	2,071,665	1,500,565
Tax assets	11	62,873	54,086	46,075
a) current		29,299	27,972	23,162
b) deferred		33,574	26,114	22,913
Non-current assets held for sale and disposal groups	12	80,498	66,071	53,884
Other assets	13	405,705	339,754	263,266
Total assets		**5,186,707**	**6,560,842**	**5,319,990**
Liabilities and net investment				
Financial liabilities at amortised cost	14	3,716,834	2,606,046	1,957,055
a) due to banks		792,896	2,492,556	1,858,775
b) due to customers		354,249	113,491	98,280
c) securities issued		2,569,689	-	-
Financial liabilities held for trading	15	3,154	1,051	-
Hedging derivatives	16	16,557	5,520	-
Tax liabilities	11	163,194	133,897	146,443
a) current		31,124	3,182	16,926
b) deferred		132,070	130,715	129,517
Liabilities associated with disposal groups	12	39,069	22,937	11,845
Other liabilities	17	716,375	720,504	474,384
Post-employment benefits	18	14,084	17,955	15,786
Provisions for risks and charges	19	46,552	33,127	17,329
Total liabilities		**4,715,819**	**3,541,039**	**2,622,842**
Net investment	**20**	**470,888**	**3,019,803**	**2,697,148**
Total liabilities and net investment		**5,186,707**	**6,560,842**	**5,319,990**

The accompanying notes are an integral part of these carve-out consolidated financial statements.

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

€'000	Note	2018	2017	2016
Fee and commission income and fees for services	22	1,575,874	1,417,007	1,078,743
Fee and commission expense and cost of services	23	(620,882)	(582,474)	(559,317)
Net fee and commission income		**954,992**	**834,533**	**519,426**
Interest and similar income	24	56,114	22,078	24,279
Interest and similar expense	25	(99,089)	(37,654)	(31,724)
Net interest expense		**(42,975)**	**(15,576)**	**(7,445)**
Net trading/hedging income (expense) on financial assets and liabilities at fair value through profit or loss	26	(2,293)	(521)	(560)
Dividends and gains/losses on the sale of financial assets at fair value through other comprehensive income	27	(5,188)	300	416
Total income		**904,536**	**818,736**	**511,837**
Personnel expense	28.1	(178,840)	(183,553)	(103,720)
Other administrative expenses	28.2	(458,412)	(427,032)	(276,913)
Total administrative expenses		**(637,252)**	**(610,586)**	**(380,633)**
Other net operating expense	29	4,107	(791)	(946)
Net impairment losses on financial assets at amortised cost	30	(2,239)	(2,767)	(2,246)
Net accruals/reversals to provisions for risks and charges	31	(33,188)	75	(6,574)
Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets	32	(114,870)	(88,553)	(27,421)
Operating profit		**121,094**	**116,115**	**94,017**
Net gain on equity investments and sales of investments	33	20,491	2,307	0
Pre-tax profit from continuing operations		**141,585**	**118,422**	**94,017**
Income taxes	34	(66,730)	(46,503)	(33,553)
Post-tax profit (loss) from discontinued operations	35	(6,130)	205	2,225
Profit for the year		**68,725**	**72,125**	**62,690**
Profit for the year attributable to the owners of the parent		**67,226**	**73,112**	**58,852**
(Profit) loss for the year attributable to non-controlling interests	*36*	*(1,499)*	987	(3,838)
Basic/diluted earnings per share from continuing operations (in Euros)		0.013	n.a	n.a
Basic/diluted earnings per share (in Euros)		0.012	n.a	n.a

Statement of comprehensive income			
Profit for the year	**68,725**	**72,125**	**62,690**
Items that will not be reclassified subsequently to profit or loss			
Defined benefit plans	-	37	115
Financial assets at fair value through other comprehensive income	6,992	27,053	-
Comprehensive income	**75,717**	**99,215**	**62,805**
-Attributable to the owners of the parent	74,143	99,861	58,967
-Attributable to non-controlling interests	1,575	(646)	3,838

* Reference should be made to note 14.3 for the limitations to the distribution of dividends. The earnings per share for 2017 and 2016 were not calculated as the carve-out scope did not exist as a separate group with legal personality and, therefore, it did not have a number of shares that could be used for the calculation.

The accompanying notes are an integral part of these carve-out consolidated financial statements.

STATEMENT OF CHANGES IN NET INVESTMENT

Statement of changes in equity for the year ended 31 December 2018

2018	Balance at 1 January 2018	FTA reserve at 1.01.2018	Reorganisation	Dividends paid	2018 comprehensive income			Equity at 31 December 2018
					Profit for the year	Other comprehensive income - Valuation reserves	2018 comprehensive income	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Equity attributable to the owners of the parent	3,014,226	4,194	(369,442)	(2,258,750)	67,226	6,916	74,143	464,372
Equity attributable to non-controlling interests	5,577	52	(687)	-	1,499	76	1,575	6,516
Total	3,019,803	4,246	(370,129)	(2,258,750)	68,725	6,992	75,718	470,888

The net investment at 31 December 2018 matches the Nexi Group's equity. The adjustments to the opening balances mainly refer to the IFRS 15 FTA reserve.

Statement of changes in net investment for the year ended 31 December 2017

2017	Balance at 1 January 2017	Adjustments to opening balances	Dividends	Increase/decrease in net investment	2017 comprehensive income			Net investment at 31 December 2017
					Profit for the year	Other comprehensive income - Valuation reserves	2017 comprehensive income	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Net investment attributable to the owners of the parent	2,683,279	-	(89,805)	320,890	73,112	26,749	99,861	3,014,226
Net investment attributable to non-controlling interests	13,869	-	(875)	(6,772)	(987)	341	(646)	5,577
Total	2,697,148	-	(90,680)	314,118	72,125	27,090	99,215	3,019,803

Statement of changes in net investment for the year ended 31 December 2016

2016	Balance at 1 January 2016	Adjustments to opening	Dividends	Acquisition of non-controlling interests without a change in	Increase in net investment	2016 comprehensive income			Net investment at 31 December 2016
						Profit for the year	Other comprehensive income - Valuation	2016 comprehensive	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
Net investment attributable to the owners of the parent	1,582,051	-	(69,330)	20,665	1,090,926	58,852	115	58,967	2,683,279
Net investment attributable to non-controlling interests	30,317	-	(1,781)	(18,507)	3	3,838	-	3,838	13,869
Total	1,612,368	-	(71,111)	2,158	1,090,929	62,690	115	62,805	2,697,148

The accompanying notes are an integral part of these carve-out consolidated financial statements.

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	Note	2018 €'000	2017 €'000	2016 €'000
A. OPERATING ACTIVITIES				
1. Operations				
Profit for the year		68,725	72,125	62,690
Impairment losses on assets held for sale		6,050	-	-
Net losses on financial assets held for trading and other financial assets/liabilities at fair value through other comprehensive income and hedged assets		2,293	521	560
Net accruals to provisions for risks and charges and other costs/revenue		40,615	(1,505)	1,359
Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets	37.1	114,870	88,553	27,421
Unpaid taxes, duties and tax assets		20,501	46,503	33,553
Gains on sales	37.2	(21,000)	-	-
Accrued unpaid interest expense on bonds		12,729	-	-
Other adjustments		6,224	(12)	65
		251,007	**206,184**	**125,647**
2. Cash flows generated by (used for) financial assets				
Financial assets held for trading		144	(18)	-
Financial assets at fair value through other comprehensive income	37.3	-	1,726	170,721
Loans and receivables with banks	37.4	(228,222)	(3,480)	(60,744)
Loans and receivables with customers	37.5	1,672,123	(231,034)	(33,444)
Assets held for sale		(14,427)	(12,187)	(15,214)
Other assets		(57,163)	17,365	15,615
		1,372,454	**(227,628)**	**76,934**
3. Cash flows generated (used) by financial liabilities				
Due to banks	37.6	(1,699,660)	576,133	(338,500)
Due to customers	37.7	240,758	6,835	13,104
Financial liabilities held for trading		2,102	1,051	-
Hedging derivatives		-	5,520	-
Liabilities associated with disposal groups		16,132	11,091	1,674
Other liabilities	37.8	(42,849)	117,109	189,979
		(1,483,517)	**717,740**	**(133,743)**
Net cash flows generated by operating activities		**139,944**	**696,296**	**68,838**
B. INVESTING ACTIVITIES				
1. Cash flows generated/used by				
Acquisitions of property and equipment	37.9	(40,600)	(41,665)	(25,746)
Sales of property, equipment and investment property and intangible assets		5,072	1,611	2,529
Acquisitions of intangible assets	37.10	(109,937)	(40,469)	(26,185)
Acquisitions of subsidiaries and business units	37.11	(6,422)	(713,217)	(1,033,009)
Net cash flows used in investing activities		**(151,887)**	**(793,740)**	**(1,082,411)**
C. FINANCING ACTIVITIES				
Repayment of loan to parent	37.12	(380,000)	-	-
Dividends paid	37.13	(56,000)	(89,805)	(69,330)
Issue/purchase of equity instruments	37.14	-	314,118	1,090,929
Issue of debt instruments	37.15	2,556,960	-	-
Dividends distributed to third parties	37.16	(2,202,750)	(875)	(1,781)
Sale/acquisition of non-controlling interests		-	-	2,158
Net cash flows generated by (used in) financing activities		**(81,790)**	**223,438**	**1,021,976**
NET CASH FLOWS GENERATED IN THE YEAR		**(93,733)**	**125,994**	**8,403**
Net cash flows for the year		(93,733)	125,994	8,403
Opening cash and cash equivalents		134,420	8,426	23
Closing cash and cash equivalents		**40,688**	**134,420**	**8,426**

The accompanying notes are an integral part of these carve-out consolidated financial statements.

1. NOTES TO THE CARVE-OUT CONSOLIDATED FINANCIAL STATEMENTS

1.1 PURPOSE

The carve-out consolidated financial statements at 31 December 2018, 2017 and 2016 (the "carve-out consolidated financial statements") have been prepared solely for their inclusion in the registration document prepared for the Initial Public Offering of Nexi shares on the Italian Stock Exchange.

1.2 ACCOUNTING POLICIES

Statement of compliance with the IFRS

These carve-out consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the interpretations of the IFRS Interpretations Committee (IFRS IC) as endorsed by the European Commission (and transposed into Italian law by Legislative decree no. 38/2005).

Nexi has applied the standards endorsed at 31 December 2018, 2017 and 2016 to the carve-out consolidated financial statements at 31 December 2018, 2017 and 2016, respectively.

It did not make any departures from the IFRS.

Basis of preparation

On 16 October 2017, the board of directors of Istituto Centrale delle Banche Popolari Italiane S.p.A. (now DepoBank S.p.A.) announced a corporate Reorganization of the Mercury Group (the "Reorganization"). The aim of the Reorganization was to separate the technological and digital payment activities from those that require a specific banking license in order to:

- transform Nexi Payments together with the other payments businesses of the Group (Bassilichi, Mercury Payment Services and the non-regulated payments business transferred from DepoBank S.p.A.) into the national digital payments market leader;
- provide DepoBank S.p.A. with a leaner organisational structure focused on the securities services business and the settlement business (offered to the market through a commercial agreement between DepoBank and Nexi Payments).

The Reorganization was completed on 1 July 2018.

Therefore, the consolidation scope of the Nexi Group's carve-out consolidated financial statements includes the Mercury UK Holdco Group legal entities and businesses that were included in the sub-group headed by Nexi (formerly Latino Italy S.r.l) following the completion of the Reorganization. At 31 December 2018, the consolidation scope of the statement of financial position included in the carve-out consolidated financial statements matches that of the Nexi Group's statement of financial position (while this is not true of the income statement as Nexi Group's income statement includes the income and expense of the entities transferred to Nexi with effect from 1 July 2018, when the Reorganization was completed).

After completion of the Reorganization, the Nexi Group's carve-out consolidation scope includes:

2016

Cartasì S.p.A. (now Nexi Payments), Helpline, Oasi, Setefi S.p.A. (now Mercury Payment Services since 15 December 2016, the acquisition date), Latino Italy S.r.l. from its incorporation date and the ICBPI-DepoBank business unit (comprising the assets, liabilities, revenue and costs related to the non-regulated payment services provided by ICBPI-DepoBank, the corporate centre and IMEL services, subsequently contributed to Nexi Payments following the Reorganization's completion).

Consequently, the banking operations of ICBPI, the individual components of Mercury and Mercury Processing D.o.o, which were part of the original Mercury UK Group, are excluded. The carve-out scope at 31 December 2016 and a reconciliation with the consolidated financial statements of Mercury UK Holdco are provided below:

	The carve-out scope at 31 December 2016 and a reconciliation with the consolidated financial statements of Mercury UK		
	31 december 2016	**Contribution to income statement Carve-out**	**Statement Carve-out**
	Mercury UK Consolidated		
(-)	Mercury Uk Separated		
(-)	ICBPI - DepoBank (regulated activities)		
(-)	Mercury Processing D.o.o.		
(=)	CARVE-OUT NEXI GROUP		
of which			
	Latino Italy S.r.l.	Since 21/04/2016	Included
	Nexi Payments S.p.A.	Since 1/01/2016	Included
	Mercury Payment Services	Since 15/12/2016	Included
	Help Line S.p.A.	Since 1/01/2016	Included
	ICBPI - Depobank Business Unit	Since 1/01/2016 (1)	Included (1)
	Oasi Diagram S.p.A.	Since 1/01/2016 on IFRS 5	Included
	Intercompanies with ICBPI - DepoBank (regulated activities)	Since 1/01/2016	Included
	Intercompanies with Mercury UK	Since 1/01/2016	Included
	Intercompanies with Mercury Processing D.o.o.	Since 15/12/2016	Included

(1) Includes the income statement for the year ended 31 December 2016 and the statement of financial position of the business unit attributable to ICBPI.

2017

Latino Italy S.r.l., Nexi Payments (including the DB Acquiring and MPS Acquiring business units, acquired on 1 June 2017 and 1 July 2017 respectively), Oasi, Helpline, Mercury Payment Services, Bassilichi (from the acquisition date of 3 July 2017) and the ICBPI-DepoBank business unit (the assets, liabilities, revenue and costs related to non-regulated payment services provided by ICBPI-DepoBank, the corporate centre and IMEL services, subsequently contributed to Nexi Payments following the Reorganization's completion).

Consequently, the banking operations of ICBPI, the individual components of Mercury and Mercury Processing D.o.o, which were part of the original Mercury UK Group, are excluded. The carve-out scope at 31 December 2017 and a reconciliation with the consolidated financial statements of Mercury UK Holdco are provided below:

	The carve-out scope at 31 December 2017 and a reconciliation with the consolidated financial statements of Mercury UK		
	31 december 2017	**Contribution to income statement Carve-out**	**Financial Statement Carve-out**
	Mercury UK Consolidated		
(-)	Mercury Uk Separated		
(-)	ICBPI - DepoBank (regulated activities)		
(-)	Mercury Processing D.o.o.		(1)
(=)	CARVE-OUT NEXI GROUP		
of which			
	Latino Italy S.r.l.	Since 1/01/2017	Included
	Nexi Payments S.p.A.	Since 1/01/2017	Included
	Bassilichi S.p.A.	Since 1/07/2017	Included
	Mercury Payment Services	Since 1/01/2017	Included
	Help Line S.p.A.	Since 1/01/2017	Included
	ICBPI - Depobank Business Unit	Since 1/01/2017 (2)	Included (2)
	Oasi Diagram S.p.A.	Since 1/01/2017 on IFRS 5	Included
	Intercompanies with ICBPI - DepoBank (regulated activities)	Since 1/01/2017	Included
	Inercompanies with MUK	Since 1/01/2017	Included

(1) Only including the sale of the equity investments held by Latino Italy S.r.l..
(2) Includes the income statement for the year ended 31 December 2016 and the statement of financial position of the business unit attributable to ICBPI.

Mercury Processing D.o.o. has not been included in the 2016 and 2017 carve-out consolidation scope because it was acquired on 15 December 2016 and subsequently sold on 23 December 2017. Therefore, it is not relevant for the purposes of the Reorganization and for the Nexi Group carve-out consolidation scope. The proceeds from its disposal has been included in the 2017 carve-out net investment as it was recognised by Latino Italy S.r.l..

2018

Nexi (formerly Latino Italy S.r.l.), Nexi Payments (including the Carige Acquiring business unit, acquired on 28 September 2018), Oasi, Helpline, Mercury Payments Services, Bassilichi, Sparkling 18 (from the acquisition date of 1 April 2018), Nexi Capital S.r.l. (from 16 April 2018 when it was incorporated) and the DepoBank business unit (the assets, liabilities, revenue and costs related

to non-regulated payment services provided by DepoBank, the corporate centre and IMEL services, subsequently contributed to Nexi Payments following the Reorganization's completion). Bassilichi and Sparkling 18 were merged into Nexi Payments with effect from 31 December 2018.

Consequently, the banking operations of DepoBank and the individual components of Mercury, which were part of the original Mercury UK Group, are excluded. The carve-out scope at 31 December 2018 and a reconciliation with the consolidated financial statements of Mercury UK Holdco are provided below:

	The carve-out scope at 31 December 2018 and a reconciliation with the consolidated financial statements of Nexi Group			
	31 december 2018	**Contribution to Income Statement Carve-out Nexi Group**	**Contribution to Consolidated Income Statement Nexi Group**	**Financial Statement Carve-out = Nexi Group Consolidated**
	Nexi S.p.A.	Since 1/01/2018	Since 1/01/2018	Included
(+)	Nexi Capital S.p.A.	Since 15/04/2018	Since 15/04/2018	(1)
(+)	Nexi Payments S.p.A.	Since 1/01/2018	Since 1/07/2018	Included
(+)	Bassilichi S.p.A.	Since 1/01/2018 (3)	Since 1/07/2018 (3)	(2) and (3)
(+)	Mercury Payment Services	Since 1/01/2018	Since 1/01/2018	Included
(+)	Help Line S.p.A.	Since 1/01/2018	Since 1/07/2018	Included
(+)	ICBPI - Depobank Business Unit	Since 1/01/2018 (4)	Since 1/07/2018	(4)
(+)	Sparkling 18 S.p.A.	Since 1/04/2018	Since 1/07/2018	(2)
(+)	Oasi Diagram S.p.A.	Since 1/01/2018 on IFRS 5	Since 1/07/2018 on IFRS 5	Included on IFRS 5

(1) Merged into Nexi S.p.A. on 31 December 2018
(2) Merged into Nexi Payments on 31 December 2018
(3) Entities now controlled by Nexi Payments due to the merger with Bassilichi, i.e., Moneynet, Bassmart and Paycare, are recognised in accordance with IFRS 5
(4) Including the income statement for the six months ended 30 June 2018 for DepoBank while the income and expense for the second six months of the year and the assets and liabilities at 31 December 2018 are included in Nexi Payments due to the contribution of the business unit on 1 July 2018

The above Reorganizations qualify as transactions under common control and, therefore, any goodwill arising on consolidation is recognised in continuity with the carrying amounts included in the parent's consolidated financial statements. Specifically, the above mergers performed at year end did not affect the consolidated financial statements except to a limited extent for the non-controlling interests that, in accordance with IFRS 3, are solely recognised in equity (i.e., without changing the carrying amount of goodwill recognised in the consolidated financial statements when the first business combination was accounted for under IFRS 3).

These carve-out consolidated financial statements present the historical financial information of the entities and businesses included in the consolidated financial statements and accounting records of the Mercury UK Group headed by Mercury UK Holdco which controlled and controls their operations. As the Reorganization only affected the Mercury UK Group, it is recognised as a transaction under common control and, therefore, in continuity with the carrying amounts included in the Mercury UK Group's consolidated financial statements. As a consequence, the carve-out consolidated financial statements have been prepared by making the following adjustments to the Mercury UK Group's consolidated financial statements:

a) elimination of the ICBPI-DepoBank banking business;
b) elimination of Mercury UK Holdco's individual components;
c) inclusion of the ICBPI-DepoBank banking business and Mercury UK Holdco which had been eliminated in Mercury UK Holdco's consolidated financial statements. The assets, liabilities, revenue and costs of the non-regulated payment services of the DepoBank business unit, the corporate centre and IMEL services contributed to Nexi Payments following the Reorganization's completion were excluded from the banking business;
d) elimination of Mercury Processing D.o.o. (solely from the statement of financial position as at 31 December 2016 as it was acquired at the end of that year, and from the income statement for the year ended 31 December 2017 as it was sold in December 2017).

The above process was used for 2016 and 2017. As the Reorganization was completed on 1 July 2018, the carve-out consolidated financial statements at 31 December 2018 have been prepared using the

consolidated financial statements of Nexi S.p.A.. Specifically, the statement of financial position is exactly the same while the following amendments were made to the income statement:

a) inclusion of the income statements of Nexi Payments, Help Line, Bassilichi, Oasi and the DepoBank business unit for the first six months of 2018;
b) elimination of any income or expenses among the above companies.

While simplifying the preparation process, this approach ensures the consistency of the carve-out scope over the three years.

Therefore, the 2018, 2017 and 2016 carve-out consolidation scope includes the financial statements of Nexi, Nexi Payments, Oasi, Help Line and the DepoBank business unit (the assets, liabilities, revenue and costs related to non-regulated payment services provided by DepoBank, the corporate centre and IMEL services, subsequently contributed to Nexi Payments following the Reorganization's completion) as at and for the years ended 31 December 2018, 2017 and 2016. It includes Mercury Payment Services' income statement for the years ended 31 December 2018 and 2017 and its statement of financial position as at 31 December 2016, 2017 and 2018, Bassilichi's financial statements as at and for the year ended 31 December 2018 and as at and for the six months ended 31 December 2017 and Sparkling 18's financial statements as at and for the year ended 31 December 2018.

The presentation of the statement of financial position in these carve-out consolidated financial statements matches that used in the Nexi Group's consolidated financial statements at 31 December 2018. As the introduction of IFRS 9 did not impact the reclassification and measurement of the assets and liabilities included in the carve-out consolidated financial statements due to their specific nature and that of the Nexi Group's business, in order to make the figures more comparable, the Group applied the new presentation adopted for the statement of financial position as at 31 December 2018 retrospectively to show the changes introduced by IFRS 9 at 31 December 2017 (which is allowed by the standard) and 2016. The notes provide the information needed to reconcile the captions with those of the consolidated financial statements of the Mercury UK Group, where necessary.

The presentation of the income statement in the carve-out consolidated financial statements matches that used in the Nexi Group's consolidated financial statements at 31 December 2018, which complies with the requirements of IAS 1 and the measures issued to implement article 9 of Legislative decree no. 38/2005 and article 43 of Legislative decree no. 136/2015

No pro forma adjustments or re-measurements have been made in the carve-out consolidated financial statements, which have been prepared using the carrying amounts presented in the Mercury UK Group's consolidated financial statements. All the financial information in the carve-out consolidated financial statements is derived from the following audited financial statements prepared by the relevant boards of directors:

- Mercury: consolidated and separate financial statements as at and for the years ended 31 December 2017 and 2016;
- Nexi: financial statements as at and for the years ended 31 December 2017 and 2016 and consolidated and separate financial statements as at and for the year ended 31 December 2018;
- DepoBank - ICBPI: sub-consolidated and separate financial statements as at and for the years ended 31 December 2017 and 2016;

- Nexi Payments: financial statements as at and for the years ended 31 December 2018, 2017 and 2016;
- Mercury Payment Services: financial statements as at and for the years ended 31 December 2018, 2017 and 2016;
- Oasi and Helpline: financial statements as at and for the years ended 31 December 2018, 2017 and 2016;
- Bassilichi: financial statements as at and for the year ended 31 December 2017;
- carve-out financial statements of Nexi Payments Business as at and for the years ended 31 December 2017, 2016 and 2015 prepared solely for their inclusion in the Offering Circular of Nexi Capital for the listed bond issue approved by the board of directors of Latino Italy S.r.l. on 16 April 2018.

The following additional documents have also been used:

- interim financial statements of Nexi Payments, Nexi, Mercury Payment Services, Bassilichi, Help Line and Sparkling 18 as at and for the six months ended 30 June 2018;
- interim financial statements of DepoBank (including the business unit contributed to Nexi Payments on the Reorganization completion date) as at and for the six months ended 30 June 2018.

Since Nexi and the Nexi Group did not have any share capital or equity at 31 December 2016 and 2017 as the carve-out consolidation scope did not include any legal entities, the carve-out equity is presented herein as "net investment" pursuant to the reference practices. The notes provide a breakdown of equity at 31 December 2018 as it matches that presented in the consolidated financial statements of the Nexi Group and the Reorganization scope. Non-controlling interests in equity at 31 December 2017 and 2016 were those in Latino Italy S.r.l. - Nexi as per the consolidated financial statements of the Nexi Group.

Carve-out consolidated financial statements at 31 December 2018

The carve-out consolidated financial statements at 31 December 2018 include the statement of financial position, the income statement, and the statements of comprehensive income, changes in net investment and cash flows and notes thereto.

They are presented in Euros and the amounts shown in the statements and the notes are in thousands of Euros.

The Group has applied the recognition and measurement criteria established by the IFRS and endorsed by the European Commission and the general assumptions in the Framework for the preparation and presentation of financial statements issued by the IASB.

The Group applies the measurement criteria assuming that it will continue as a going concern and in accordance with the principles of accruals, materiality and significance of the financial data and the principle of substance over form.

The following table shows the new standards or amendments to standards with the related endorsement regulations. Application is mandatory for annual periods beginning on (for entities whose reporting period is the calendar year) or after 1 January 2019.

Endorsement date		Standard/Interpretation	Effective date
31/10/2017	IFRS 16	Leases	2019
22/03/2018	Amendment to IFRS 9	Financial instruments: Prepayment features with negative compensation	2019
23/11/2018	IFRIC 23	IFRIC 23 Uncertainty over income tax treatments	2019

IFRS 16 was endorsed in 2016 and its application is mandatory from 1 January 2019. During 2018, the group commenced a project for transition to the new standard which identified the following types of in-scope leases:

- property leases;
- company car leases;
- leases of ICT equipment and ICT outsourcing.

IFRS 16 introduces a single accounting model for lessees that does not distinguish between operating and finance leases and is applicable to all contracts that contain a lease. Specifically, the lessee shall recognise:

- a right-of-use asset representing its right to use the underlying leased asset to be amortised or depreciated through profit or loss;
- a lease liability representing its obligation to make lease payments. Interest accrues on the liability and is recognised using the amortised cost method in profit or loss.

The right-of-use asset's initial carrying amount includes the lease liability, transaction costs, any lease payments made before the commencement date, the estimated costs of dismantling and restoring the asset and any lease incentives.
The standard provides specific rules should the initially used estimate parameters be changed.

The Group elected not to restate the comparative figures (modified retrospective approach) upon transition to IFRS 16. Therefore, the initial effects will be recognised in opening equity at 1 January 2019. The Group elected to measure the right-of-use asset using the following practical expedients:

- measurement of the right-of-use asset at an amount equal to the lease liability;
- measurement of the lease liability using the discount rate applicable on the date of initial application;
- exclusion of the initial direct costs from the measurement of the right-of-use asset.

The Group does not expect first-time adoption of IFRS 16 to have a significant effect on its equity thanks to these practical expedients. However, this may change as:

- the Group has not yet completed its tests of the new IT system which will be used to manage these leases;
- the elections may be changed up until publication of the first financial report for 2019.

The following table shows the standards or amendments to standards which have not yet been endorsed by the EU:

IASB document	Publication date
IFRS 17 Insurance contracts	18/05/2017
Amendments to IAS 28: Long-term interests in associates and joint ventures	12/10/2017
Annual improvements to IFRS Standards 2015-2017 cycle	12/12/2017
Amendments to IAS 19: Plan amendment, curtailment or settlement	07/02/2018
Amendments to References to Conceptual Framework in IFRS Standards	29/03/2018
Amendment to IFRS 3 Business combinations	22/10/2018
Amendments to IAS 1 and IAS 8: Definition of Material	31/10/2018

As the European Commission has not yet endorsed any of these standards and amendments, they have not affected the carve-out consolidated financial statements.

Carve-out consolidated financial statements at 31 December 2017

The carve-out consolidated financial statements at 31 December 2017 include the statement of financial position, the income statement and the statements of comprehensive income, changes in net investment and cash flows and notes thereto.

They are presented in Euros and the amounts shown in the statements and the notes are in thousands of Euros.

The Group has applied the recognition and measurement criteria established by the IFRS and endorsed by the European Commission and the general assumptions in the Framework for the preparation and presentation of financial statements issued by the IASB.

The Group applies the measurement criteria assuming that it will continue as a going concern and in accordance with the principles of accruals, materiality and significance of the financial data and the principle of substance over form.

The next sections describe the amendments made to the standards issued by the IASB and endorsed by the European Commission, the application of which is mandatory after 1 January 2017:

- Regulation (EU) no. 2017/1989 of 6 November 2017 endorsing the "Recognition of deferred tax assets for unrealised losses (amendments to IAS 12 Income taxes)". The amendments clarify how to remove certain inconsistencies and provide additional guidance.
- Regulation (EU) no. 2017/1990 of 6 November 2017, which adopted "Disclosure initiative (Amendments to IAS 7)". The amendments introduce the requirement for entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities (and any related assets) arising from financing activities, including both changes arising from cash flows and non-cash changes.
- Regulation (EU) no. 2018/182 of 7 February 2018 amending IFRS 1 First-time adoption of international financial reporting standards, IFRS 12 Disclosure of interests in other entities and IAS 28 Investments in associates and joint ventures.

Application of these amendments did not significantly affect the carve-out consolidated financial statements at 31 December 2017.

The following table shows the new standards or amendments to standards with the related endorsement regulation for 2017. Application is mandatory for annual periods beginning on (for entities whose reporting period is the calendar year) or after 1 January 2018.

Endorsement regulation	Name	Standard/Interpretation	Effective date
2016/2027	IFRS 9	Financial instruments	1 January 2018
2017/1988	Amendments to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts	1 January 2018
2016/1905	IFRS 15	Revenue from contracts with customers	1 January 2018
2017/1987	Clarifications to IFRS 15	Clarifications to IFRS 15 Revenue from contracts with customers	1 January 2018
2016/1986	IFRS 16	Leases	1 January 2019
2018/182	Annual improvements to IFRS Standards 2014-2016 cycle	Amendments to IFRS 1 First-time adoption of international financial reporting standards, IFRS 12 Disclosure of interests in other entities, IAS 28 Investments in associates and joint ventures	1 January 2018 (for the amendments to IFRS 1 and IAS 28)

Carve-out consolidated financial statements at 31 December 2016

The carve-out consolidated financial statements at 31 December 2016 include the statement of financial position, the income statement and the statements of comprehensive income, changes in net investment and cash flows and notes thereto.

They are presented in Euros and the amounts shown in the statements and the notes are in thousands of Euros.

The Group has applied the recognition and measurement criteria established by the IFRS and endorsed by the European Commission and the general assumptions in the Framework for the preparation and presentation of financial statements issued by the IASB.

The Group applies the measurement criteria assuming that it will continue as a going concern and in accordance with the principles of accruals, materiality and significance of the financial data and the principle of substance over form.

The next sections describe the amendments made to the standards issued by the IASB and endorsed by the European Commission, the application of which is mandatory after 1 January 2017:

- Regulation no. 2343 of 15 December 2015 - Annual improvements 2012 - 2014 cycle (IFRS 5, IFRS 7, IAS 19 and IAS 34) and Regulation no. 28/2015 of 17 December 2014 - Annual improvements 2010 - 2012 cycle (IFRS 2, IFRS 3, IFRS 8, IAS 16 and IAS 24). The amendments provide clarifications to remove certain inconsistencies and provide additional guidance.
- Regulation no. 29/2015 of 17 December 2014 - IAS 19 Employee benefits. The objective of the amendment is to clarify, also by means of application guidance, the accounting treatment of contributions from employees or third parties, based on the distinction as to whether or not they are envisaged in the formal conditions of defined benefit plans, and whether or not they are related to the number of years in service.
- Regulation no. 2173 of 24 November 2015 - IFRS 11 Joint arrangements. The amendments establish how to account for the acquisition of an interest in a joint operation which constitutes a business as defined in IFRS 3.
- Regulation no. 2231 of 2 December 2015 - IAS 16 Property, plant and equipment, IAS 38 Intangible assets. Clarifications are provided on the acceptable methods of depreciation and amortisation. Specifically, the use of revenue-based methods to calculate the depreciation or amortisation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- Regulation no. 2406 of 18 December 2015 - IAS 1 Presentation of financial statements. The Disclosure Initiative is intended to improve the effectiveness of disclosures in financial reports and encourage companies to apply professional judgment in determining what information to disclose in their financial statements in terms of materiality and disaggregation.
- Regulation no. 2016/1703 of 22 September 2016 - Amendments to IFRS 10, 12 and IAS 28 "Investment entities: applying the consolidation exemption". The amendments clarify the requirements that should be met to allow an investment entity to account for an investment in a subsidiary at fair value rather than consolidate it.

Application of these amendments did not significantly affect the carve-out consolidated financial statements at 31 December 2016.

The following table shows the new standards or amendments to standards with the related endorsement regulation for 2016. Application is mandatory for annual periods beginning on (for entities whose reporting period is the calendar year) or after 1 January 2018.

Endorsement regulation	Name	Standard/Interpretation	Adoption date
2016/2067	IFRS 9	Financial instruments	1 January 2018
2016/1905	IFRS 15	Revenue from contracts with customers	1 January 2018

The following table shows the standards for which amendments were issued in 2016:

Standard	Name	Publication date
IFRS 14	Regulatory deferral accounts	30/01/2014
IFRS 16	Leases	13/01/2016
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	11/09/2014

As the European Commission has not yet endorsed any of these amendments, they have not affected the carve-out consolidated financial statements at 31 December 2016.

The Group prepared the carve-out consolidated financial statements at 31 December 2017 using the recognition and measurement criteria established by the IFRS and endorsed by the European Union and the general guidelines in the Framework for the preparation and presentation of financial statements issued by the IASB. The Group adopted the accounting policies on a going concern basis and they comply with the accruals-basis of accounting, the materiality and relevance of financial disclosure and the principle of substance over form.

The carve-out consolidated financial statements schedules and the tables in the notes present the figures for 2018, 2017 and 2016 on a comparative basis.

Basis of presentation

Statement of financial position, income statement and statement of comprehensive income

They include notes and additional disclosures. Revenue is shown without a plus sign while costs are shown in brackets in the income statement and the statement of comprehensive income. The basis of presentation is consistent with the requirements of IAS 1 Presentation of financial statements.

Statement of changes in net investment

This statement shows changes in the "net investment" during the three years (2018, 2017 and 2016). As already noted, given that the net investment at 31 December 2018 matches the equity presented in the consolidated financial statements of the Nexi Group at the same date, a breakdown of equity is provided in the notes.

Statement of cash flows

The statement of cash flows has been prepared using the indirect method, which is the method traditionally applied by the Mercury - ICBPI Group. All cash inflows and outflows from operating activities are adjusted to exclude the effects of non-monetary transactions.

Cash flows are divided into those from operating, investing and financing activities.

Cash flows generated in the year are shown without a plus sign while cash flows used in the year are shown in brackets.

The 2016 statement of cash flows has been derived from using the statement of financial position as at 31 December 2015 included in the carve out financial statements of Nexi Payments Business as at and for the years ended 31 December 2017, 2016 and 2015, adjusted to exclude the items related to Mercury as it is not included in the consolidation scope of these carve-out consolidated financial statements.

Basis of presentation of the notes

The notes to these carve-out consolidated financial statements include the disclosures required by the applicable IFRS.

The accounting policies described below have been adopted to disclose all the information in the carve-out consolidated financial statements.

Basis of consolidation

The Group has established the consolidation scope in accordance with IFRS 10 Consolidated financial statements. Accordingly, the concept of control is fundamental to consolidation of all types of entities. It exists when the investor concurrently:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to affect those returns through its power over the investee.

Therefore, these carve-out consolidated financial statements include all the entities over which the Group has the above three types of control. Compliance with this requirement had already been checked for the Mercury UK Group to which all the components belong that, due to the Reorganization, are included in the current Nexi Group scope.

When an entity is controlled through the direct exercise of voting rights, control exists when the investor holds more than half the voting rights.

Assessment of whether control exists may be more complex in other circumstances and require a greater use of judgement as it is necessary to consider all the factors and circumstances that give control over the investee (de facto control).

In the case of these carve-out consolidated financial statements, all the consolidated entities are controlled through voting rights. Accordingly, Nexi did not have to exercise judgements or make significant assumptions in order to establish the existence of control over subsidiaries and significant influence over associates.

The carve-out consolidated financial statements of the Nexi Group at 31 December 2018, 2017 and 2016 and the financial statements of the in-scope companies were used for consolidation purposes, after reclassifications and adjustments to comply with the consolidation requirements of the IFRS.

Companies controlled by Nexi as a result of the Reorganization have been consolidated for periods prior to the Reorganization by recognising all the assets, liabilities, revenue and costs on a line-by-line basis and making the following adjustments:

a) the carrying amount of investments in the in-scope subsidiaries and the parent's share of their equity have been eliminated;

b) non-controlling interests in equity and the profit (loss) for the year have been recognised separately.

At first consolidation of an acquiree, in accordance with IFRS 3, any positive differences arising on consolidation, after allocation to the assets and liabilities of the investee, are recorded under intangible assets as goodwill. Conversely, any negative differences are recognised as revenue.

Intragroup assets, liabilities, revenue, costs, gains and losses are eliminated.

The revenue and costs of the subsidiaries (which are listed on the following page) are included in the carve-out consolidated financial statements from their acquisition date. Revenue and costs of an entity or a business sold during the year are recognised in the income statement up to the sales date, which is the date on which the Nexi Group loses control thereover, except when the effect is immaterial, in which case it is included in the gain or loss on the sale of the equity investment.

Pursuant to IAS 28, the carve-out consolidated financial statements (for 2017 in particular) also include the results of investees, i.e., entities over which the Group has significant influence and the power to participate in directing its financial and operating policies without having control or joint control. These investments are measured using the equity method which entails the initial recognition of the investment at cost and its subsequent measurement based on the Group's share of the investee's equity. The Group's share of the associate's profit or loss is recognised separately in the income statement .

The difference between the investment's carrying amount and the Group's share of its equity is included in the investment's carrying amount. If there is indication of impairment, the Group estimates the investment's recoverable amount, considering the discounted future cash flows that the investee may generate, including the investment's costs to sell. When the recoverable amount is less than the investment's carrying amount, the difference is recognised in profit or loss.

At the date of preparation of these carve-out consolidated financial statements, the in-scope companies are not party to joint arrangements as defined by IFRS 11 either in the form of joint ventures or joint operations (when the parties have rights to the net assets of the arrangement).

The investments in the in-scope subsidiaries are set out below.

Investments in subsidiaries - 31 December 2018

		Operating office	Registered office	Type of relationship (1)	Parent	Investment %	Voting rights %
-	Nexi S.p.A.	Milan	Milan	1	Mercury UK Holdco Ltd	93.21	93.21
-	Nexi Payments S.p.A. (3)	Milan	Milan	1	Nexi S.p.A. (2)	98.92	98.92
-	Mercury Payment Services S.p.A.	Milan	Milan	1	Nexi S.p.A.	100	100
-	Oasi S.p.A.	Milan	Milan	1	Nexi S.p.A. (2)	100	100
-	Help Line S.p.A	Cividale del Friuli / MIlan	Cividale del Friuli	1	Nexi S.p.A. (2)	69.24	69.24

Note

(1) Type of relationship: majority of voting rights at ordinary shareholders' meetings

(2) Company now owned by Nexi following completion of the Reorganization

(3) Including the business unit contributed by DepoBank, as well as Bassilichi and Sparkling 18 merged at 31 December 2018.

As well as the above companies, the Group includes the following equity-accounted associates at 31 December 2018:

	Registered office	Operating office	Investor	Investment %	Voting rights %
Win Join	Lecce	Lecce	Bassilichi S.p.A.	24	24
Rs Record store	Piacenza	Piacenza	Bassilichi S.p.A.	30	30
BASSNET S.r.l.	Monteriggioni	Monteriggioni	Bassilichi S.p.A.	49.68	49.68
K.Red	Milan	Milan	Bassilichi S.p.A.	50	50

The carve-out consolidated financial statements also include investments in the following companies, whose assets and liabilities are fully consolidated but which are classified and measured in accordance with IFRS 5 as they are held for sale:

	Registered office	Operating office	Investor	Investment %	Voting rights %
Oasi S.p.A.	Milan	Milan	Nexi S.p.A.	100	100
MoneyNet S.p.A.	Palermo	Palermo	Nexi Payments S.p.A.	100	100
Bassmart S.r.l.	Florence	Florence	Nexi Payments S.p.A	95	95
Paycare	Florence	Florence	Nexi Payments S.p.A.	100	100

Investments in subsidiaries - 31 December 2017

		Operating office	Registered office	Type of relationship (1)	Parent	Investment %	Voting rights %
-	Latino Italy S.r.l. (now Nexi S.p.A.)	Milan	Milan	1	Mercury UK Holdco Ltd	100	100
-	Nexi Payments S.p.A.(3)	Milan	Milan	1	ICBPI S.p.A.(2)	98.75	98.75
-	Mercury Payment Services S.p.A.	Milan	Milan	1	Latino Italy S.r.l.	100	100
-	Bassiilichi S.p.A.	Siena	Siena	1	ICBPI S.p.A.(2)	100	100
-	Oasi S.p.A.	Milan	Milan	1	ICBPI S.p.A.(2)	100	100
-	Help Line S.p.A	Cividale del Friuli / Milan	Cividale del Friuli	1	ICBPI S.p.A.(2)	70.00	70.00

Note

(1) Type of relationship: majority of voting rights at ordinary shareholders' meetings

(2) Company now owned by Nexi following completion of the Reorganization

(3) Including the business unit contributed by DepoBank

Investments in subsidiaries - 31 December 2016

		Operating office	Registered office	Type of relationship (1)	Parent	Investment %	Voting rights %
-	Latino Italy S.r.l. (now Nexi S.p.A.)	Milan	Milan	1	Mercury UK Holdco Ltd	100	100
-	Nexi Payments S.p.A. (formerly CartaSi S.p.A.) (3)	Milan	Milan	1	ICBPI S.p.A.(2)	96.74	96.74
-	Mercury Payment Services S.p.A. (formerly Setefi S.p.A.)	Milan	Milan	1	Latino Italy S.r.l.	100	100
-	Oasi S.p.A.	Milan	Milan	1	ICBPI S.p.A.(2)	100	100
-	Help Line S.p.A	Cividale del Friuli / Milan	Cividale del Friuli	1	ICBPI S.p.A.(2)	70.00	70.00

Note
(1) Type of relationship: majority of voting rights at ordinary shareholders' meetings
(2) Company now owned by Nexi following completion of the Reorganization
(3) Including the business unit contributed by DepoBank

Significant judgements and assumptions adopted to define the consolidation scope

As stated above, as control is principally based on holding the majority of voting rights, there were no situations that would have made it necessary to make judgements or significant assumptions to define the consolidation scope and method.

This is also true for the associates, where significant influence is basically attributable to the voting rights held by the Group.

Investments in subsidiaries with significant non-controlling interests

Non-controlling interests, their voting rights and dividends received

31 December 2018

	Investments	Voting rights (1)	Dividends
Help Line S.p.A. (*)	29.7%	29.7%	-

(1) availability of votes at ordinary shareholder's meeting

(*) Subsidiaries whose non-controlling interests affect the Group

31 December 2017

	Investments	Voting rights (1)	Dividends
Help Line S.p.A. (*)	30%	30%	-

(1) availability of votes at ordinary shareholder's meeting

(*) Subsidiary originally of ICBPI S.p.A. whose non-controlling interests affect the current Group

31 December 2016

	Investments	Voting rights (1)	Dividends
Help Line S.p.A. (*)	30%	30%	-

(1) Availability of votes at ordinary shareholder's meeting
(*) Subsidiary originally of ICBPI S.p.A. whose non-controlling interests affect the current Group

Subsidiaries with significant non-controlling interests: key financial figures

31 December 2018

Help Line S.p.A.

Statement of financial position:	Total assets	Cash and cash equivalents	Loans and receivables	Property and equipment Intangible assets	Other assets	Other liabilities	Equity
	€	€	€	€	€	€	€
	21,907,441	663	2,204,071	7,096,641	12,085,029	(15,781,060)	3,744,893

Statement of profit or loss and other comprehensive income:	Net interest expense	Operating costs	Post-tax profit from continuing operations	Income taxes	Post-tax profit from continuing operations	Other comprehensive expense, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
	€	€	€	€	€	€	€
	(2,385)	1,178,013	1,175,628	(374,670)	800,959	45,096	846,054

31 December 2017

Help Line S.p.A.

Statement of financial position:	Total assets	Cash and cash equivalents	Loans and receivables	Property and equipment Intangible assets	Other assets	Other liabilities	Equity
	€	€	€	€	€	€	€
	23,302,272	488	3,860,585	6,522,672	12,400,033	(18,479,707)	2,888,839

Statement of profit or loss and other comprehensive income:	Net interest expense	Operating costs	Post-tax profit from continuing operations	Income taxes	Post-tax profit from continuing operations	Other comprehensive expense, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
	€	€	€	€	€	€	€
	(793)	(7,437,198)	(7,437,991)	1,781,267	(5,656,724)	34,638	(5,622,086)

31 December 2016

Help Line S.p.A.

Statement of financial position:	Total assets	Cash and cash equivalents	Loans and receivables	Property and equipment Intangible assets	Other assets	Other liabilities	Equity
	€	€	€	€	€	€	€
	22,600,028	927	4,845,840	7,051,897	10,018,488	(11,640,550)	8,510,924

Statement of profit or loss and other comprehensive income:	Net interest expense	Operating costs	Post-tax profit from continuing operations	Income taxes	Post-tax profit from continuing operations (1)	Other comprehensive expense, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
	€	€	€	€	€	€	€
	(384)	(137,510)	137,126	(105,069)	32,057	26,046	58,103

Significant restrictions to voting rights

There are no limitations or significant restrictions to the exercise of voting rights for investments in subsidiaries and associates.

Other disclosures

None.

Main accounting policies

Financial assets at fair value through profit or loss

a) 2018 carve-out

Classification

This category includes financial assets other than those classified as at fair value through other comprehensive income and at amortised cost. At the reporting date, the caption solely consists of equity instruments held for purposes other than trading that the Group has not elected to measure at fair value through other comprehensive income.

According to the general rules of IFRS 9 on the reclassification of financial assets (excluding equity instruments which may never be reclassified), reclassifications into other categories are not allowed unless the entity changes its business model for managing financial assets. This should be highly infrequent and the financial assets may be reclassified out of the amortised cost measurement category into one of the other two categories established by IFRS 9 (Financial assets at fair value through other comprehensive income or Financial assets at fair value through profit or loss). The carrying amount is the fair value at reclassification and the effects of reclassification are recognised prospectively from the reclassification date. The effective interest rate of the reclassified financial asset is determined using its fair value at the reclassification date, which is the date of initial staging for impairment purposes.

Recognition

They are initially recognised at fair value which is usually the transaction price.

Measurement

They are subsequently measured at fair value and any fair value gains or losses are recognised as net trading income (expense) in profit or loss.
Fair value is determined using the criteria set out in the section "Fair value".

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.
Specifically, transferred financial assets are derecognised when the entity retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to remit those cash flows to one or more recipients without material delay.

b) Financial assets and liabilities at fair value through profit or loss as classified at 31 December 2017 and 2016

Classification

A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is an effective hedging instrument).

Derivatives are recognised under assets when they have a positive fair value and under liabilities when they have a negative fair value.

Recognition

Debt and equity instruments are recognised at their settlement date while derivatives are recognised at their trading date.

Financial assets held for trading are initially recognised at fair value, which is usually the transaction price, net of any directly attributable transaction costs.

Measurement

After initial recognition, financial assets held for trading are measured at fair value. Any resulting fair value gains or losses are recognised as “Net hedging or trading income (expense) or gains/losses on the sale or repurchase of financial assets and liabilities” in the income statement. Interest accrued on these assets is recognised as “Interest and similar income”, although interest and/or other income and expense on trading derivatives are recognised as “Net hedging or trading income (expense) or gains/losses on the sale or repurchase of financial assets and liabilities” in the income statement.

The specific section provides information on the calculation of fair value of listed financial instruments. Equity instruments and derivatives hedging equity instruments are maintained at cost when it is not possible to calculate their fair value reliably.

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

Financial assets at fair value through other comprehensive income

a) 2018 carve-out
Classification

This category includes equity instruments other that those held for trading which the Group has elected to measure at fair value through other comprehensive income. Non-derivative financial assets held within the Hold to Collect and Sell business model show a nil balance at the reporting date as they are factored on a daily basis.

According to the general rules of IFRS 9 on the reclassification of financial assets (excluding equity instruments, which cannot be reclassified), when, and only when, an entity changes its business model for managing financial assets, it shall reclassify all affected assets. This should be highly infrequent and the financial assets may be reclassified out of the fair value through other comprehensive income category into one of the other two categories established by IFRS 9 (Financial assets at amortised cost or Financial assets at fair value through profit or loss). The carrying amount is the fair value at reclassification and the effects of reclassification are recognised retrospectively from the reclassification date. If an entity reclassifies a financial asset into the amortised cost measurement category, the cumulative gain or loss in the fair value reserve is reclassified as an adjustment to the fair value of the financial asset at the reclassification date. If an entity reclassifies a financial asset into the fair value through profit or loss measurement category, the cumulative gain or loss previously recognised in the fair value reserve is removed from equity to profit or loss.

Recognition

They are initially recognised at the settlement date and measured at fair value, which includes the directly related transaction costs.

Measurement

They are measured at fair value through other comprehensive income. Dividends are recognised in the income statement while any impairment losses and gains or losses on their sale are not recognised in profit or loss.
Fair value is determined using the criteria set out in the relevant subsequent section.

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

Specifically, transferred financial assets are derecognised when the entity retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to remit those cash flows to one or more recipients without material delay.

b) 2017 and 2016 carve-out former available-for-sale (AFS) financial assets

Classification

This category includes non-derivative financial assets that are not classified as financial assets at amortised cost.

Recognition

They are initially recognised at the settlement date and measured at fair value, which includes the directly related transaction costs.

Measurement

AFS financial assets are subsequently measured at fair value with recognition of interest from amortised cost accounting in profit or loss and any fair value gains or losses in a specific equity reserve until the asset is derecognised or an impairment loss is recognised. Gains or losses recognised in equity are reclassified to profit or loss when the asset is sold.

Realised gains or losses are recognised as “Dividends and net fair value gains or losses on investments at fair value through other comprehensive income” in the income statement.

Fair value is calculated using the same criteria applied to financial assets held for trading.

Equity instruments included in this category and derivatives hedging equity instruments are carried at cost when it is not possible to calculate their fair value reliably.

The Group tests its assets for impairment at each reporting date. When there is a significant or prolonged decline in fair value, it recognises it in profit or loss as the difference between the asset’s carrying amount (acquisition cost net of impairment losses already recognised in profit or loss) and fair value. Fair value losses are significant when they exceed 20% of the cost and prolonged if they have existed for over nine months.

If the fair value of a debt instrument increases in a subsequent period and this increase is objectively due to an event that took place in a period after that in which the impairment loss was recognised in profit or loss, the impairment loss is reversed and the related amount is recognised in the same income statement caption. The reversal may not generate a carrying amount higher than that which would have been obtained by

measuring that asset at amortised cost had the loss not been recognised. Impairment losses on shares, recognised in profit or loss, cannot be reversed through profit or loss but only directly through equity.

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

Financial assets at amortised cost

a) 2018 carve-out

Classification

This category includes non-derivative financial assets held within the HTC business model whose contractual provisions generate cash flows that are solely payments of principal and interest on the outstanding principle (SPPI test).

According to the general rules of IFRS 9 on the reclassification of financial assets, reclassifications into other categories are not allowed unless the entity changes its business model for managing financial assets. This should be highly infrequent and the financial assets may be reclassified out of the amortised cost measurement category into one of the other two categories established by IFRS 9 (Financial assets at fair value through other comprehensive income or Financial assets at fair value through profit or loss). The carrying amount is the fair value at reclassification and the effects of reclassification are recognised retrospectively from the reclassification date. If an entity reclassifies a financial asset into the fair value through profit or loss or other comprehensive income measurement categories, any gain or loss arising from the difference between its amortised cost and fair value is recognised in profit or loss or in other comprehensive income, respectively.

Recognition

They are initially recognised at the agreement signing date, which is usually the disbursement date, based on the financial instrument's fair value, which usually equals the amount disbursed including transaction costs.

Measurement

They are subsequently measured at amortised cost using the effective interest method.

Financial assets at amortised cost are tested for impairment at each reporting date. The impairment rules described below also apply to loan commitments and financial guarantee contracts.

Impairment is calculated considering the financial asset's expected credit losses. Application of the related method requires classification of the financial assets into three stages depending on whether there has been a significant increase in credit risk since initial recognition. A different recognition level is applied to each stage. Specifically:

- Stage 1 includes performing financial instruments that have not seen a significant increase in credit risk since their initial recognition or financial instruments with a low credit risk at the reporting date. The

loss allowance for a financial instrument is measured at an amount equal to the 12-month expected credit losses.

- Stage 2 includes performing financial instruments that have seen a significant increase in credit risk since their initial recognition. Impairment is measured using their lifetime expected credit losses;
- Stage 3 includes credit-impaired financial instruments. Impairment is measured using their lifetime expected credit losses. Credit-impaired financial assets include financial assets classified as bad, unlike to pay or past due by more than 90 days according to Bank of Italy's rules and the IFRS.

With respect to impairment:

- the Group defined the methods to monitor changes in credit quality of its financial assets at amortised cost and fair value through profit or loss;
- it established the criteria to determine when a significant increase in credit risk takes place, in order to correctly allocate the performing exposures to stage 1 or stage 2. Since the IFRS definition of exposures at default is now aligned with the regulatory definition, the approach used to classify exposures as credit-impaired, which are now allocated to stage 3, has not changed.

The entity considers historical information and all the information available at the reporting date, including forward-looking information on the potential worsening in the historical losses.

Impairment losses are recognised in profit or loss as net impairment losses.
An entity recognises an impairment gain on credit-impaired debt instruments when the reasons for the impairment no longer exist and the gain is objectively related to an event that took place after recognition of the impairment loss. Impairment gains are recognised in profit or loss and may not exceed the amortised cost the asset would have had had the impairment loss not been recognised.

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.
Specifically, transferred financial assets are derecognised when the entity retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to remit those cash flows to one or more recipients without material delay.

b) 2017 and 2016 carve-out former loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Recognition

Loans and receivables are initially recognised at the agreement signing date, which is usually the disbursement date, based on the financial instrument's fair value, which usually equals the amount disbursed including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently. The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs.

Measurement

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Interest is recognised as net interest income (expense) in the income statement.

Loans and receivables are tested for impairment at each reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition. Indication of impairment is based on one or more events that took place after initial recognition that have an impact on the estimate of future cash flows of a financial asset or a group of financial assets that can be measured reliably.

Loans and receivables tested individually for impairment include positions classified as bad and unlikely to pay as per the Bank of Italy regulations. Assets not tested individually or for which impairment has not been identified are tested collectively.

The individual impairment test measures the difference between the carrying amount and present value of estimated future cash flows discounted at the position's original effective interest rate.

Estimated cash flows include guarantees securing the debtor's exposure and their probable enforcement. When enforcement of the guarantees is unlikely, the Group uses their present value, while if it is probable that they will be enforced, it considers their realisable value net of the costs to be incurred for enforcement.

Impairment losses are recognised as "Impairment losses and net accruals to provisions for risks and charges" in the income statement.

Loans and receivables are reinstated to their original value in subsequent years when the reasons for impairment are no longer valid, as long as this assessment may be objectively linked to an event that took place after recognition of the impairment loss. Reversals of impairment losses are recognised in the income statement and may not exceed the asset's amortised cost had the impairment loss not been recognised.

Loans and receivables that are not tested individually for impairment are tested collectively. They are grouped into categories based on their risk and the related impairment loss percentages are estimated considering historical data, based on elements observable at their measurement date, so as to estimate each category's unrealised loss. The impairment test considers the counterparty's country risk. Collective impairment losses are recognised in profit or loss.

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

Hedging transactions

a) 2018 carve-out

Classification

Hedging derivative assets and liabilities are recognised under assets and liabilities, respectively, depending on whether their fair value is positive or negative.

Hedges are agreed to mitigate potential losses on a financial instrument or group of financial instruments due to a specific risk, offsetting them with the gains realisable on a different financial instrument or group of financial instruments.

The Group uses the following hedging relationships provided for by IFRS 9:

- fair value hedges, designated to hedge the exposure to changes in fair value (due to the hedged item's risk category) of a recognised asset or liability, or an identified part of such an asset or liability; this type of hedge is used to manage the exposure to changes in fair value of a specific asset arising from currency and price risks;
- cash flow hedges, designated to hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability. This type of hedge is used to sterilise currency risk on highly probable forecast transactions.

As established by IFRS 9, derivatives are designated as hedging instruments if there is formal documentation of the hedging relationship between the hedged item and the hedging instruments complies with all its requirements, including that of hedge effectiveness

Recognition

Hedging derivatives are initially recognised at fair value at the transaction date.

Measurement

They are measured at fair value. Specifically:

- fair value hedges: the derivative is designated as a hedge of an equity instrument and the gain or loss is recognised in other comprehensive income as the Group has made this election.
  Therefore, both the hedged item and the hedging instrument are measured at fair value through other comprehensive income;
- cash flow hedges: the hedging instruments are US dollar deposits held to hedge currency risk on a forecast acquisition of property and equipment. Therefore, the exchange gain or loss on the translation of the deposits into Euro, classified as a financial asset at amortised cost, is recognised in equity (hedging reserve). When the future transaction takes place, the gain or loss is removed from the hedging reserve and included in the acquired asset's carrying amount.

Derecognition

If the hedge effectiveness test is not passed, the risk management objective underlying the hedging relationship is amended. The hedge is discontinued and the derivative classified as held for trading.

Hedge accounting is also discontinued when:

• the derivative expires;

• the hedging instrument is cancelled;

• the hedge is terminated.

b) 2017 and 2016 carve-out

Classification

Liabilities include a derivative with a negative fair value at 31 December 2017.

Hedges of risks are agreed to offset potential losses on a financial instrument or a group of financial instruments due to a specific risk using the gains on a different financial instrument or group of financial instruments should the risk actually materialise.

With respect to the hedge categories in IAS 39, the Group has just one fair value hedge agreed to hedge its exposure to changes in fair value of an asset due to currency and price risks.

As provided for by IAS 39, the derivative qualifies as a hedge if there is formal documentation of the hedging relationship between the hedged item and the hedging instrument and this relationship is effective at inception of the hedge and, prospectively, over its entire life.

The effectiveness of the hedge is assessed at each reporting date using:

• prospective tests, that justify application of hedge accounting as they show the hedge’s expected effectiveness;

• retrospective tests, that show the effectiveness percentage of the hedge in the reporting period by comparing it to a perfect hedge.

Recognition

Derivatives are recognised at fair value at the date of agreement of the related agreement (contract or trade date).

Measurement and recognition of revenue and costs

Hedging derivatives are measured at fair value and the change in fair value of the hedged item is offset against the change in fair value of the hedging instrument. The gain or loss on the hedged item (due to changes in the underlying risk) and the hedging instrument is recognised as “Net hedging or trading income (losses) or gains/losses on the sale or repurchase of financial assets and liabilities” of the income statement. Any difference due to the partial ineffectiveness of the hedge thus affects profit or loss.

If the hedging relationship is terminated, the hedged item is treated in line with its original measurement criteria.

Derecognition

When the test does not confirm the hedge’s effectiveness, the relationship is terminated. The derivative is reclassified as a trading instrument.

In addition, the hedging relationship is terminated when:

• the derivative expires, is terminated or exercised;

• the hedged item is sold, expires or reimbursed.

Equity investments

This caption includes equity-accounted investments as described in the section "Basis of consolidation".

Investments in entities other than subsidiaries, associates or jointly controlled entities are classified as financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income.

Property, equipment and investment property

Classification

This caption includes land, owner-occupied property, furniture and fittings, valuable artistic heritage, the POS devices and ATMs, the electronic equipment and all other equipment, which will be used over more than one year.

Items of property and equipment held for use in production or for the supply of goods and services are classified as such under IAS 16. Property held for investment purposes held to earn rentals or for capital appreciation or both is classified as investment property under IAS 40.

It also comprises assets under finance lease.

Recognition

Assets acquired on the market are recognised as assets when the main risks and rewards of title are transferred. Initial recognition is at cost, which includes all directly related charges.

Land is recognised separately, including when it is purchased together with the building, using the component approach. It is separated from the building based on third party appraisals.

The cost of extraordinary maintenance that increases the item's future economic benefits is capitalised, when the relevant requirements are met, while other ordinary maintenance costs are expensed.

Measurement

Property and equipment are subsequently measured at cost adjusted by accumulated depreciation and any impairment losses/reversals of impairment losses.

The depreciable amount of property and equipment equals their cost as the residual value after depreciation is not deemed significant. Depreciation is charged systematically on a straight-line basis over the asset's estimated useful life to reflect their technical-economic life and residual use.

The useful life of the main categories of property and equipment is as follows:
- owner-occupied property: maximum of 33 years;
- electronic office equipment: five years;
- POS devices and ATMs, classified as electronic equipment, are depreciated over three and seven years, respectively, as these periods are held to reflect their useful lives.

Land is not depreciated as it has an indefinite life nor are works of art as their useful lives cannot be estimated and their value usually increases over time.

The Group tests the assets for impairment at every reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

Derecognition

Property and equipment are derecognised when sold or when no future economic benefits are expected from their continued use or sale.

Intangible assets

Classification

An intangible asset is an identifiable non-monetary asset without physical substance able to generate future economic benefits controllable by the entity.

Recognition

Intangible assets are recognised at cost when the principal risks and rewards are transferred, only when it is probable that the related future economic benefits will materialise and cost can be measured reliably. Otherwise, cost is expensed in the period in which it is incurred.

Specifically:

- technology related intangible assets, such as software acquired with open term licences and software development costs, are amortised on the basis of their expected technological obsolescence over a maximum period of five years. In particular, an intangible asset arising from development of software projects shall be recognised if, and only if, an entity can demonstrate all of the following:
    - its ability to measure reliably the expenditure attributable to the intangible asset during its development;
    - its intention, financial and technical resources to complete the development and to use or sell the intangible asset;
    - how the intangible asset will generate probable future economic benefits.

Intangible assets include customer contracts and customer relationships acquired through business combinations.

Measurement

All intangible assets other than goodwill are considered to have finite useful lives and are amortised in line with their cost and related useful lives.

Capitalised software development costs only comprise the costs directly attributable to the development phase.

Assets to which the difference between the acquisition price and fair value is allocated have a useful life that is estimated individually for each transaction:

- customer contracts: in line with the contract terms;
- customer relationships: roughly 20 years.

Their residual value is taken to be nil.

The Group tests the assets for impairment at every reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

Derecognition

The Group derecognises intangible assets when they are sold or when it does not expect to receive future economic benefits from their continued use or sale.

Goodwill

Goodwill arising on business combinations is the difference between the consideration paid, including related costs, and fair value of the assets acquired and the liabilities assumed at the transaction date. If the difference is positive, it is recognised as an asset (goodwill), being a payment by the acquiree for future economic benefits to be generated by assets that cannot be identified individually or recognised separately. If the difference is negative, it is recognised directly in profit or loss (excess cost).

Goodwill is recognised at cost, net of accumulated impairment losses. It is not amortised.

It is tested annually for impairment even if there are no indicators of impairment.

Goodwill arising from a business combination is allocated to cash generating units ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or CGO is the higher of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of the CGU exceeds its recoverable amount. Impairment losses on goodwill are recognised in profit or loss and are not reversed in subsequent periods. In addition to goodwill, intangible assets with a finite useful life (customer contracts) arising from allocation of the transaction price of business combinations are tested for impairment.

Non-current assets held for sale and disposal groups/liabilities associated with disposal groups

Non-current assets or disposal groups that the Group has decided to sell and their sale is deemed highly probable are classified under assets as “Non-current assets and disposal groups” and liabilities as “Liabilities associated with disposal groups”.

They are measured at the lower of their carrying amount and fair value less costs to sell.

Gains and losses (net of tax) on disposal groups recognised as such in the reporting period are presented separately in the income statement.

Current and deferred taxes

The Group estimates current and deferred taxes, considering the domestic tax consolidation scheme.

Current taxes not yet paid in whole or in part at the reporting date are recognised as tax liabilities in the statement of financial position (IRAP), while those covered by the domestic tax consolidation are recognised under “Other liabilities” as a liability with the tax consolidation parent (IRES). If payments on account in the current or previous reporting periods exceed the related tax expense, the difference is recognised as an asset under “Tax assets - a) current” (IRAP) and as “Other assets” (IRES). Current and deferred taxes are recognised as “Income taxes” in the income statement unless they relate to actuarial gains or losses on defined benefit plans and gains or losses on financial assets at fair value through other comprehensive income, which are recognised directly in the related valuation reserves, net of tax.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting as “Deferred tax assets” and “Deferred tax liabilities”, respectively.

The income tax expense is calculated on the basis of an estimate of the current and deferred tax expense and income. Specifically, deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities and their tax bases. The Group recognises deferred tax assets (in caption 100.b) for deductible temporary differences and carryfoward tax losses that will reverse in subsequent periods when it is probable that it will make a taxable profit in the same period, according to its business plans, against which it can offset the deferred tax assets.

Deferred tax liabilities are calculated on all taxable temporary differences, excluding only reserves taxed upon distribution as, given the amount of the taxed available reserves, the Group does not expect to undertake transactions that would require their taxation.

Deferred tax assets and liabilities are calculated using the tax rates expected to be enacted in the period in which the deferred tax asset will be recovered or the deferred tax liability extinguished, based on the ruling tax laws.

They are remeasured regularly to reflect any changes in the tax laws or rates or any subjective situations in which the Group may find itself.

Financial liabilities at amortised cost

a) 2018 carve-out
Classification

An issued financial instrument is classified as a liability when, based on the substance of the contractual agreement, the Group has a contractual obligation to deliver cash or another financial asset to another party.

Due to banks and customers include funding obtained on the interbank market and from customers, including through repurchase agreements and the placing of bonds and certificates of deposit.

Recognition

Financial liabilities are recognised at the contract agreement date, which is usually when the Group receives the funds and issues the debt instruments.

Financial liabilities are initially recognised at fair value, which is normally the amount received or the issue price, plus the directly related costs/income. Internal administrative costs are excluded.

Measurement

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Interest is recognised as “Interest and similar income” or “Interest and similar expense”.

Derecognition

Financial liabilities, or parts thereof, are derecognised when they are extinguished, i.e., when the obligation is complied with, cancelled or has expired.

b) Financial liabilities at 31 December 2017 and 2016

Classification

A financial liability arises when the Group has a contractual obligation to deliver a certain amount to another entity at a certain date.

Recognition

The Group initially recognises a financial liability when it receives the cash or incurs an obligation to deliver cash or a cash equivalent.

Financial liabilities are initially recognised at fair value, which is normally the amount received or the issue price, plus the directly related costs/income. Internal administrative costs are excluded.

Measurement

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Interest is recognised as “Interest and similar income” or “Interest and similar expense”.

Derecognition

Financial liabilities, or parts thereof, are derecognised when they are extinguished, i.e., when the obligation is complied with, cancelled or has expired.

Financial liabilities held for trading

This caption includes derivatives that do not qualify for hedge accounting with negative fair values.

All financial liabilities held for trading are measured at fair value and the fair value gains or losses are recognised in profit or loss.

The recognition and measurement are similar to those described for financial assets at fair value through profit or loss.

Post-employment benefits

The Italian post-employment benefits (TFR) are a form of deferred remuneration paid to employees when they leave the Group. They accrue over the employment term and are recognised under personnel expense.

As payment is certain but not the date of payment, they are assimilated to defined contribution plans and classified as post-employment benefits.

Following the Italian supplementary pension reform introduced with Legislative decree no. 252 of 5 December 2005, benefits accruing from 1 January 2007 are calculated without using an actuarial approach as the Group's liability is limited to its contribution defined by the Italian Civil Code (defined contribution plan as per IAS 19).

Post-employment benefits vested up to 31 December 2006 continue to be considered defined benefit plans under IAS 19. Actuarial gains and losses are recognised in other comprehensive income while the interest cost is recognised in profit or loss.

Provisions for risks and charges

- Provisions for risks and charges are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be necessary to settle the obligation and the liability can be reliably estimated.

- At each reporting date, the Group reviews its provisions and reverses them, in whole or in part, to profit or loss if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

When the effect of the time value of money is material, provisions are discounted using current market rates. The effect of discounting is recognised in profit or loss.

Foreign currency transactions

Initial recognition

Upon initial recognition, a foreign currency transaction is translated into the reporting currency using the spot exchange rate ruling at the transaction date.

Subsequent measurement

Foreign currency assets and liabilities are retranslated into Euros at each subsequent reporting date using the following criteria:

- monetary items are retranslated using the closing rates;
- non-monetary items measured at historical cost are retranslated using the transaction-date exchange rates;
- non-monetary items measured at fair value are retranslated using the closing rates.

Exchange differences arising from the settlement of monetary items are recognised in profit or loss in the period in which they arise; exchange differences on non-monetary items are recognised in equity or in profit or loss in line with the method used to recognise the gains or losses that include this component.

Foreign currency costs and revenue are translated at the exchange rate ruling on their recognition date or, if they have not been realised, at the closing spot rate.

Income statement and statement of comprehensive income

Income statement

Interest income and expense

Interest income and expense are recognised in profit or loss on all instruments measured at amortised cost, using the effective interest method, including commissions and transaction costs.

Fee and commission income and other income for services

Fee and commission income not considered in amortised-cost accounting and other income for services rendered are recognised when the performance obligation is met and the service is transferred to the customer.

Under IFRS 15, the service is transferred to the customer and the revenue can be recognised:

- at a point in time, when the entity satisfies its performance obligation by transferring the promised good or service; or
- over time, as the entity satisfies its performance obligation by transferring the promised good or service. An asset is transferred when, or as, the customer obtains control of that asset.

Specifically:

- membership fees are recognised considering the credit cards' expiry date;

- fee and commission income from merchants and circuits is recognised on the date of the cardholders' expenditure;

- up-front fees for the activation of new customers, new products or subsequent amendments to contracts that do not entail a substantial amendment of the performance obligations are recognised over the expected contract term;

- revenue from recurring services (mainly maintenance and leases of POS devices and ATMs, processing services) is recognised over the contract term.

As provided for by IFRS 15, fees and commissions are adjusted to reflect the fair value of loyalty programme points. The prize catalogue's fair value is calculated as the average unit value of the loyalty points compared to the market value of the prizes including VAT and delivery costs to reconcile fair value with the value perceived by the customer. The unit fair value is applied to the number of outstanding points net of the points that, based on the analyses performed, will not be redeemed (using redemption estimates). Deferred fees and commissions are reclassified to profit or loss in line with redemption of the points.

Fees and commissions included in amortised-cost accounting to calculate the effective interest rate are excluded as they are recognised under interest.

Fee and commission expense

Fee and commission expense not considered in amortised-cost accounting is recognised when incurred or when the related income is recognised.

Costs for services

Costs for services are recognised when incurred or when the related revenue is recognised.

Costs to fulfil a contract with a customer (such as, for example, card emission costs and costs for ICT services incurred at the start of a relationship with a new customer/launch of a new product or due to immaterial contract amendments) are recognised on a straight line basis over the underlying contract's term.

Dividends

Dividends are recognised in profit or loss when their distribution is approved.

Business combinations

Assets and liabilities deriving from business combinations are recognised at their acquisition-date fair value. After allocating the acquisition price to the assets acquired, liabilities assumed and contingent liabilities to obtain their fair value, any positive difference is recognised as goodwill. After initial recognition, goodwill is tested for impairment.

If the allocation of the acquisition cost to the assets acquired, liabilities assumed (and contingent liabilities) gives rise to a negative difference, this is taken to profit or loss.

Utilisation of estimates and assumptions in the preparation of the carve-out consolidated financial statements

The carve-out consolidated financial statements captions are measured using the accounting policies set out above.

Application of these policies sometimes involves the adoption of estimates and assumptions that may have a significant effect on the carrying amount of assets and liabilities, income and expenses.

The use of reasonable estimates is an essential part of financial reporting but must not affect reliability. The captions affected to a greater extent by the use of estimates and assumptions are:

- financial instruments at fair value (including derivatives) not quoted in active markets;
- financial assets at amortised cost and loan commitments;
- intangible assets;
- investment property;
- estimated useful life of property, equipment and investment property;
- accruals to provisions for risks and charges and liabilities for loyalty programmes;
- deferred liabilities.

A change in an accounting estimate may occur due to changes in the circumstances on which the estimate was based or as a result of new information or more experience. The effect of a change in an accounting

estimate is recognised prospectively by including it in profit or loss of the period of the change and, if the change affects future periods, also in future periods.

No significant changes were made in 2018 to the accounting estimates applied in 2017 or 2016.

Transfers between portfolios of financial assets

No transfers took place in 2018, 2017 or 2016.

First-time adoption of IFRS 9 and IFRS 15

The Group decided to apply IFRS 9 and IFRS 15 without restating the comparative information. Therefore, its transition date is 1 January 2018 and it calculated the cumulative effect of their application on the net investment. The effect of adopting IFRS 15 was calculated considering solely contracts that had not been completed at the transition date (1 January 2018).

Specifically, the Group's analyses showed the following with respect to the classification and measurement of debt instruments:

- Classification and measurement of loans and receivables with banks and customers: these captions, all classified as loans and receivables under IAS 39, were reclassified into the Hold To Collect business model. As they generate cash flows that are solely payments of principal and interest on the outstanding principle (SPPI), these financial assets have been classified as financial assets at amortised cost in line with the same accounting treatment adopted under IAS 39. Given their characteristics (short or very short term), transition to an impairment model based on expected credit losses for some categories did not generate significant effects.
- Classification and measurement of equity instruments: the Group elected to use the option allowed by IFRS 9 for these assets, all classified as available-for-sale financial assets under IAS 39, and measured them at fair value through other comprehensive income, with recognition of just the dividends in profit or loss. Unlike IAS 39, impairment losses and gains or losses on disposal are not recognised in profit or loss under IFRS 9. These changes did not generate effects at the transition date as they involved a reclassification of reserves.
- Hedging relationships: the only transaction in this category is the hedge of the Visa shares, agreed in September 2017. The Group elected to apply IFRS 9 rather than continuing to apply IAS 39. As this transaction qualifies for hedge accounting under both IAS 39 and IFRS 9, its carrying amount was maintained at the transition date although the IAS 39 hedge ratio should be reassessed and possibly adjusted with any changes recognised in profit or loss. At 1 January 2018, it was not necessary to adjust it as the hedge ratio calculated under IAS 39 was the same as that calculated for IFRS 9 purposes. Therefore, transition to IFRS 9 did not affect the Group's net investment and solely led an internal reclassification due to the measurement of the hedged item at fair value rather than using the equity method.

Application of IFRS 15 gave rise to the following effects:

- Up-front revenue and costs to fulfil contracts with customers, recognised directly in profit or loss under IAS 18, are now recognised over the underling contract's term (contract costs).
- This led to the reclassification of the portion of revenue and costs that pertain to future years from retained earnings at 1 January 2018 under IFRS 15.

The effects on the Group's net investment at 31 December 2017 due to application of the standards applicable from 1 January 2018 are summarised below.

Assets	31/12/2017	IFRS 9 impacts	IFRS 15 impacts	01/01/2018	Note
Tax assets	**54,086**	**-**	**3,893**	**57,979**	**(1)**
a) current	27,972		-	27,972	
b) deferred	26,114		3,893	30,007	
Other assets	**339,754**		**18,115**	**357,869**	**(2)**
TOTAL	**393,840**	**-**	**22,007**	**415,847**	

Note:

(1) The caption increased due to the recognition of deferred tax assets calculated at FTA on the deferred income on one-off projects.

(2) The caption increased as a result of recognition of prepayments related to:
- costs to fulfil the contracts with customers for one-off projects of €8,585 thousand;
- other costs to fulfil contracts of €9,529 thousand.

Liabilities and net investment	31/12/2017	IFRS 9 impacts	IFRS 15 impacts	01/01/2018	Note
Tax liabilities	**133,897**	**-**	**5,991**	**139,888**	**(3)**
a) current	*3,182*		-	*3,182*	
b) deferred	*130,715*		*5,991*	*136,706*	
Other liabilities	**720,504**		**11,771**	**732,275**	**(4)**
Net investment	**621,794**	**-**	**4,246**	**626,040**	**(5)**
TOTAL	**1,476,195**	**-**	**22,007**	**1,498,203**	

Note

(3) The caption increased due to the recognition of deferred tax liabilities calculated at FTA on prepayments related to:

(4) The caption increased as a result of recognition of deferred income on one-off projects.

(5) The reserves increased by €3,316 thousand as a result of the following:
- decrease of €2,132 thousand due to the IFRS 15 FTA effect on prepayments and deferred income on one-off projects, net of tax;
- increase of €6,378 thousand due to the IFRS 15 FTA on prepaid costs to fulfil contracts, net of tax.

No reclassifications have been made to assets and liabilities as these captions at 31 December 2017 and 2016 already complied with the requirements of IFRS 9.

Fair value disclosure

The IFRS require that financial instruments classified as at fair value through other comprehensive income and financial assets at fair value through profit or loss be measured at fair value.

IFRS 13 covers fair value measurement and the related disclosure.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., not a forced liquidation or distress sale) on the principal market at the measurement date.

IFRS 13 establishes a hierarchy for measuring fair value of financial instruments depending on the entity's use of discretion, prioritising the use of relevant observable inputs that reflect the assumptions that market participants would use to price assets/liabilities.

The fair value hierarchy has three input levels:

• Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

• Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);

• Level 3: unobservable inputs for the asset or liability.

The valuation model adopted for a financial instrument is the same over time, adjusted only in the case of significant changes in market conditions or changes affecting the issuer.

The fair value of financial assets and liabilities carried at cost or amortised cost is disclosed in the notes and is determined as follows:

- for issued bonds, fair value based on the active markets where the bonds are traded;
- for non-current fixed-rate financial assets and liabilities (other than securities issued), the discounted cash flow method is mainly used;
- for on demand floating-rate assets and liabilities, with a short term or undetermined maturity, the carrying amount net of a collective/individual impairment loss is deemed to reasonably reflect fair value as it reflects changes in interest rates and the issuer credit risk;
- for current floating-rate and fixed-rate securities issued, the carrying amount is deemed to adequately reflect fair value, for the reasons set out above;
- for non-current fixed-rate liabilities, the discounted cash flow method, without considering changes in its credit spread, given its immateriality, is used.

Qualitative disclosure

Levels 2 and 3: valuation techniques and inputs used

Assets and liabilities measured at fair value on a recurring basis are mainly the Visa Inc shares in portfolio and derivatives agreed to hedge price and currency risks on these shares.
The Group measured their fair value as follows given that market prices were not available:

- unlisted equity instruments: considering the market value of class A Visa Inc shares, listed on active markets, into which the shares in portfolio (class C) will be converted;
- OTC derivatives: using generally accepted market models (Black&Scholes for future continuous dividends) adjusted to reflect market parameters. As the derivatives are hedged by CSA (credit support annexes), the counterparty risk is mitigated by the daily settlement of collateral with the counterparty.

Measurement processes and sensitivity

Not applicable as the Group does not have level 3 instruments.

Fair value hierarchy

Transfers between the fair value levels are made to reflect changes in the instruments or their market.

Transfers from level 1 to level 2 are made when there is an inadequate number of contributors or a limited number of investors that hold the outstanding float.

Conversely, instruments that are illiquid when issued and have a small number of trades classified in level 2 are transferred to level 1 when an active market exists.

Quantitative disclosure

Fair value hierarchy

Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

	31 December 2018			31 December 2017			31 December 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets at fair value through profit or loss	-	10	-	154	-	-	136	-	-
Financial assets at fair value through other comprehensive income	-	100,114	-	3	83,252	-	3	47,593	-
Property, equipment and investment property	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-
Total	**-**	**100,124**	**-**	**157**	**83,252**	**-**	**139**	**47,593**	**-**
Financial liabilities held for trading	3,154	-	-	1,051	-	-	-	-	-
Hedging derivatives	16,557	-	-	5,520	-	-	-	-	-
Total	**19,711**	**-**	**-**	**6,571**	**-**	**-**	**-**	**-**	**-**

The Group did not transfer assets and liabilities between levels 1, 2 and 3 during the three years.

Changes in assets measured at fair value on a recurring basis (level 3)

N/A

Changes in liabilities measured at fair value on a recurring basis (level 3)

N/A

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

	31 December 2018				31 December 2017				31 December 2016			
	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and receivables with banks	561,209	-	561,209	-	332,986	-	332,986	-	329,506	-	329,506	-
Loans and receivables with customers	1,107,243	-	1,106,294	949	2,779,365	-	2,778,903	462	2,548,332	-	2,547,416	916
Investment property	3,151	-	3,151	-	6,206	-	6,720	-	6,495	-	6,720	-
Total	**1,671,603**	**-**	**1,670,654**	**949**	**3,118,557**	**-**	**3,118,609**	**462**	**2,884,333**	**-**	**2,883,642**	**916**
Due to banks	792,896	-	792,896	-	2,492,556	-	2,492,556	-	1,858,775	-	1,858,775	-
Due to customers	354,249	-	354,249	-	113,491	-	113,491	-	98,280	-	98,280	-
Securities issued	2,569,689	-	2,582,285	-	-	-	-	-	-	-	-	-
Total	**3,716,834**	**-**	**3,729,430**	**-**	**2,606,047**	**-**	**2,606,047**	**-**	**1,957,055**	**-**	**1,957,055**	**-**

2. NOTES TO THE STATEMENT OF FINANCIAL POSITION

3. Cash and cash equivalents

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
a) Cash	34	36	24
b) Deposits and current accounts	40,654	134,384	8,403
Total	**40,688**	**134,420**	**8,426**

The caption “deposits and current accounts” at 31 December 2017 and 2016 refers to cash in currents accounts held by Latino Italy with ICBPI and HSBC. The 31 December 2016 balance shows the residual capital injections to complete the acquisition of Setefi (now Mercury Payments). The increase in 2017 is mainly due to €113 million received by Latino Italy S.r.l. on the sale of Mercury Processing D.o.o. completed at the end of December 2017 and classified as a capital injection and the increase in the net investment for the purposes of these carve-out financial statements, as it is equal to the cash originally received from Mercury to make the investment. The balance at 31 December 2018 again refers to Nexi S.p.A. and its decrease is due to the net cash outflows for the bond issues, dividend distribution and the Reorganization costs.

4. Financial assets at fair value through profit or loss

	31 December 2018		31 December 2017		31 December 2016	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
	€'000	€'000	€'000	€'000	€'000	€'000
Equity instruments and OEIC units	-	10	154	-	136	-
Total	**-**	**10**	**154**	**-**	**136**	**-**

The caption solely consists of Intesa Sanpaolo shares for incentive plans granted to some Mercury Payment Services employees.

There were no level 3 financial instruments held for trading at the three reporting dates.

5. Financial assets at fair value through other comprehensive income (former available-for-sale financial assets at 31 December 2017 and 2016)

5.1 Breakdown by product

	31 December 2018			31 December 2017			31 December 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Equity instruments	0	100,114	0	3	83,252	-	3	47,593	-
Total	**0**	**100,114**	**0**	**3**	**83,252**	**-**	**3**	**47,593**	**-**

5.2 Breakdown by issuer

	31 December 2018 €'000	31 December 2017 €'000	31 December 2016 €'000
a) Banks	60	3	3
b) Other financial companies	100,012	83,135	47,544
- Visa Inc.	*99,968*	*83,091*	*47,500*
- International Card System AD - Casys	*44*	*44*	*44*
c) Non-financial institutions	42	117	49
Total	**100,114**	**83,255**	**47,596**

The caption "Other financial companies" consists of financial assets (mainly the Visa shares) over which the Group does not exercise control, joint control or significant influence.

The increase in the caption during 2017 is due to the fair value gains on the Visa Inc. preferred shares granted following the sale of the investment in Visa Europe. In September 2017, the Group agreed a derivative to hedge the price and currency risks of these shares.

The increase in 2018 is due to the Visa shares' positive performance.

5.3 Changes

	31 December 2018 €'000	31 December 2017 €'000	31 December 2016 €'000
Equity instruments			
A. Opening balance	**83,255**	**47,596**	**60,120**
B. Increases	16,934	35,659	66,191
- Fair value gains	*16,877*	*1*	*1,129*
- Reversals of impairment	-	*35,591*	*3,416*
- Other increases	*57*	*68*	*61,647*
C. Decreases	*75*	-	*78,716*
- Sales	-	-	*22,363*
- Repayments	-	-	-
- Impairment losses	-	-	-
- Fair value losses	-	-	-
- Other decreases	*75*	-	*56,353*
Total	**100,114**	**83,255**	**47,596**

The increase in "Fair value gains" in 2017 relates to the Visa Inc. preferred shares granted after sale of the shares of Visa Europe. The "Other increases" of 2017 include small investments held by Bassilichi. The fair value gains have a balancing entry in the net investment net of tax and the related effect of the derivatives agreed in 2017.

6. Financial assets at amortised cost

6.1 Loans and receivables with banks: breakdown by product

31 December 2018			Fair value		
	Stages 1 and 2	Stage 3	Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000	€'000
Loans and receivables with banks					
Deposits and current accounts	398,115		-	398,115	-
Prepaid cards - ICBPI-DepoBank business unit	45,864		-	45,864	-
Transferred liquidity not related to cards - ICBPI-DepoBank business unit	5,471			5,471	
Ordinary current accounts used for factoring	53,151		-	53,151	-
Other assets for services provided	58,608			58,608	
Total	**561,209**		**-**	**561,209**	-

31 December 2017			Fair value		
	Stages 1 and 2	Stage 3	Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000	€'000
Loans and receivables with banks					
Deposits and current accounts	213,589	-	-	213,589	-
Prepaid cards - ICBPI-DepoBank business unit	50,946	-	-	50,946	-
Transferred liquidity not related to cards - ICBPI-DepoBank business unit	17,902	-	-	17,902	-
Other assets for services provided	50,550	-	-	50,550	-
Total	**332,986**	**-**	**-**	**332,986**	-

31 December 2016			Fair value		
	Stages 1 and 2	Stage 3	Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000	€'000
Loans and receivables with banks					
Deposits and current accounts	240,316	-	-	240,316	-
Prepaid cards - ICBPI-DepoBank business unit	53,411	-	-	53,411	-
Transferred liquidity not related to cards - ICBPI-DepoBank business unit	8,372	-	-	8,372	-
Other assets for services provided	27,407	-	-	27,407	-
Total	**329,506**	**-**	**-**	**329,506**	-

Current accounts include the operating companies' cash. The slight increase in 2017 is due to normal business activities. The large increase in 2018 is due to Nexi Payments' operating cash flows as its acquirees of 2017 were active for the entire year, the non-distribution of the 2017 profit and the treasury requirements management strategy linked to liability trends.
The balance at 31 December 2018, 2017 and 2016 includes € 76.8 million, €126 million and €228 million, respectively, related to Mercury Payment Services for the daily settlement of transactions processed on behalf of Intesa Sanpaolo and that should be read in conjunction with the liability with Intesa Sanpaolo included in "Due to banks" of €91 million, €171 million and €135 million at 31 December 91, 135 and 2018, respectively although these two positions are shown separately for accounting purposes. Net of these balances, the current accounts include the operating companies' liquidity.
Prepaid cards relate to the IMEL activity on these cards included in the ICBPI-DepoBank business unit up until the Reorganization's completion date and subsequently contributed to Nexi Payments. The liquidity has to be considered separately from that used for operations as it is lodged in a restricted current account with DepoBank that can only be used to cover the use of the prepaid cards by the cardholders.
Starting from 2018 and, specifically, from the Reorganization's effective date, the caption includes the accounts opened for the factoring of ordinary credit card balances (described in more detail in the next note). The balance includes deposits and term accounts of €53.4 million set up for Unicredit Factoring.
Other assets for services provided mainly refer to services provided by Mercury Payment Services to Intesa Sanpaolo S.p.A. and show an increase in 2017 in line with the rise in revenue.

6.2 Loans and receivables with customers: breakdown by product

31 December 2018	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3 Purchased	Stage 3 Other	L1	L2	L3
	€'000	€'000	€'000	€'000	€'000	€'000
Credit cards	186,273	-	-	-	186,273	-
International circuits and merchants	504,451	-	-	-	504,451	-
Revolving credit cards	212,327	-	201	-	212,528	-
Personal loans	5,790	-	-	-	5,790	-
Receivables factored without recourse	192,524	-	-	-	192,524	-
Other assets	4,930	-	748	-	5,678	-
Total	**1,106,295**	**-**	**949**	**-**	**1,107,243**	**-**

31 December 2017	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3 Purchased	Stage 3 Other	L1	L2	L3
	€'000	€'000	€'000	€'000	€'000	€'000
Credit cards	2,104,293	-	-	-	2,104,293	-
International circuits and merchants	453,735	-	-	-	453,735	-
Revolving credit cards	213,972	-	170	-	213,972	170
Personal loans	6,416	-	-	-	6,416	-
Other assets	487	-	292	-	487	292
Total	**2,778,903**	**-**	**462**	**-**	**2,778,903**	**462**

31 December 2016	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3 Purchased	Stage 3 Other	L1	L2	L3
	€'000	€'000	€'000	€'000	€'000	€'000
Credit cards	2,010,898	-	3	-	2,010,898	3
International circuits and merchants	304,434	-	581	-	304,434	581
Revolving credit cards	216,874	-	151	-	216,874	151
Personal loans	7,505	-	-	-	7,505	-
Other assets	7,705	-	181	-	7,705	181
Total	**2,547,416**	**-**	**916**	**-**	**2,547,416**	**916**

Credit risk is modest as it is mostly transferred to the partner banks and to the factor for banking issuing activities. Direct issuing is marginal and only for selected customers while exposures with international customers are settled within one to three days. The only limited risk situations related to bad exposures (of a very small amount) refer to amounts due from merchants for fees to be collected or amounts settled as a result of operating irregularities that, therefore, have more of an operational risk than a credit risk.

Ordinary credit cards shows the reporting-date balance of the amount spent by cardholders in the last month of the year and usually charged to their current accounts by the partner banks by the 15th of the subsequent month. The balances at 31 December 2016 and 2017 were affected by the operating procedure in place before the Reorganization whereby Nexi Payments advanced the entire amount spent by the cardholders using funding facilities provided by ICBPI. The balance at 31 December 2018 is significantly lower as, following the Reorganization and exit from the banking group, Nexi Payments redefined the methods used to manage funding and given the termination of the long-standing credit facilities provided by DepoBank. Therefore, as part of its new funding strategy, starting from 1 July 2018, Nexi Payments signed a contract for the daily factoring of receivables from most of its ordinary credit cards (roughly 92% of the amount involved) issued together with its partner banks.

The factoring agreement provides for three credit facilities:

- a facility for the daily non-recourse factoring of receivables arising on the use of the cards and guaranteed by a list of banks defined by the factor based on each bank's risk profile; this facility allows for the derecognition of the receivables for which the Group has transferred all the risks and rewards to the factor. The difference between their carrying amount and the net factoring price is recognised under "Dividends and gains/losses on investments and the sale of financial assets at fair value through other comprehensive income";
- a facility for the advances on recourse factoring of receivables arising on the use of cards and guaranteed by banks other than those for the above facility. This facility does not allow the derecognition of the receivables and entails the recognition of a liability with the factor measured at amortised cost;
- a bridge facility, to be used solely when there is a time gap between when the transaction performed using the card issued by the Group is debited and when the related receivable from the cardholder is assigned to the factor.

These credit facilities are revolving and include the assignment, pursuant to the factoring law (Law no. 52/91 as subsequently amended), of all the existing and future receivables arising on the use of ordinary credit cards issued in line with the agreements with the partner banks selected by the factor. With respect to the receivables covered by the first facility, their factoring has led to a change in the business model from HTC to HTCS. Given that the receivables are assigned on a daily basis without recourse and are, therefore, derecognised, this change in the business model did not affect the measurement of loans and receivables.

At the reporting date, the derecognised receivables amount to €1,712 million, the liability for the recourse factoring facility to €192.5 million and the liability for the bridge factoring facility to €109 million.

Amounts due to international circuits include the daily settlements on the Visa-Mastercard circuits of which Nexi Payments and Mercury Payment Services are direct members. They include the advances made by Nexi Payments to its merchants for transactions still to be settled on the circuits. They are all settled in a few days (between one to three days usually). The reporting-date balances are affected by the number of holidays around year end when the settlement systems are closed leading to a greater accumulation of transactions and utilisation of funding facilities. The 2017 increase is mainly due to the higher transaction volumes on both the ordinary credit cards and the new scope of the MPS Acquiring and DB Acquiring businesses acquired on 1 July and 1 June 2017, respectively.

6.3 Loans and receivables with customers: gross balances, net balances and impairment losses on performing and non-performing exposures

	31 December 2018			31 December 2017			31 December 2016		
	Gross	Allowance	Net	Gross	Allowance	Net	Gross	Allowance	Net
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Performing	1,107,951	(1,657)	1,106,294	2,781,427	(2,523)	2,778,904	2,549,969	(2,553)	2,547,416
Non-performing	5,922	(4,973)	949	5,304	(4,842)	462	7,553	(6,637)	916
Total	**1,113,873**	**(6,630)**	**1,107,243**	**2,786,731**	**(7,365)**	**2,779,365**	**2,557,522**	**(9,190)**	**2,548,332**

With respect to the risk classes provided for by IFRS 9, the performing exposures are all classified in stage 1 while non-performing exposures are classified in stage 3.

7. Equity investments

7.1 Equity investments

At 31 December 2018, the balance of €730 thousand relates to Nexi Payments' investments in Win Join and RC Records Store S.p.A. (after the merger with Bassilichi that took effect on 31 December 2018).

	Registered office	Operating office	Type of relationship	Investment		Voting rights %
				Investor	Investment %	
A. Jointly-controlled entities						
B. Associates						
1. Win Join	Lecce	Lecce	1	Bassilichi S.p.A.	24	24
2. Rs Record store	Piacenza	Piacenza	1	Bassilichi S.p.A.	30	30
3. Bassnet S.r.l.	Monteriggioni	Monteriggioni	1	Bassilichi S.p.A.	49.68	49.68
4. K.Red	Milan	Milan	1	Bassilichi S.p.A.	50	50

	Registered office	Operating office	Investment %	Voting rights %	Carrying amount
A. Subsidiaries					
B. Jointly controlled subsidiaries					
1. WIN JOIN SOC.CONSORTILE A R.L.	Lecce	Lecce	24	24	48
2. RS RECORDS STORE S.P.A.	Piacenza	Piacenza	30	30	682
3. BASSNET S.r.l.	Monteriggioni	Monteriggioni	49.68	49.68	-
4. K.Red	Milan	Milan	50	50	-
C. Associates					
Total					**730**

7.2 Changes in 2018

	Group equity investments	Non-group equity investments	Total
A. Opening balance	-	-	0
B. Increases	**4,730**	-	**4,730**
B.1 Purchases	4,000	-	4,000
B.2 Reversals of impairment losses	-	-	-
B.3 Fair value gains	-	-	-
B.4 Other increases	730	-	730
C. Decreases	4,000	-	**4,000**
C.1 Purchases	4,000	-	4,000
D. Closing balance	**730**		**730**

8. Property and equipment

8.1 Property and equipment: breakdown of assets measured at cost

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
1. Owned			
a) land	17,218	17,135	13,209
b) buildings	53,685	55,877	41,686
c) furniture	1,159	1,038	1,509
d) electronic systems	81,334	81,950	52,986
e) other	2,796	907	425
Total	**156,193**	**156,907**	**109,816**

The Group does not have assets held under finance lease at the three reporting dates.

At 31 December 2016, “Buildings” include the assets acquired in 2015 when the Mercury Group was set up and remeasured due to completion of the purchase price allocation (PPA) procedure, net of depreciation for the year. Electronic equipment mainly consists of POS devices and ATM.

The 2017 increase for both these captions relates to the acquisition of Bassilichi.

The balance at 31 December 2018 is unchanged due to the new technological investments and new POS devices and ATMs which were just below the depreciation expense for the year.

No indications of impairment were identified for items of property and equipment.

8.2 Property and equipment: changes

31 December 2018	Land	Buildings	Furniture	Electronic systems	Other	Total
	€'000	€'000	€'000	€'000	€'000	€'000
A. Opening balance	**17,135**	**55,877**	**1,038**	**81,951**	**907**	**156,907**
B. Increases						**48,349**
B.1 Purchases	-	52	631	39,865	53	40,600
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	658	5,125	-	-	-	5,783
B.7 Other increases	-	-	-	-	1,965	1,965
C. Decreases						**- 49,067**
C.1 Sales	-	(1,240)	(386)	(2,054)	-	(3,681)
C.2 Depreciation	-	(3,408)	(123)	(38,046)	(128)	(41,706)
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	(574)	(2,173)	-	-	-	(2,747)
b) non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases		- 548	-	(382)	(3)	(933)
D. Closing balance	**17,218**	**53,685**	**1,159**	**81,334**	**2,796**	**156,193**

Acquisitions made during the year mainly refer to the electronic systems and, specifically, the POS devices and ATMs (€18.4 million and €1.4 million, respectively for the latter two).

31 December 2017	Land	Buildings	Furniture	Electronic systems	Other	Total
	€'000	€'000	€'000	€'000	€'000	€'000
A. Opening balance	**13,209**	**41,686**	**1,509**	**52,986**	**425**	**109,816**
B. Increases						-
B.1 Purchases	-	25	707	40,312	621	41,665
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	20,060	-	14,669	4,486	39,125
C. Decreases						
C.1 Sales	-	-	(1,114)	(497)	-	(1,611)
C.2 Depreciation	-	(2,008)	(65)	(25,237)	(4,870)	(32,179)
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
D. Closing balance	**13,209**	**59,763**	**1,038**	**82,234**	**664**	**156,907**

Acquisitions made during the year mainly refer to the electronic systems and, specifically, the POS devices and ATMs (€26.4 million and €3.5 million, respectively for the latter two).
The "Other increases" refer to the inclusion of the assets of Bassilichi, acquired on 3 July 2017, as noted earlier.

31 December 2016	Land	Buildings	Furniture	Electronic systems	Other	Total
	€'000	€'000	€'000	€'000	€'000	€'000
A. Opening balance	**13,209**	**28,790**	**1,506**	**37,747**	**359**	**81,612**
B. Increases						
B.1 Purchases	-	-	69	25,514	163	25,746
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	14,870	-	10,772	70	25,712
C. Decreases						
C.1 Sales	-	-	-	(2,529)	-	(2,529)
C.2 Depreciation	-	(1,974)	(66)	(18,518)	(167)	(20,725)
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
D. Closing balance	**13,209**	**41,686**	**1,509**	**52,986**	**425**	**109,816**

Acquisitions made during the year mainly refer to the electronic systems and, specifically, the POS devices and ATMs (€19 million and €4.5 million, respectively for the latter two).

The “Other increases” refer to the inclusion of the assets of Mercury Payment Services acquired on 15 December 2016.

9. Investment property

9.1 Investment property: *breakdown of assets measured at cost*

31 December 2018	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000
1. Owned	**3,151**	-	-	-
a) land	2,332	-	-	-
b) buildings	819	-	-	-
2. Leased	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
Total	**3,151**	**-**	**-**	**-**

31 December 2017	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000
1. Owned	**6,206**	-	-	-
a) land	903	-	-	-
b) buildings	5,303	-	-	-
2. Leased	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
Total	**6,206**	**-**	**6,720**	**-**

31 December 2016	Carrying	Fair value		
		Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000
1. Owned	**6,495**	-	-	-
a) land	903	-	-	-
b) buildings	5,592	-	-	-
2. Leased	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
Total	**6,495**	**-**	**6,720**	**-**

At 31 December 2018, 2017 and 2016, the balances include the buildings and land held for investment purposes, the fair value of which was determined using an independent expert’s appraisal.

Investment property is recognised in accordance with IAS 40 and includes buildings (both owned and held under finance lease) held to earn rentals or for capital appreciation.

Investment property is measured at cost, net of depreciation.

Its location is as follows:

- Via Selvamaggio, Colle di Val D’Elsa (SI) owned by Bassilichi S.p.A.;
- Strada delle Frigge, Monteriggioni (SI) owned by Bassilichi S.p.A.;
- Via Nazionale 3, San Giovanni al Natisone (UD), owned by HelpLine S.p.A.

The property owned by Bassilichi was classified in this category in 2018 after completion of the acquisition and integration process.

In 2018, Nexi Payments S.p.A. sold its property at Stada 1, Assago MilanoFiori (Milan), recognising a gain of €150 thousand.

At the three reporting dates (31 December 2018, 2017 and 2016), there are no:

- restrictions to the sale of investment property or the collection of lease payments;
- obligations or contractual commitments to purchase, build, develop, repair or maintain investment property.

9.2 Investment property: *changes*

	31 December 2018		31 December 2017		31 December 2016	
	Land €'000	Buildings €'000	Land €'000	Buildings €'000	Land €'000	Buildings €'000
A. Gross opening balance	**903**	**5,303**	**903**	**5,592**	**903**	**5,881**
A.1 Total net impairment losses	-	0	-	0	0	0
A.2 Net opening balance	903	5,303	903	5,592	903	5,881
B. Increases:	**574**	**2,173**	**-**	**-**	**-**	**-**
B.1 Purchases	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	574	2,173	-	-	-	-
B.7 Other increases	-	-	-	-	-	-
C. Decreases:	**(658)**	**(5,144)**	**-**	**(289)**	**-**	**(289)**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	(19)	-	(289)	-	(289)
C.3 Impairment losses	-	-	-	-	-	-
C.4 Fair value losses	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers	(658)	(5,125)	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
D. Net closing balance	**819**	**2,332**	**903**	**5,303**	**903**	**5,592**
E. Cost	**3,780**		**6,720**		**6,720**	

10. Intangible assets

10.1 Intangible assets: breakdown

	31 December 2018		31 December 2017		31 December 2016	
	Finite life €'000	Indefinite life €'000	Finite life €'000	Indefinite life €'000	Finite life €'000	Indefinite life €'000
A.1 Goodwill	-	2,097,379	-	2,071,665	-	1,500,565
A.2 Intangible assets - Customer contracts	418,603		458,770	-	365,529	-
A.3 Other	152,311	-	77,202	-	40,364	-
Total	**570,914**	**2,097,379**	**535,972**	**2,071,665**	**405,893**	**1,500,565**

Goodwill at 31 December 2016 is due to the acquisition of the ICBPI Group by Mercury for the part allocated to the non-banking activities that were then transferred to Nexi after the Reorganization. The balance is net of final PPA adjustments of €26.7 million. It includes goodwill of Mercury Payment Services, the acquisition of which was completed at the end of 2016, which amounted to €590.8 million after the PPA procedure.

The 2017 increase in goodwill is due to the acquisition of the merchant acquiring business from Monte dei Paschi di Siena S.p.A. and Deutsche Bank S.p.A. (€433.4 million) and Bassilichi S.p.A. (€137.7 million).

The 2018 increase in goodwill relates to the acquisition of the Carige Acquiring business (approximately €22 million) and Sparkling 18 (for the remainder).

Note 35 provides more information about the effects of the business combinations performed in the three years.

The other intangible assets include new software and technological upgrades for which the related investments have increased since 2016 in line with the new development plans finalised after Mercury's acquisition of the ICBPI Group at the end of 2015. The 31 December 2016 balance includes the effect of allocating part of the consideration for Mercury Payment Services (€366 million) to intangible assets with finite useful lives (customer contracts). Amortisation thereof started in 2017 given that the acquisition was finalised at the end of December 2016.

Upon completion of the PPA procedure for the MPS Acquiring and DB Acquiring businesses, the Group allocated €126.7 million to customer contracts at 31 December 2017 and recognised amortisation of €3 million for the second half of that year.

10.2 Intangible assets: changes

31 December 2018		Other intangible assets: purchases		Other intangible assets: other		
	Goodwill	Finite life	Indefinite life	Finite life	Indefinite life	Total
€'000		€'000	€'000	€'000	€'000	€'000
A. Opening balance	**2,071,665**	**458,770 -**	**-**	**77,202**	**-**	**2,607,637**
A.1 Total net impairment losses	-	- -	-	-	-	-
A.2 Net opening balance	**2,071,665**	**458,770 -**	**-**	**77,202**	**-**	**2,607,637**
B. Increases	**25,714**	**- -**	**-**	**109,483**	**-**	**135,197**
Purchases	-	- -	-	109,031	-	109,031
Other increases	25,714	- -	-	452	-	26,166
C. Decreases	**-**	**(40,167)**	**-**	**(34,374)**	**-**	**(74,541)**
Sales	-	- -	-	(1,377)	-	(1,377)
Impairment losses	-	(40,167)	-	(32,997)	-	(73,164)
Other decreases	-	-	-	-	-	-
D. Net closing balance	**2,097,379**	**418,603**	**-**	**152,311**	**-**	**2,668,293**
D.1 Total net impairment losses	-	-	-	-	-	-
E. Gross closing balance	**2,097,379**	**418,603**	**-**	**152,311**	**-**	**2,668,293**

Goodwill increased as a result of the acquisitions of the Carige Acquiring business and Sparkling 18 (€25.7 million). During the year, the Group continued to invest in developing information platforms and systems for €109 million.

31 December 2017		Other intangible assets: purchases		Other intangible assets: other		
	Goodwill	Finite life	Indefinite life	Finite life	Indefinite life	Total
	€'000	€'000	€'000	€'000	€'000	€'000
A. Opening balance	**1,500,565**	**365,529 -**	**-**	**40,363**	**-**	**1,906,457**
A.1 Total net impairment losses	-	- -	-	-	-	-
A.2 Net opening balance	**1,500,565**	**365,529 -**	**-**	**40,363**	**-**	**1,906,457**
B. Increases	**571,100**	**126,687 -**	**-**	**59,478**	**-**	**757,265**
Purchases	-	- -	-	40,469	-	40,469
Other increases	571,100	126,687 -	-	19,009	-	716,796
C. Decreases	**-**	**(33,446) -**	**-**	**(22,639)**	**-**	**(56,085)**
Sales	-	- -	-	-	-	-
Impairment losses	-	(33,446) -	-	(22,639)	-	(56,085)
Other decreases	-	- -	-	-	-	-
D. Net closing balance	**2,071,665**	**458,770 -**	**-**	**77,202**	**-**	**2,607,637**
D.1 Total net impairment losses	-	- -	-	-	-	-
E. Gross closing balance	**2,071,665**	**458,770 -**	**-**	**77,202**	**-**	**2,607,637**

The 2017 increase reflects the acquisition of the DB Acquiring and MPS Acquiring businesses on 1 June and 1 July 2017, respectively, for which the Group classified €126.7 million under intangible assets with finite useful lives, and Bassilichi acquired on 3 July 2017.

31 December 2016		Other intangible assets: purchases		Other intangible assets: other		
	Goodwill	Finite life	Indefinite life	Finite life	Indefinite life	Total
	€'000	€'000	€'000	€'000	€'000	€'000
A. Opening balance	**948,208**	**- -**		**12,033**	**-**	**960,241**
A.1 Total net impairment losses	-	- -		-	-	-
A.2 Net opening balance	**948,208**	**- -**		**12,033**	**-**	**960,241**
B. Increases	**577,157**	**365,529 -**		**34,736**	**-**	**977,422**
Purchases	-	- -		26,185	-	26,185
Other increases	577,157	365,529 -		8,551	-	951,237
C. Decreases	**(24,799)**	**- -**		**(6,010)**	**-**	**(30,809)**
Sales	-	- -		-	-	-
Impairment losses	-	- -		(6,010)	-	(6,010)
Other decreases	(24,799)	- -		-	-	(24,799)
D. Net closing balance	**1,500,566**	**365,529 -**		**40,759**	**-**	**1,906,854**
D.1 Total net impairment losses	-	- -		(396)	-	(396)
E. Gross closing balance	**1,500,565**	**365,529 -**		**40,363**	**-**	**1,906,458**

The 2016 increase relates to completion of the PPA procedure for Mercury Payment Services on 15 December 2016, of which €590.8 million included in goodwill and €366 million under intangible assets with finite useful lives (customer contracts). The additional increase in goodwill is due to completion of the PPA procedure for the ICBPI Group.

10.3 Intangible assets: impairment test

31 December 2018

The Group tested just its intangible assets with indefinite useful lives arising from the allocation of the consideration paid for the business combinations for impairment, as no impairment indicators were identified for the other intangible assets with finite useful lives

It performed this test on the following CGUs identifiable at the reporting date:

CGU	Goodwill	Intangible assets*
Monetica Nexi Payments	1,506,551	118,119
Mercury Payment Services	590,828	304,608
	2,097,379	**422,727**

** Assets with a finite useful life arising on acquisitions (customer contracts)*

The allocation of goodwill to the above CGUs is in line with the CGUs identified by the ultimate parent, Mercury UK Holdco, for the purposes of its 2017 financial statements with just the following modifications:

- goodwill arising on the business combinations performed in 2017 (acquisition of the Bassilichi Group and the MPS Acquiring and DB Acquiring business units) referred to separate CGUs in Mercury UK's 2017 financial statements. In 2018 after integration of the acquired assets, this goodwill no longer refers to separate CGUs as they were merged into the Monetica Nexi Payments CGU;
- goodwill related to the Payments business unit, transferred by DepoBank to Nexi Payments as part of the Reorganization in 2018, was included in the Payments CGU in 2017. Following the Reorganization, this CGU was included in Nexi Payments in 2018.

The Group did not test the Outsourcing CGU for impairment as this asset is held for sale and, under IFRS 5, is measured at the lower of its carrying amount (including goodwill) and fair value less costs to sell.

The intangible assets with a finite useful life (customer contracts and customer relationships) arising from the PPA procedure applied to the acquisition of Mercury Payments Services and the MPS Acquiring and DB Acquiring business units, respectively, were also tested for impairment as they are included in the above CGUs.

The recoverable amount of a CGU is the higher of:

- fair value less costs to sell; and
- value in use.

The Group estimated value in use using the unlevered version of the discounted cash flow (DCF) method applied to its 2019-2023 business plan, approved by the parent's board of directors and from which the business plans for Nexi Payments and Mercury Payment Services were extracted.

The key parameters used to calculate the cost of capital and, hence, value in use, are as follows:

Cost of capital	
Risk-free rate at 31 December 2018	2.7%
Equity market risk premium	5.7%
Beta median	0.98%
Ke	8.3%
Kd (net of tax)	1.9%
WACC	7.1%
Growth rate	2.0%

The above parameters were calculated as follows:

- risk-free rate: gross return on the 10-year Italian government bonds (BTP) at 31 December 2018 (source: Info provider).
- Beta: a sample of comparables analysed every month for five years.
- equity market risk premium: in line with best professional valuation practice.

With respect to the CGUs' estimated terminal value:

- growth rate (g): 2.0%, in line with the ECB's objectives for the Eurozone's inflation rate;
- a prudent increase of 100 bps applied to the discount rate.

Fair value was determined using the market multiples method and, specifically, the EV/gross operating profit and EV/operating profit multiples for a sample of comparables.

The above impairment test showed that the carrying amounts are fully recoverable.

The Group performed a sensitivity analysis assuming an increase or decrease of 0.5% in the WACC and growth rate, which confirmed that no impairment took place in either scenario.

As a result of the Reorganization and given Nexi's post-Reorganization core business and the consequent non-applicability of the minimum capital requirements, the most appropriate impairment test method is the unlevered version of the discounted cash flow (DCF) method. Accordingly, the cash flows for the explicit period and the terminal value are discounted using the weighted average cost of capital (WACC), i.e., the weighted average cost of the entity's venture and debt capital.

31 December 2017

The Group tested its intangible assets with indefinite useful lives for impairment.

It performed this test on the following CGUs identifiable at the reporting date. Except for the changes to the scope of the Group and/or business, the test was in line with that carried out for 2016:

CGU	Goodwill (€000)
Nexi Payments	789,737
MPS and DB Acquiring	433,395
Payments - ICBPI business unit	120,000
Bassilichi - Triveneto	137,705
Mercury Payment Services	590,828
Goodwill	**2,071,665**
Intangible assets - Customer contracts	458,770
Outsourcing CGU held for sale	27,759
	2,558,194

Goodwill recognised at 31 December 2017 (€2,071,665 thousand) includes that allocated to Mercury Payment Services after completion of the PPA procedure and the businesses acquired during the year. Goodwill allocated to Oasi (€27,759 million) has been reclassified as an asset held for sale but was originally included in the impairment test.

The recoverable amount of a CGU is the higher of:

- fair value less costs to sell; and
- value in use ("VIU").

The Group estimated value in use using the excess capital version of the dividend discount model, based on its 2017-2021 business plan, approved by the parent's board of directors on 9 February 2017. The pro forma version of the business plan was used to consider the revisions approved by the board of directors, the changes in the consolidation scope and adjustments to the 2018 budget.

Fair value was determined using the market multiples method, i.e., the median of the multiples of a basket of comparables.

The key parameters used to calculate the cost of capital and, hence, value in use, are as follows:

Cost of capital - Ke		**Carve-out CGUs**		
	Cards MPS/DB/Bassilichi	**Payments**	**Outsourcing**	**Carve-out**
Risk-free rate at 31 December 2017	1.97%	1.97%	1.97%	1.97%
Beta	1.12	1.15	0.96	1.12
Equity market risk premium	5.50%	5.50%	5.50%	5.50%
Cost of capital	**8.15%**	**8.32%**	**7.24%**	**8.60%**

The above parameters were calculated as follows:

- risk-free rate: gross return on the 10-year Italian government bonds (BTP) at 31 December 2017 (source: Info provider).
- beta used for consolidated DDM: weighted average of the betas of the comparables identified for each CGU;

- equity market risk premium: in line with best professional valuation practice.

With respect to the CGUs' estimated terminal value:

- growth rate (g): 2.0%, in line with the ECB's objectives for the Eurozone's inflation rate;
- A prudent increase of 100 bps applied to the discount rate.

The dividends distributable during the explicit period and for terminal value calculation have been determined assuming compliance with the minimum requirements established by Bank of Italy. They are calculated using the Nexi Group's consolidation scope.

The tests did not identify any impairment indicators at 31 December 2017.

31 December 2016

The Group tested its intangible assets with indefinite useful lives for impairment.

It tested the following CGUs:

CGU	Goodwill (€'000)
Nexi Payments	789,737
Payments - ICBPI business unit	120,000
Goodwill	**909,737**
Outsourcing CGU held for sale	27,759
	937,496

At 31 December 2016, goodwill of €937,496 thousand arose on the acquisition of ICBPI in December 2015 (and especially the cards and payment services businesses) for which the PPA procedure was completed in December 2016. The balance includes €27,759 thousand related to Oasi, now classified as an asset held for sale which had been tested for impairment.

Goodwill of €590,828 thousand recognised on the acquisition of Mercury Payment Services in December 2016 (€835,477 thousand, including the amount allocated to assets with a finite useful life) was tested for impairment for the first time at 31 December 2017, given that the acquisition took place near the end of the year.

The recoverable amount of a CGU is the higher of:

- fair value less costs to sell; and
- value in use ("VIU").

Fair value was determined using the market multiples method, i.e., the median of the multiples of a basket of comparables.

The key parameters used to calculate the cost of capital and, hence, value in use, are as follows:

Cost of capital - Ke	Carve-out CGUs			
	Cards	Payments	Outsourcing	Carve-out
Risk-free rate at 31 December 2016	1.82%	1.82%	1.82%	1.82%
Beta	1.13	1.12	0.91	1.13
Equity market risk premium	6.02%	6.02%	6.02%	6.02%
Market risk premium	6.82%	6.73%	5.46%	6.78%
Cost of capital	**8.63%**	**8.55%**	**7.27%**	**8.60%**

The above parameters were calculated as follows:

- risk-free rate: gross return on the 10-year Italian government bonds (BTP) at 31 December 2017 (source: Info provider).
- beta used for consolidated DDM: weighted average of the betas of the comparables identified for each CGU;
- Equity market risk premium: ERP for Italy– December 2016 (source: ERP by months – A. Damodaran).

With respect to the CGUs' estimated terminal value:

- growth rate (g): 2.0%, in line with the ECB's objectives for the Eurozone's inflation rate;
- a prudent increase of 100 bps applied to the discount rate.

The dividends distributable during the explicit period and for terminal value calculation have been determined assuming compliance with the minimum requirements established by Bank of Italy.

The tests did not identify any impairment indicators at 31 December 2016.

11. Tax asset and liabilities

11.1 Current tax asset and liabilities

At 31 December 2018 and 2017, the Group has current tax assets of €29,299 thousand and €27,972 thousand, respectively, and IRES and IRAP current tax liabilities of €31,124 thousand and €3,182 thousand, respectively.

At 31 December 2016, current tax assets amount to €23,162 thousand and current tax liabilities to €10,926 thousand (for IRES and IRAP).

11.2 Deferred tax assets: breakdown

	31 December 2018 €'000	31 December 2017 €'000	31 December 2016 €'000
Deferred tax assets			
- of which: recognised in net investment	1,299	435	435
- of which: recognised in profit or loss	32,275	25,679	22,478
Total	**33,574**	**26,114**	**22,913**

Deferred tax assets recognised in equity mainly relate to fair value gains and losses on the Group's derivatives.
Deferred tax assets recognised in profit or loss mostly refer to impairment losses on loans and receivables, temporary differences relating to goodwill and the FTA of IFRS 15 (described in the related note).

11.3 Deferred tax liabilities: breakdown

	31 December 2018 €'000	31 December 2017 €'000	31 December 2016 €'000
Deferred tax liabilities			
- of which: recognised in net investment (equity at 31 December 2018)	3,439	2,267	306
- of which: recognised in profit or loss	27,896	18,623	8,331
- of which: *recognised in profit or loss due to elimination of the equity investments*	100,734	109,824	120,881
Total	**132,070**	**130,715**	**129,517**

The Italian group companies pay IRES (corporate income tax) and IRAP (regional production tax).

Deferred tax liabilities mostly refer to the fair value changes in the Visa shares and the FTA of IFRS 15.

Deferred tax liabilities recognised in profit or loss due to the elimination of equity investments refer to the elimination of the investment in Mercury Payment Services and allocation of part of the consideration to intangible assets with a finite useful life. The decrease in 2018 is due to depreciation of these items of property and equipment.

11.4 Changes in deferred tax assets (recognised in profit or loss)

	31 December 2018 €'000	31 December 2017 €'000	31 December 2016 €'000
1. Opening balance	**25,679**	**22,478**	**21,423**
2. Increases	**12,267**	**6,376**	**4,677**
2.1 Deferred tax assets recognised in the year	11,285	5,568	2,770
2.2 New taxes or increases in tax rates	-	-	-
2.3 Other increases	982	808	1,907
3. Decreases	**(5,670)**	**(3,175)**	**(3,622)**
3.1 Deferred tax assets derecognised in the year	(5,670)	(3,175)	(3,622)
3.2 Decrease in tax rates	-	-	-
3.3 Other decreases	-	-	-
4. Closing balance	**32,275**	**25,679**	**22,478**

11.5 Changes in deferred tax liabilities (recognised in profit or loss)

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
1. Opening balance	**128,447**	**129,212**	**9,079**
2. Increases	**13,100**	**10,386**	**121,003**
2.1 Deferred tax liabilities recognised in the year	13,100	10,386	122
2.2 New taxes or increases in tax rates	-	-	-
2.3 Other increases	-	-	120,881
3. Decreases	**(12,916)**	**(11,152)**	**(870)**
3.1 Deferred tax liabilities derecognised in the year	(867)	(91)	(117)
3.2 Decrease in tax rates	-	-	-
3.3 Other decreases	(12,049)	(11,061)	(753)
4. Closing balance	**128,630**	**128,447**	**129,212**

In 2016, the other increases relate to the part of the transaction price for the Mercury Payment Services acquisition allocated to intangible assets with a finite useful life. The other decreases in 2017 refer to the reversal of the deferred tax liabilities recognised on the first portion of amortisation of these intangible assets. In 2018, the other decreases include the reversal of the deferred tax liabilities on the entire year's amortisation of the intangible assets with a finite useful life (the customer contracts of the MPS Acquiring and DB Acquiring businesses).

The increases recognised in 2018 relate to the fiscally-driven amortisation of the portfolios of MPS Acquiring and DB Acquiring.

11.6 Changes in deferred tax assets (recognised in net investment, equity at 31 December 2018)

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
1. Opening balance	**435**	**435**	**305**
2. Increases	**865**	**-**	**130**
2.1 Deferred tax assets recognised in the year	-	-	-
2.2 New taxes or increases in tax rates	-	-	-
2.3 Other increases	865	-	130
3. Decreases	(1)	**-**	**-**
3.1 Deferred tax assets derecognised in the year	(1)	-	-
3.2 Decrease in tax rates	-	-	-
3.3 Other decreases	-	-	-
4. Closing balance	**1,299**	**435**	**435**

11.7 Changes in deferred tax liabilities (recognised in net investment, equity at 31 December 2018)

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
1. Opening balance	**2,267**	**306**	**13,936**
2. Increases	**1,172**	**1,961**	**295**
2.1 Deferred tax liabilities recognised in the year	1,172	1,961	295
2.2 New taxes or increases in tax rates	-	-	-
2.3 Other increases	-	-	-
3. Decreases	**-**	**-**	**13,925**
3.1 Deferred tax liabilities derecognised in the year	-	-	13,925
3.2 Decrease in tax rates	-	-	-
3.3 Other decreases	-	-	-
4. Closing balance	**3,439**	**2,267**	**306**

12. Non-current assets held for sale and disposal groups and liabilities associated with disposal groups

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
A. Assets held for sale			
A.1 Financial assets	6,149	6,049	409
A.2 Property and equipment	449	296	212
A.3 Intangible assets	37,615	38,580	35,058
A.4 Other assets	36,285	21,146	18,205
Total (A)	**80,498**	**66,071**	**53,884**
of which: measured at cost	*80,498*	*66,071*	*53,884*
of which: measured at fair value level 1			
of which: measured at fair value level 2			
of which: measured at fair value level 3			
B. Liabilities associated with disposal groups			
B.1 Other liabilities	39,069	22,937	11,845
Total (B)	**39,069**	**22,937**	**11,845**
of which: measured at cost	*39,069*	*22,937*	*11,845*
of which: measured at fair value level 1			
of which: measured at fair value level 2			
of which: measured at fair value level 3			

This caption includes assets and liabilities of Oasi (for 2018, 2017 and 2016), Moneynet and Bassmart (for 2018 and 2017) and Paycare (for 2018) for which the disposal process commenced in 2018. The intangible assets include goodwill allocated to Oasi in 2015 as part of the PPA procedure for the ICBPI Group. The Group tested this goodwill for impairment in 2017 and 2016 (as described earlier) and no indications of impairment were identified. The non-current assets held for sale are not impaired as their expected disposal price, calculated using the closing conditions, is higher than their carrying amount. Impairment losses of €6.1 million are recognised for Bassmart, Moneynet and Paycare in line with their expected disposal price.

13. Other assets

	31 December 2018 €'000	31 December 2017 €'000	31 December 2016 €'000
Tax assets	51,905	58,107	56,966
Fees and commissions to be collected	191,225	148,883	111,034
Credit card transactions	58,098	57,333	59,236
Other assets	104,477	75,431	36,029
Total	**405,705**	**339,754**	**263,266**

Liabilities

14. Financial liabilities at amortised cost

14.1 Due to banks (breakdown by product)

	31 December 2018 €'000	31 December 2017 €'000	31 December 2016 €'000
1. Due to DepoBank(ICBPI)	-	1,722,846	1,120,752
2. Due to banks	792,896	769,710	738,023
2.1. Financing	266,476	387,228	313,842
2.2 Other liabilities	526,420	382,482	424,181
Total	**792,896**	**2,492,556**	**1,858,775**
Fair value - Level 1	-	-	-
Fair value - Level 2	792,896	2,492,556	1,858,775
Fair value - Level 3	-	-	-
Total fair value	**792,896**	**2,492,556**	**1,858,775**

"Due to DepoBank (ICBPI)" shows the funding obtained from DepoBank to finance the Group's operations and mainly refers to the credit card business. This funding was in place until 1 July 2018 when the Reorganization was completed and after which Nexi Payments changed its operating funding policy to include new facilities such as the recourse and non-recourse factoring facilities for ordinary credit cards (described earlier) and the bilateral facilities provided by other banks. This policy is the reasons for the decrease in the exposure with DepoBank and the concurrent increase in liabilities with banks during 2018. Nexi Payments self-financed the acquisition of the two MPS Acquiring and DB Acquiring businesses in 2017 and, therefore, did not require injections from its shareholders. Therefore, its operations were funded by increasing utilisation of the credit facilities from DepoBank.

The caption "Due to banks – financing" includes the bilateral facilities for the revolving cards and the current account overruns of Mercury Payment Services on the bilateral facility provided by Intesa Sanpaolo S.p.A. in 2018, 2017 and 2016. These accounts are connected to the positive balances of the current accounts also held with Intesa Sanpaolo S.p.A. recognised as "Loans and receivables with banks" (see note 6).
"Other liabilities" include the facilities used to settle the Acquiring services and the residual part of the Direct Issuing business not covered by the factoring facilities. They also comprise Bassilichi's credit facilities of €35.2 million and €57.6 million in 2018 and 2017, respectively.

14.2 Due to customers (breakdown by product)

31 December 2018	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000
1. Financing	-	-	-	-
2. Factoring	301,535	-	301,535	-
3. Other liabilities	52,714	-	52,714	-
Total	**354,249**	**-**	**354,249**	**-**

31 December 2017	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000
1. Financing	656	-	656	-
2. Other liabilities	112,835	-	112,835	-
Total	**113,491**	**-**	**113,491**	**-**

31 December 2016	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000
1. Financing	14,942	-	14,942	-
2. Other liabilities	83,338	-	83,338	-
Total	**98,280**	**-**	**98,280**	**-**

"Financing" mainly refers to the liability with the international circuits and their correspondent legal entities (i.e., members) related to Nexi Payments (€656 thousand at 31 December 2017) and Mercury Payment Services (€14,942 thousand at 31 December 2016). The caption also comprises, solely at 31 December 2016, €10,000 thousand of an annual loan agreement between Latino Italy S.r.l. and Mercury Processing Service D.o.o..
Starting from 2018, the caption includes amounts due to Unicredit Factoring, of which €192.5 million for the recourse factoring of receivables for ordinary credit cards while the balance refers to the daily bridge facility for card transactions on the last day of the year.
"Other liabilities" include amounts due to banks.

14.3 Securities issued

At 31 December 2018, this caption of €2,569,689 thousand refers to two bond issues with a nominal amount of €2,600,000, which were issued as part of the Group's Reorganization.
The bonds' carrying amount includes transaction costs of approximately €43 million and the effect of amortised cost accounting. Their fair value (level 2) is €2,582,285 thousand at 31 December 2018.
The main terms and conditions of the bonds are summarised below:

- *Total amount of listed bonds:* €2,200 million, including €825 million at a fixed rate and €1,375 million at a variable rate;
- *Total amount of bonds placed with private investors*: €400 million;

- *Redemption date of the fixed rate listed bonds*: 1 November 2023;
- *Redemption date of the variable rate listed bonds*: 1 May 2023;
- *Redemption date of the privately placed bonds*: 2 July 2024;
- *Interest rate of fixed rate bonds*: 4.125% pa;
- *Interest rate of variable rate bonds*: 3M EURIBOR (0% floor) plus 3.625% pa;
- *Interest rate on privately placed bonds*: 3M EURIBOR (0% floor) plus 3.625% pa;
- *Interest payment dates for the fixed rate bonds*: every six months on 30 November and 31 May, starting from 30 November 2018;
- *interest payment dates for the variable rate bonds:* every three months on 31 August, 30 November, 28 February and 31 May, starting from 31 August 2018;
- *interest payment dates for the privately placed bonds*: every three months on 31 August, 30 November, 28 February and 31 May, starting from 31 August 2018.

The bonds have limitations that, except in certain specific circumstances, prevent the Issuer and some of its subsidiaries from, inter alia: (i) performing extraordinary transactions; (ii) taking on additional debt; (iii) making certain payments, including restrictions to dividend payouts and the granting of financing to third parties; and (iv) transferring, selling or lending shares of the Issuer's subsidiaries or transferring, selling or leasing assets of the Issuer and certain of its subsidiaries.

The Issuer is also required to comply with certain conditions in the event of a change of control and to provide regular annual and quarterly reports as well as reports on special events.

The bonds are secured by collateral including:

- a pledge on the Issuer's shares held by Mercury (93.21% of the Issuer's share capital);
- a pledge on all the Issuer's significant accounts;
- a pledge on the Nexi Payments shares held by the Issuer (98.84% of the subsidiary's share capital) which constitute the Issuer's entire investment in Nexi Payments, without prejudice to the Issuer's obligation to buy additional shares and pledge them;
- a pledge on the Mercury Payment Services shares held by the Issuer (100% of the subsidiary's share capital).

Specifically, the bonds' terms and conditions are set out in two identical contracts drawn up under the laws of the state of New York and, specifically, (i) an indenture dated May 18, 2018 with respect to the Public Notes (the "Public Notes Indenture") and (ii) an indenture dated July 2, 2018 with respect to the Privately Placed Notes (the "Private Notes Indenture" and, together with the Public Notes Indenture, the "Indentures")..

These Indentures limit the ability of the Issuer and its subsidiaries subject to restrictions to distribute dividends to their shareholders.

Dividends can only be distributed in line with the provisions for payments subject to restrictions set out in each of the Indentures, i.e., when the related conditions are met and they qualify as authorised payments without prejudice to the fact that, except for that provided for in the Indentures, no other limitation or restriction on the payment of dividends (and transfer of assets and goods) by the subsidiaries subject to restrictions to Nexi S.p.A. can be applied.

15. Financial liabilities held for trading

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
Financial derivatives	3,154	1,051	-
Total	**3,154**	**1,051**	-
Fair value - level 1	3,154	**1,051**	-
Fair value - level 2		-	-
Fair value - level 3		-	-
Total fair value	3,154	**1,051**	-

The caption includes the derivative agreed during the year and not included in the hedging relationship for the Visa Inc. shares in portfolio.

16. Hedging derivatives

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
Hedging derivatives	**16,557**	5,520	-
Total	16,557	**5,520**	-
Fair value - level 1	16,557	5,520	-
Fair value - level 2	-	-	-
Fair value - level 3	-	-	-
Total fair value	16,557	**5,520**	-

At 31 December 2016, there are no hedging derivatives.
As already described in note 5.2, “Financial assets at fair value through other comprehensive income” include series C Visa shares, convertible into series A Visa shares using a variable conversion factor depending on the cost of the contingent liabilities of the former Visa Europe. In order to hedge both currency and price risks, the Group agreed a zero cost collar with a Euro strike price and the series A Visa shares as the underlying. At 31 December 2017, 84% of the derivative qualifies for hedge accounting using the conversion factor for the series C Visa shares.

17. Other liabilities

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
Tax liabilities	15,325	15,376	2,186
Due to employees	53,587	46,839	20,240
Other liabilities for fees and commissions to be paid	265,375	255,096	168,482
Unsettled transactions	256,614	245,120	154,475
Other liabilities	74,153	103,561	74,142
Deferred loyalty fees	49,554	53,625	53,936
Prepaid cards unsettled transactions	1,766	888	923
Total	**716,375**	**720,504**	**474,384**

18. Post-employment benefits

18.1 Post-employment benefits: changes

Italian law provides that, upon termination of employment, Italian employees are entitled to post-employment benefits based on their annual salary and the inflation rate.

	31 December 2018 €'000	31 December 2017 €'000	31 December 2016 €'000
A. Opening balance	**17,995**	**15,786**	**14,865**
B. Increases	**2,057**	**4,245**	**1,879**
B.1 Accruals	2057	143	139
B.2 Other increases	-	4,103	1,740
- *B usiness combinations*	-	4,103	1,629
- *Other increases*	-	-	111
C. Decreases	**(5,968)**	**(2,036)**	**(958)**
C.1 Payments	(1,873)	(1,929)	(522)
C.2 Other decreases	-	(108)	(436)
- *B usiness combinations*	-	-	-
- *Other decreases*	(4,095)	(108)	(436)
D. Closing balance	**14,084**	**17,995**	**15,786**

The 2017 and 2016 increases reflect the acquisitions of the Mercury Payment Services and Bassilichi businesses in 2016 and 2017, respectively. The decrease in 2018 is mainly a result of the exclusion of the Bassilichi Business Services business unit from the consolidation scope.

18.2 Other information

Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2018

The liability amounts to €14,084 thousand, €17,955 thousand and €15,786 thousand at 31 December 2018, 2017 and 2016, respectively.
As required by IAS 19, the Group carried out a sensitivity analysis of the liability for post-employment benefits with reference to the most significant actuarial assumptions. It aimed at showing how the carrying amount of the liability would be affected by reasonably possible variations in each of the assumptions.

Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2018	
Mortality among aged pensioners	Rate for the Italian population broken down by age and gender shown in the RG48 mortality tables published by the State General Accounting Office
Mortality among total and permanent disability pensioners	Rate inferred from the INPS invalidity tables, broken down by age and gender
Annual advances rate	3.03%
Annual turnover	0.84%
Retirement	Rate based on the satisfaction of the first requirement for the mandatory general insurance
Inflation	1.50%
Annual discount rate	1.57% inferred, in accordance with IAS 19.83, from the Iboxx Corporate AA duration 10+ index at the measurement date, using the return on an instrument with a duration comparable to the duration of the remaining useful life of the relevant employees

Sensitivity analysis

As required by IAS 19, the Group carried out a sensitivity analysis of the liability for post-employment benefits with reference to the most significant actuarial assumptions. It aimed at showing how much the carrying amount of the liability would be affected by reasonably possible variations in each of the assumptions.

Specifically, the following table sets out the change in the liability for post-employment benefits assuming that the main assumptions used increase or decrease.

€'000		**Change in post-employment benefits (amount)**	**Change in post-employment benefits (percentage)**
Change in actuarial assumptions:			
- Discount rate:			
	-0.50%	473	5.61%
	0.50%	(440)	-5.21%
- Employee turnover			
	-0.50%	20	0.23%
	0.50%	(19)	-0.22%

Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2017

Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2017	
Mortality among aged pensioners	Rate for the Italian population broken down by age and gender recorded by ISTAT in 2006 and decreased by 25%
Mortality among total and permanent disability pensioners	Rate inferred from the invalidity tables currrently used in the reinsurance sector, broken down by age and gender
Annual advances rate	1.72%
Annual turnover	1.65%
Retirement	Rate based on the satisfaction of the first requirement for the mandatory general insurance
Inflation	1.50%
Annual discount rate	1.57% inferred, in accordance with IAS 19.83, from the Iboxx Corporate AA duration 10+ index at the measurement date, using the return on an instrument with a duration comparable to the duration of the remaining useful life of the relevant employees

Sensitivity analysis

As required by IAS 19, the Group carried out a sensitivity analysis of the liability for post-employment benefits with reference to the most significant actuarial assumptions. It aimed at showing how much the carrying amount of the liability would be affected by reasonably possible variations in each of the assumptions. Specifically, the following table sets out the change in the liability for post-employment benefits assuming that the main assumptions used increase or decrease:

€'000		**Change in post-employment benefits (amount)**	**Change in post-employment benefits (percentage)**
Change in actuarial assumptions:			
- Discount rate:			
	-0.50%	1,397	6.11%
	0.50%	(1,284)	-5.62%

Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2016

Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2016	
Mortality among aged pensioners	Rate for the Italian population broken down by age and gender recorded by ISTAT in 2000 and decreased by 25%
Mortality among total and permanent disability pensioners	Rate inferred from the invalidity tables currrently used in the reinsurance sector, broken down by age and gender
Annual advances rate	1.87%
Annual turnover	2.50%
Retirement	Rate based on the satisfaction of the first requirement for the mandatory general insurance
Inflation	1.50%
Annual discount rate	1.31% inferred, in accordance with IAS 19.83, from the Iboxx Corporate AA duration 10+ index at the measurement date, using the return on an instrument with a duration comparable to the duration of the remaining useful life of the relevant employees

Sensitivity analysis

As required by IAS 19, the Group carried out a sensitivity analysis of the liability for post-employment benefits with reference to the most significant actuarial assumptions. It aimed at showing how much the carrying amount of the liability would be affected by reasonably possible variations in each of the assumptions. Specifically, the following table sets out the change in the liability for post-employment benefits assuming that the main assumptions used increase or decrease:

€'000		**Change in post-employment benefits (amount)**	**Change in post-employment benefits (percentage)**
Change in actuarial assumptions:			
- Discount rate:			
	-0.50%	1,181	5.73%
	0.50%	(1,102)	-5.35%
- Employee turnover			
	-0.50%	71	0.34%
	0.50%	(81)	-0.39%

19. Provisions for risks and charges

19.1 Provisions for risks and charges: breakdown

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
1. Internal pension funds	-	6	-
2. Other provisions for risks and charges	46,552	33,121	17,329
2.1 Legal and tax disputes	4,245	3,506	4,126
2.2 E mployees	2,804	5,630	3,726
2.3 O ther	39,503	23,986	9,477
Total	**46,552**	**33,127**	**17,329**

Caption 2.1 “Legal and tax disputes” refers to disputes with agents and claims and complaints received from customers.
Caption 2.2 “Employees” includes the best estimate of the incentives and bonuses to be paid to employees.
Caption 2.3 “Other” mainly consists of accruals for various charges, such as the provision for the risk of irregular completed transaction losses and fraudulent transactions calculated using a statistical approach. The caption also includes accruals for disputes commenced by cardholders and operators and for future contractual obligations. The 2017 increase is mainly due to the Bassilichi acquisition related to its liabilities.
Note 30 provides information on the increases in 2018.

19.2 Provisions for risks and charges: changes

	31 December 2018			31 December 2017			31 December 2016		
	Internal pension funds €'000	Other provisions €'000	Total €'000	Internal pension funds €'000	Other provisions €'000	Total €'000	Internal pension funds €'000	Other provision €'000	Total €'000
A. Opening balance	**6**	**33,121**	**33,127**	**-**	**17,329**	**17,329**	**-**	**16,216**	**16,216**
B. Increases	-	33,531	33,531	6	20,885	20,891	-	9,583	9,583
C. Decreases	6	- 20,100	- 20,100	-	- 5,093	- 5,093	-	- 8,470	- 8,470
D. Closing balance	**-**	**46,552**	**46,552**	**6**	**33,121**	**33,127**	**-**	**17,329**	**17,329**

The main increase for 2017 is due to the inclusion of the provision for risks and charges set by Bassilichi S.p.A. before its acquisition.

20. Net investment (equity at 31 December 2018)

	31 December 2018	31 December 2017	31 December 2016
	€'000	€'000	€'000
Net investment (Equity at 31 December 2018)	464,372	3,014,226	2,683,279
Net investment attributable to non-controlling interests (Equity at 31 December 2018)	6,516	5,577	13,869
Total	**470,888**	**3,019,803**	**2,697,148**

In 2016, the net investment included a capital injection used for:

- the acquisition of Mercury Payment Services (€1,006 million);
- payment of the outstanding part of the consideration for the ICBPI Group (including a price adjustment of €27.3 million);

- the acquisition of non-controlling interests in Cartasì (now Nexi Payments) net of dividends paid.

The increase at 31 December 2017 is due to the capital injection of €113 million after the sale of Mercury Processing D.o.o and utilisation of part of the capital increase of the Mercury Group for the Bassilichi acquisition.

The decrease seen in 2018 is a result of the following events:

- the non-recurring dividend distribution of €2,203.7 million as a capital repayment, including €2,053 million to Mercury UK and €150 million to Nexi's non-controlling investors;
- the ordinary dividend distribution of €56 million to Mercury UK;
- completion of the Reorganization, which entailed in particular:
    - o inclusion of a loan liability of €380 million with Mercury UK as part of the spin-off from DepoBank to Nexi, with the resulting transfer to Nexi of a smaller share of equity of the Mercury Group previously included in the carve-out scope;
    - o non-inclusion of the loss of €14,8 million for the first six months of the year in the DepoBank business unit, which remained with the transferor;
- restatement of the opening balances due to first-time adoption of IFRS 9 and IFRS 15 for (€4.2 million).

At 31 December 2018, the net investment in the carve-out consolidated financial statements matches the Nexi Group's equity, which comprises the following captions:

Equity captions	**31 December 2018**
Share capital	€50 million
Share premium	€389.3 million
Consolidation reserve	-€47.7 million
Valuation reserves	€36.9 million
Equity attributable to non-controlling interests	€6.5 million
Profit for the year	€6.9 million
Total	**€470.9 million**

The above profit for the year does not match that shown in the carve-out consolidated financial statements as the former only includes the profits or losses of the Nexi Group entities starting from the Reorganization's completion date. However, the profit for the first six months of the year in the carve-out consolidated financial statements is included in the consolidation reserve as, apart from the DepoBank business unit, this profit was attributable in full to the Group.

21. NOTES TO THE INCOME STATEMENT

22. Fee and commission income and fees for services

	2018	2017	2016
	€'000	€'000	€'000
Nexi Payments - Issuing&Acquiring	1,074,128	854,750	758,036
Nexi Payments - Servicing	87,668	111,245	112,477
Nexi Payments - Processing and other service revenue	101,869	166,574	155,244
Mercury Payments - Issuing&Acquiring	173,530	154,953	-
Bassilichi Payments - revenue	84,804	74,673	-
Help Line services - revenue	6,375	6,395	6,124
Other Payments - Servicing	46,795	43,463	42,691
Other revenue	705	4,954	4,171
Total	**1,575,874**	**1,417,007**	**1,078,743**

The increase in 2017 in "Nexi Payments - Issuing&Acquiring" mainly relates to the contribution of the MPS Acquiring and DB Acquiring businesses. Moreover, the other increases in 2017 are due to the contribution of Mercury Payment Services for the entire year and of Bassilichi for a part of the year.
In 2017, the caption includes €3,304 thousand for the Bassilichi Group's foreign operations that were sold and are no longer part of the scope in 2018 (Bassilichi CEE, Bassilichi Podgorica, Arsblue and Banja Luka) and €22,011 thousand for 2018 and €20,564 thousand for 2017 for revenue of the Bassilichi Business Services business unit, which was sold on 28 June 2018. In 2018, the contribution of the Bassilichi Group's foreign operations was not significant and, therefore, it was included in the "Net gains on equity investments and sales of investments".
The balances include non-recurring expense of €2.6 million in 2018 and €3 million in 2017, mainly due to trade discounts on payment services given by Bassilichi to Monte dei Paschi di Siena.

23. Fee and commission expense and cost of services

	2018	2017	2016
	€'000	€'000	€'000
Nexi Payments - bank fees and commissions	616,570	580,749	559,291
- fees and commissions to partners	412,747	366,408	310,130
- fees and commissions to banks	203,823	214,342	249,161
Other fee and commission expense	4,313	1,725	27
Total	**620,882**	**582,474**	**559,317**

Fee and commission expense reflect the rising risk trend. Fees and commissions paid to banks decreased in 2018 following the exclusion of the former Veneto banks' portfolios sold to Intesa Sanpaolo.

The 2018 balance includes non-recurring structuring fees of €1.3 million.

24. Interest and similar income

	2018	2017	2016
	€'000	€'000	€'000
Loans and receivables with banks and financial institutions	135	379	1
Loans and receivables with customers	19,864	21,410	23,481
Other assets and financing	36,115	289	797
Total	**56,114**	**22,078**	**24,279**

Interest income on loans and receivables with customers mainly relates to the revolving credit card business. The 2018 increase in "Other assets and financing" is chiefly a result of the interest of €36,031 thousand accrued on the bridge loan of €2,018 million granted by Nexi to Mercury UK as an advance on the liquidity collected on the bond issues while the non-recurring dividend payout was finalised (it took place on 20 December 2018).
Interest income recognised in 2017 on the Bassilichi Group's foreign operations (which were sold in 2018) amounts to €135 thousand. Its contribution in 2018 was not significant and, therefore, it was included in "Net gains on equity investments and sales of investments".

25. Interest and similar expense

	2018	2017	2016
	€'000	€'000	€'000
Financial liabilities at amortised cost - due to banks	33,372	37,652	31,723
Financial liabilities at amortised cost - recourse factoring	495	-	-
Financial liabilities at amortised cost - securities issued	65,006	-	-
Other liabilities and provisions	216	2	-
Total	**99,088**	**37,654**	**31,723**

In 2017 and 2016, interest expense refers to the facilities provided to Nexi Payments by ICBPI for its ordinary activities and, specifically for the revolving credit card business, by the partner banks. The higher interest expense in 2017 is due to the greater use of the ICBPI facilities after acquisition of the MPS Acquiring and DB Acquiring businesses by Nexi Payments which it self-financed. Interest expense in 2017 related to the Bassilichi Group's foreign operations (sold in 2018) amounts to €143 thousand and was insignificant in 2018 when it was recognised as "Net gains on equity investments and sales of investments":
The increase in 2018 is mostly due to the interest accrued on the bonds issued on 1 July 2018, including the effect of amortised cost accounting of €5,151 thousand.
The decrease in interest paid to banks is a result of the change in the funding models (funding was mostly provided by ICBPI-DepoBank up until 30 June 2018), already described in the notes to the statement of financial position assets with respect to the Reorganization. This reduction is offset by new recourse factoring costs and the cost of non-recourse factoring financial assets at fair value through other comprehensive income (note 26).

26. Net trading/hedging income (expense) on financial assets and liabilities at fair value through profit or loss

	2018	2017	2016
	€'000	€'000	€'000
Net trading expense	(2,293)	(1,520)	(560)
Net hedging income (expense)	-	999	-
Total	**(2,293)**	**(521)**	**(560)**

26.1 Net trading income (expense): breakdown

	2018			2017			2016		
	Trading income	Trading losses	Net trading losses	Trading gains	Trading losses	Net trading losses	Trading gains	Trading losses	Net trading losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets held for trading - debt instruments	-	(10)	(10)	84	-	84	-	-	-
Financial assets and financial liabilities: exchange differences	6,971	7,350	(379)	5,236	5,788	(553)	4,338	4,898	(560)
Financial derivatives	198	2,102	(1,904)	-	1,051	(1,051)	-	-	-
Total	**7,169**	**9,442**	**(2,293)**	**5,320**	**6,840**	**(1,520)**	**4,338**	**4,898**	**(560)**

26.2 Net hedging income: breakdown

	2018	2017	2016
	€'000	€'000	€'000
Gains on fair value hedges	0	999	-
Total	**0**	**999**	**-**

The 2017 balance shows the gains on the derivatives hedging the Visa Inc. preferred shares (described in the notes to the statement of financial position).

27. Dividends and gains/losses on investments and sale of financial assets at fair value through other comprehensive income

	2018	2017	2016
	€'000	€'000	€'000
Financial assets held for trading	-	-	300
Other financial assets mandatorily measured at fair value	11	18	4
Financial assets at fair value through other comprehensive income	-	248	112
Equity investments	426	34	-
Non-recourse factoring costs	- 5,626	-	-
Total	**- 5,188**	**300**	**417**

The “Non-recourse factoring costs” relate to part of the receivables for ordinary credit cards which are factored without recourse as part of the new funding model adopted with the Reorganization, as already disclosed in note 6.2 on Loans and receivables with customers.

28. Administrative expenses

28.1 Personnel expense: breakdown

	2018	2017	2016
	€'000	€'000	€'000
1) Employees			
a) wages and salaries	119,681	136,865	73,784
b) social security charges	31,605	27,087	18,507
c) post-employment benefits	4,086	2,250	550
d) pension and similar costs	32	99	47
e) accrual for post-employment benefits	2,057	257	179
f) pension and similar provisions:	-	-	-
—defined contribution plans	-	-	-
—defined benefit plans	-	-	-
g) payments to external supplementary pension funds:	5,619	4,816	5,812
—defined contribution plans	*5,619*	*4,816*	*5,812*
—defined benefit plans	-	-	-
h) costs of share-based payment plans	-	-	-
i) other employee benefits	13,998	11,946	3,991
2) Other personnel	1,762	234	851
Total	**178,840**	**183,553**	**103,720**

The 2017 increase in wages and salaries is mostly due to the personnel expenses recognised after the acquisition of Bassilichi and higher non-recurring costs. It also includes non-recurring costs (chiefly for the Reorganization) of €50.8 million and €15.9 million in 2017 and 2016, respectively. The new acquisitions of 2018 did not have a significant effect on the caption, which only shows a slight increase and includes non-recurring items of €20.8 million, mostly due to the restructuring costs of the former Bassilichi companies and one-off incentives paid as part of the Reorganization.
In 2017, the caption includes €849 thousand for the Bassilichi Group’s foreign operations that were sold in 2018 (Bassilichi CEE, Bassilichi Podgorica, Arsblue and Banja Luka), €4,640 thousand for 2018 and €5,152

thousand for 2017 for revenue of the Bassilichi Business Services business unit, which was sold on 28 June 2018. In 2018, the contribution of the Bassilichi Group's foreign operations was not significant and, therefore, it was included in the "Net gains on equity investments and sales of investments".

28.2 Other administrative expenses: breakdown

	2018	2017	2016
	€'000	€'000	€'000
1. Third party services	308,202	250,098	178,175
2. Leases and building management costs	6,255	3,920	3,110
3. Insurance	1,856	1,814	1,350
4. Leases and maintenance	45,780	32,080	29,368
5. Transport costs	19,230	19,726	21,988
6. Telephone and telegraph	7,954	5,163	4,877
7. Other taxes and duties	60,807	68,940	42,536
8. Legal, notary public and consultancy fees	63,664	34,053	46,793
9. Administrative expenses - Bassilichi	-	64,379	-
10. Tax and duties recoveries	(56,737)	(54,116)	(52,391)
11) Directors' and statutory auditors' fees	1,400	975	1,106
Total	**458,412**	**427,032**	**276,913**

The administrative expenses for the three years include many large costs incurred solely for the initial acquisition phase of the ICBPI Group, the subsequent acquisitions and related integration, Reorganization and transformation projects, which are the reason for the high balances of 2017. As a result, the caption includes non-recurring costs and specifically:

- €95.9 million for 2018, mostly referred to: consultancy fees of roughly €62.1 million for the Reorganization project, the bond issues (that could not be included in the amortised cost calculation) and the transformation project, the cost of €12.8 million to complete the re-branding project and promote the new YAP application, legal and notary public fees of €3.6 million incurred in conjunction with the Reorganization, non-deductible VAT of €3 million on the above expenses, M&A costs of €5.7 million, the write-down of €1.8 million of Bassilichi's inventories, prior year administrative costs of €2.8 million, costs of €2 million to re-insource the data centre and costs of €1.6 million for the Fruendo agreement;
- €84.9 million for 2017, which mainly related to non-recurring costs of €59.5 million for the Reorganization and transformation projects, costs of €5.8 million for the re-branding project started in the last two months of the year and the acquisition costs of €17 million for the MPS Acquiring, DB Acquiring and Bassilichi businesses and other special assets;
- €35.4 million for 2016, comprising costs to acquire Setefi and post-acquisition costs for the ICBPI Group.

The increase in 2017 is also due to the 12-month contribution of Mercury Payments, which was not included in 2016, and the inclusion of Bassilichi for the second half of the year, presented separately.
In 2017, the caption includes €2,076 thousand for the Bassilichi Group's foreign operations that were sold in 2018 (Bassilichi CEE, Bassilichi Podgorica, Arsblue and Banja Luka), €18,580 thousand for 2018 and €16,360 thousand for 2017 for revenue of the Bassilichi Business Services business unit, which was sold on 28 June 2018. With respect to the Bassilichi Group's foreign operations sold in 2018, in 2018, their contribution was not significant and, therefore, it was included in the "Net gains on equity investments and sales of investments".

29. Other net operating expense

Other net operating expense amounts to €0.8 million and €1.0 million for 2017 and 2016, respectively. The balance for 2018 is €4.1 million and includes non-recurring expenses of €16.5 million for fines for service disruptions after the re-insourcing of the data centre (€11 million) and disservices (€5 million). The caption also includes non-recurring income of €13 million arising from the cancellation of liabilities due to the expiry of the time limit and for a decrease of €9 million in the deferred price for the DB Acquiring business.

30. Net impairment losses on financial assets measured at amortised cost

	Impairment losses			Reversals of impairment losses		
2018	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3	**Total**
		Write-off	Other			
	€0	**€0**	**€0**	**€0**	**€0**	**€0**
A. Loans and receivables with banks	-	-	0	-	-	-
B. Loans and receivables with customers	11	58	3,100	(829)	(102)	2,239
Total	**11**	**58**	**3,100**	**(829)**	**(102)**	**2,239**

2017	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3	**Total**
		Write-off	Other			
	€0	**€0**	**€0**	**€0**	**€0**	**€0**
A. Loans and receivables with banks	-	-	72	**-**	-	**72**
B. Loans and receivables with customers	-	-	2,695	-	-	2,695
Total	**-**	**-**	**2,767**	**-**	**-**	**2,767**

	Impairment losses			Reversals of impairment losses		
2016	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3	**Total**
		Write-off	Other			
	€0	**€0**	**€0**		**€0**	**€0**
A. Loans and receivables with banks			53			**53**
B. Loans and receivables with customers			2,192			2,192
Total	**-**	**-**	**2,245**	**-**	**-**	**2,245**

31. Net accruals/reversals to provisions for risks and charges

	2018	2017	2016
	€'000	€'000	€'000
Net accruals to provisions for risks and charges	(28,637)	4,428	(1,086)
Net accruals for fraud - Nexi Payments	(4,551)	(4,353)	(5,488)
Total	**(33,188)**	**75**	**(6,574)**

Net accruals to provisions for risks and charges decreased by €6,649 thousand from net accruals of €6,574 thousand in 2016 to net reversals of €75 thousand in 2017. They include non-recurring reversals of €6,070 thousand related to Bassilichi and of €1,020 thousand related to Nexi Payments in 2017 and 2016, respectively.

The 2018 accruals include some non-recurring items, including €24 million related to supply agreements after Bassilichi’s integration into Nexi Payments (€16 million), the estimated costs of finalising Bassnet’s winding up (€2.8 million) and other potential future claims (€4 million).

32. Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets

	2018	2017	2016
	€'000	€'000	€'000
Depreciation and net impairment losses on property, equipment and investment property	(41,706)	(32,468)	(21,015)
Amortisation and net impairment losses on intangible assets	(73,164)	(56,085)	(6,406)
Total	**(114,870)**	**(88,553)**	**(27,421)**

In 2017, depreciation and net impairment losses on property, equipment and investment property referred to Bassilichi’s foreign operations sold in 2018 and amount to €204 thousand while amortisation and net impairment losses on intangible assets amount to €99 thousand. The balances for 2018 for the foreign operations are immaterial and, therefore, they have been included in “Net gains on equity investments and sales of investments”.

2018	Amortisation	Impairment losses	Reversals of impairment losses	Carrying amount
	€'000	€'000	€'000	€'000
A. Intangible assets				
A.1 Owned	73,164	-	-	73,164
- Acquired	73,164	-	-	*73,164*
- Other	-	-	-	-
A.2 Leased	-	-	-	-
Total	**73,164**	**-**	**-**	**73,164**

2017	Amortisation	Impairment losses	Reversals of impairment losses	Carrying amount
	€'000	€'000	€'000	€'000
A. Intangible assets				
A.1 Owned	56,085	-	-	56,085
- Acquired	33,446	-	-	33,446
- Other	22,639	-	-	22,639
A.2 Leased	0	0	0	0
Total	**56,085**	**0**	**0**	**56,085**

2016	Amortisation	Impairment losses	Reversals of impairment losses	Carrying amount
	€'000	€'000	€'000	€'000
A. Intangible assets				
A.1 Owned	6,010	396	-	6,406
- internally-generated assets	-	-	-	-
- other	6,010	396	-	6,406
A.2 Leased	-	-	-	-
Total	**6,010**	**396**	**-**	**6,406**

2018	Depreciation	Impairment losses	Reversals of impairment losses	Carrying amount
	€'000	€'000	€'000	€'000
A. Property, equipment and investment property				
A.1 Owned				
- Property and equipment	41,688	-	-	41,688
- Investment property	19	-	-	19
Total	**41,706**	**-**	**-**	**41,706**

2017	Depreciation	Impairment losses	Reversals of impairment losses	Carrying amount
	€'000	€'000	€'000	€'000
A. Property, equipment and investment property				
A.1 Owned				
- Property and equipment	32,179	-	-	32,179
- Investment property	289	-	-	289
Total	**32,468**	**-**	**-**	**32,468**

2016	Depreciation	Impairment losses	Reversals of impairment losses	Carrying amount
	€'000	€'000	€'000	€'000
A. Property, equipment and investment property				
A.1 Owned				
- Property and equipment	20,727	-	-	20,727
- Investment property	289	-	-	289
Total	**21,015**	**-**	**-**	**21,015**

33. Net gain on equity investments and sales of investments

In 2018, this caption amounts to €20.5 million and mainly relates to the gain of €21 million on the sale of the former Veneto banks' portfolios to Intesa Sanpaolo.

In 2017, the caption amounts to €2,307 thousand and includes the Group's share of profits of the associates of Bassilichi, Win Join, RS Record Store, ICT Logistica, Bassnet S.r.l. and K Red. The 2016 balance was zero.

34. Income taxes

	2018	2017	2016
	€'000	€'000	€'000
Current tax expense	73,143	50,470	34,545
Change in deferred tax assets	(6,596)	(3,201)	(270)
Change in deferred tax liabilities	183	(765)	(722)
Income taxes	**66,730**	**46,503**	**33,553**

The increase in current taxes is due to the higher tax base for IRES and IRAP in 2017. The 2017 increase in deferred tax assets is mainly due to the recognition of intangible assets with a finite useful life (customer contracts related to the MPS and DB Acquiring business units acquired in 2017 and the first-time consolidation of Bassilichi S.p.A.). The increase in the tax rate in 2018 is chiefly a result of the smaller deductibility of interest expense on the securities issued.

35. Post-tax profit from discontinued operations

The 2016 balance of €2.2 million relates solely to Oasi. In 2017, the caption amounts to €205 thousand and relates to Oasi, Bassmart and Moneynet while the 2018 balance also includes the decrease of €6 million in the estimated realisable value of Moneynet, Bassmart and Paycare.

36. Profit for the year attributable to non-controlling interests

	2018	2017	2016
	€'000	€'000	€'000
Profit (loss) for the year attributable to non-controlling interests	1,499	(987)	3,838
Total	**1,499**	**(987)**	**3,838**

This caption mainly refers to Nexi Payments.

37. Notes to the statement of cash flows

The €94 thousand decrease in cash and cash equivalents in 2018 and the €126 thousand increase from 2016 (€8.4 million) to 2017 (€134.4 million) is mainly due to:

37.1 Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets

The 2017 increase in amortisation due to the intangible assets with a finite useful life (customer contracts) recognised as part of the PPA procedure for Mercury Payment Services and the MPS Acquiring and DB Acquiring businesses and the new IT upgrades and renewed ATMs and POS devices with an increase in the acquisitions commenced in the previous year. The increase in 2018 is due to the 12-month amortisation of contracts with customers of the MPS Acquiring and DB Acquiring businesses and the higher amortisation due to larger investments made in the three years.

37.2 Gains on sales

The gain on the sale of the former Veneto banks' portfolios was excluded from the cash flows generated by operating activities and included in the cash flows used in investing activities (note 37.11).

37.3. Financial assets held for trading

The 2016 increase is due to the sale of the Visa Europe shares.

37.4 Loans and receivables with banks

The increase is due to the larger amount of cash available in the operating companies' bank accounts. The slight increase in 2017 is a result of normal business trends. The large increase in 2018 is due to Nexi Payments' operating liquidity as its acquisitions of 2017 were active for the entire year, the non-payment of dividends using the 2017 profit and the treasury requirements management strategy linked to liability trends.

37.5 Loans and receivables with customers

The increase in the ordinary credit cards balance in 2017 and 2016, as a result of the higher volumes and amounts due from the international circuits that, in 2017, is mainly due to Mercury Payment Services and the MPS Acquiring and DB Acquiring businesses. The large decrease in 2018 is caused by the new funding policy adopted after the Reorganization, which provides for the non-recourse factoring of a significant portion of receivables for ordinary credit cards.

37.6 Due to banks

The 2017 increase is due to the greater resort to the facilities provided by DepoBank S.p.A., as Nexi Payments acquired the MPS Acquiring and DB Acquiring businesses without shareholder financing. The 2016 decrease reflects the liquidity generated by the sale of the Visa Europe shares (as per the increase described earlier), the increase in the number of unsettled credit card transactions and higher commissions to be transferred back as per the subsequent point. The significant reduction in 2018 is solely due to the different funding model described in the note to loans and receivables with customers and, therefore, the transition from funding provided by DepoBank to funding obtained through non-recourse factoring.

37.7 Due to customers

The 2018 increase is tied to the new funding model and, in particular, the advances received on the recourse factoring of part of the costs for ordinary credit cards.

37.8 Other liabilities

The increase in 2017 and 2016 is due to the higher balances for unsettled credit card transactions and the increase in commissions to be transferred back as a result of the higher business volumes, which are due to the new businesses in 2017. The 2018 variation mostly reflects current and deferred taxes.

37.9 Acquisitions of property, equipment and investment property

Acquisitions of property, equipment and investment property mainly refer to the new ATMs and POS devices in the three years.

37.10 Acquisitions of intangible assets

Acquisitions of intangible assets in the three years relate to software and IT systems.

37.11 Acquisitions/sales of subsidiaries and business units

The 2018 balance mostly shows the effects of the acquisition of the Carige Acquiring business and Sparkling 18, net of the gains on the sale of the former Veneto banks' portfolios. The 2017 balance relates to the acquisition of Bassilichi S.p.A. and non-controlling interests in Triveneto, as well as the MPS Acquiring and DB Acquiring businesses. The 2016 balance comprises the acquisition of Mercury Payment Services and the price adjustment for the acquisition of the non-banking business of ICBPI.

37.12 Repayment of loan to the parent

The Group used part of the cash obtained from the bond issue to repay Mercury UK a loan of €380 million included in the business unit spun off by DepoBank. This repayment took place when the Reorganization was completed.

37.13 Dividends paid

These refer to dividends paid by Nexi Payments and Oasi to ICBPI-DepoBank in 2017 and 2016. The 2018 balance refers to ordinary dividends paid by Nexi to Mercury UK.

37.14 Issue/purchase of equity instruments

The 2017 increase includes Nexi's proceeds from the sale of Mercury Processing (previously acquired with capital injected by Mercury UK) and part of the capital increase used to acquire Bassilichi and the non-controlling interests in Triveneto. The 2016 increase refers to the capital injection by Mercury UK to Nexi to allow it to acquire Mercury Payment Services.

37.15 Issue of debt instruments

The Group issued bonds in 2018. The increase is the sum of their issue value, the issue costs included in amortised cost accounting and the accruing interest. The latter is not included in cash flows from operating activities.

37.16 Dividends distributed to third parties

In addition to the dividends paid to non-controlling investors in 2018, the balance includes the non-recurring distribution of the proceeds from the bond issues.

38. Business combinations

38.1 Transactions performed in 2018

Acquisition of the Carige business unit

On 28 September 2018, Nexi Payments completed its acquisition of Carige's Acquiring business unit. It acquired the commercial relationships with the merchants both for the Acquiring business and management of the POS terminals, the power to take significant decisions about pricing and whether to terminate the relationships.

As the transaction qualifies as a business combination, it was recognised in accordance with IFRS 3 Business combinations. This standard defines a business combination as "a transaction or other event in which an acquirer obtains control of one or more businesses". It provides that the assets, liabilities and contingent liabilities of the acquiree shall be measured at their acquisition-date fair value, including any unrecognised intangible assets and that the difference between the fair value of the net assets acquired and the consideration paid be allocated to goodwill. This PPA procedure is to be performed within one year of the acquisition date.

The PPA procedure was still ongoing at 31 December 2018 and will be completed before 30 June 2019, mainly because the price is still being calculated. Apart from that, the procedure should be complete except for the measurement of customer contracts. Since the acquisition date, the carrying amounts of these assets have not been modified.

Goodwill arising from the business combinations amounts to €22.5 million.

CARIGE	Provisional fair value €'000	Adjustments €'000	Definitive fair value €'000
Consideration transferred	23,422	-	23,422
			-
Portion of consideration attributable to non-controlling interests	- 262	- -	262
			-
Intangible assets	-	-	-
Tax assets	716	-	716
Other assets	-	-	-
Due to banks	-	-	-
Financial liabilities	-	-	(5)
Other liabilities	(5)	-	(5)
Net assets	710	-	705
Goodwill	22,449	-	22,455
Consideration transferred	23,422	-	23,422
Cash acquired	-	-	-
Net consideration	23,422	-	23,422

In April 2018, Nexi Payments acquired an 89.84% investment in Sparkling 18 (Bassilichi already held 11.16%). The resulting goodwill amounts to €3 million.

Nexi Payments paid the entire transaction price of €23,433 thousand for the Carige Acquiring business acquisition on 28 September 2018, although the seller deposited part of the price in an escrow account to be released steadily to the party that may become entitled to receive it based on conditions that may be met after the date of preparation of this document. The Group has prudently assumed that none of the above €23,422 thousand will be returned to Nexi Payments.

Nexi Payments paid the entire transaction price of €2,500 thousand for Sparkling 18 on 14 March 2018 although the seller has deposited part of the price (€1,000 thousand) in an escrow account to be released steadily as a guarantee for the compensation obligations to the buyer. These obligations extend after the date of preparation of this report. The agreements also established that the sellers will receive an additional earn-out payment of €500 thousand, should certain conditions be met, and which is not included in the provisional allocation of the price and calculation of goodwill.

38.1.1 Pro forma disclosures on 2018 acquisitions as per IFRS 3

Pursuant to IFRS 3.59 and B64, the following table shows the revenue and profit (loss) for the year of the Carige business unit and Sparkling 18 as if the acquisitions had taken place on 1 January 2018.
Based on the table used in the segment reporting section, the following table shows the normalised operating profit (loss), i.e., excluding non-recurring amortisation, depreciation and costs.

	2018 carve-out including new Carige and Sparkling 18 businesses from their acquisition date	Carige January - September 2018	Sparkling 18 January - April 2018	2018 pro forma carve-out
Net operating revenue	942,471	1,857	702	945,030
Operating costs	(523,422)	(623)	(643)	(524,688)
Normalised operating profit	344,345	1,234	(114)	345,466
Pre-tax profit (loss)	141,585	1,234	(115)	142,704
Profit (loss) for the period/year	**67,226**	**826**	**(60)**	**67,992**

The Bassilichi Business Services business unit sold in 2018 contributed as follows to the 2018 pro forma figures:

- net operating revenue of €22,011 thousand;
- operating costs of €23,202 thousand;
- normalised operating loss of €1,190 thousand;
- pre-tax loss of €1,190 thousand.

38.2 Transactions performed in 2017

Acquisition of Bassilichi Payments

On 3 July 2017, Nexi acquired 98.2% of Bassilichi, which gave it control over the Bassilichi Group.

At 31 December 2017, the related PPA procedure was completed and goodwill arising from the business combination amounts to €137.9 million.

	Fair value of the acquirees	**Adjustments**	**Definitive fair value of the**
	€'000	**€'000**	**€'000**
Consideration transferred	111,656	(39,520)	72,136
Identified assets allocated to non-controlling interests	-	-	-
Amounts allocated to the individual assets/liabilities			
Cash and cash equivalents	29	-	29
Financial assets	1,796	-	1,796
Equity investments	1,890	-	1,890
Property, equipment and investment property	39,369	-	39,369
Intangible assets	18,774	(187)	18,588
Tax assets	3,423	-	3.423
Other assets	96,832	-	96,832
Financial liabilities	(93,766)	-	(93,766)
Other liabilities	(135,201)	-	(135,201)
Group's share of net assets	(66,854)	(187)	(67,040)
Non-controlling interests' share of net assets	1,257	-	1,257
Identifiable net assets	(65,597)	(187)	(65,783)
Goodwill	**161,603**	**(39,314)**	**137,890**
Consideration transferred			72,136
Cash acquired			(29)
Net consideration			72,107

Acquisition of the MPS Acquiring and DB Acquiring businesses

On 1 June and 1 July 2017, Nexi Payments finalised its acquisitions of the Merchant Acquiring business units from Deutsche Bank and Monte dei Paschi di Siena, respectively.

These two business units are very similar. Nexi Payments acquired the customer contracts as part of the Acquiring business and POS terminal servicing. It thus acquired the power to take significant decisions about pricing and whether to terminate these contracts. As both transactions qualify as business combinations, they are accounted for in accordance with IFRS 3 Business combinations, as described above.

At 31 December 2017, the PPA procedure was completed and, given the stability of the relationships acquired, the lack of a contractual term in the underlying contracts and all the significant internal and external factors, the difference between the consideration transferred and the carrying amount of the net assets acquired was allocated in full to goodwill.

Goodwill arising from the business combinations amounts to €561.2 million (the amounts in the next table are in thousands of Euros).

DB Acquiring	Provisional fair value €'000	Adjustments €'000	Definitive fair value €'000
Consideration transferred	**29,100**	**-**	**29,100**
Contingent consideration	**12,000**	**-**	**12,000**
Portion of consideration attributable to non-controlling interests	**(527)**	**191**	**(336)**
Cash and cash equivalents	-	-	-
Financial assets	-	-	-
Equity investments	-	-	-
Property, equipment and investment property	-	-	-
Intangible assets	-	15,252	15,252
Tax assets	-	-	-
Other assets	2,480	-	2,480
Due to banks	-	-	-
Financial liabilities	-	-	-
Other liabilities	(3,380)	-	(3,380)
Net assets	**(900)**	**15,252**	**14,352**
Goodwill	**41,473**	**(15,060)**	**26,412**
Consideration transferred	41,100	-	41,100
Cash acquired	-	-	-
Net consideration	41,100	-	41,100

MPS Acquiring	Provisional fair value €'000	Adjustments €'000	Definitive fair value €'000
Consideration transferred	**534,784**	**-**	**534,784**
Contingent consideration	**-**	**-**	**-**
Portion of consideration attributable to non-controlling interests	**(6,573)**	**1,399**	**(5,174)**
Cash and cash equivalents	-	-	-
Financial assets	-	-	-
Equity investments	-	-	-
Property, equipment and investment property	-	-	-
Intangible assets	-	111,436	111,436
Tax assets	-	-	-
Other assets	16,137	-	16,137
Due to banks	(4,946)	-	(4,946)
Financial liabilities	-	-	-
Other liabilities	-	-	-
Net assets	**11,191**	**111,436**	**122,627**
Goodwill	**517,019**	**110,037**	**406,983**
Consideration transferred	534,784	-	534,784
Cash acquired	-	-	-
Net consideration	534,784	-	534,784

38.2.1 Pro forma disclosures on 2017 acquisitions as per IFRS 3

Pursuant to IFRS 3.59 and IFRS.B64, the following table shows:

- the revenue and profit for the year of the MPS Acquiring and DB Acquiring businesses and Bassilichi since the acquisition date, already included in the income statement for 2017;
- the revenue and profit for the year of the three businesses acquired for 2017 as if the acquisitions had taken place on 1 January 2017.

Based on the table used in the segment reporting section, the following table shows the normalised operating profit, i.e., excluding non-recurring amortisation, depreciation and costs.

	2017 carve-out excluding new businesses (MPS/DB/Bassilichi)	MPS and DB Book H2 2017	Bassilichi H2 2017	2017 carve-out 2017 including new businesses (MPS/DB/Bassilichi)	MPS and DB H1 2017 pro forma	Bassilichi H1 2017 pro forma	2017 pro forma carve-out
Net operating revenue	700,186	44,702	76,898	821,786	36,821	57,100	915,707
Operating costs	(396,539)	(18,426)	(68,615)	(483,580)	(14,159)	(55,416)	(553,155)
Normalised operating profit	81,555	26,277	8,283	116,115	22,662	1,684	307,445
Pre-tax profit (loss)	91,856	25,689	879	118,423	22,461	(8,995)	131,889
Profit (loss) for the period/year	**55,552**	**17,187**	**(614)**	**72,125**	**15,027**	**(15,265)**	**71,887**

The Bassilichi foreign operations and the Bassilichi Business Services business unit sold in 2018 contributed as follows to the 2017 pro forma figures:

- net operating revenue of €6,125 thousand and €39,379 thousand for the foreign operations and the business unit, respectively;
- operating costs of €5,452 thousand and €41,802 thousand for the foreign operations and the business unit, respectively;
- normalised operating profit of €152 thousand for the foreign operations and a normalised operating loss of €2,422 thousand for the business unit;
- a pre-tax profit of €152 thousand and a pre-tax loss of €2,422 thousand for the foreign operations and the business unit, respectively.

38.3 2016 acquisitions

Acquisition of Mercury Payment Services

The Group acquired Mercury Payment Services and Mercury Processing D.o.o. from Intesa Sanpaolo S.p.A. on 15 December 2016. Mercury Payment Services was the electronic payments platform of Intesa Sanpaolo, one of the biggest European banking groups. Mercury Processing was the electronic payments platform of the businesses of Central and Eastern Europe of Intesa Sanpaolo. These acquisitions reflected the Group's intention to increase its share of the payment systems and acquire new growth opportunities. However, as noted in the basis of preparation section, Mercury Processing D.o.o. was not included in the carve-out scope.

As the Mercury Payment Services acquisition qualifies as a business combination, it has been recognised in accordance with IFRS 3, as described earlier.

The consideration transferred comprises an equity value of €927 million plus an additional €78 million for the gains on the sale of the Mercury Payment Services shares to VISA Europe. Therefore, the cash consideration was €1,005 million.

The total transaction costs to acquire the group amount to €4.3 million, recognised in full in profit or loss.

Upon completion of the PPA procedure for Mercury Payment Services, part of the difference between the consideration transferred and the fair value of the net assets acquired has been allocated to intangible assets with a finite useful life (customer contracts) (€366.5 million including deferred taxes of €120.9 million). This is the only adjustment made as the carrying amount of the other assets acquired and liabilities assumed is substantially in line with their fair value (the amounts in the next table are in thousands of Euros).

	Carrying amount of assets at 31 €'000	Adjustments in 2017 €'000	Fair value of assets at 31 €'000
Consideration transferred	1,005,717	-	1,005,717
Amounts allocated to the individual assets/liabilities			
Cash and cash equivalents	1	-	1
Financial assets	419,561	-	419,561
Property, equipment and investment property	10,789	-	10,789
Intangible assets	7,533	365.529	373,062
Tax assets	24,709	-	24,709
Non-current assets held for sale and disposal groups	-	-	-
Other assets	37,427	-	37,427
Financial liabilities	(235,046)	-	(235,046)
Tax liabilities	(57)	(120,881)	(120,938)
Other liabilities	(94,678)	-	(94,678)
Identifiable net assets	170,240	244,648	414,888
Goodwill	**835,476**	**(244,648)**	**590,828**
Consideration transferred	1,005,717	-	1,005,717
Cash acquired	(1)	-	(1)
Net consideration	1,005,716	-	1,005,716

The business combination had the following effect on the statement of financial position:

- the difference between equity at the acquisition date (including the profit for 2016) and the carrying amount of the equity investment has been entirely allocated to intangible assets with a finite useful life (€366.5 million, including deferred taxes of €120.9 million (i.e., a net €244.6 million), while €590.1 million has been allocated to goodwill;
- the profit for the year was included in the consolidation scope from 1 January 2017 as the Group deemed that the 17 days of operations of the new businesses (from the acquisition date to 31 December 2016) were irrelevant.

39. Related parties

The aim of IAS 24 (Related party disclosures) is to ensure an entity's financial statements contain the additional disclosures necessary to show the possibility that its financial position and results of operations may have been influenced by related parties and by transactions and balances with such parties. Based on this standard, applied to its organisational and governance structure, the Group identified the following related parties:

a) the ultimate parent, Mercury;

b) the parties that, directly or indirectly, including through subsidiaries, trustees or nominees, control, including jointly, Mercury or hold an investment in Mercury UK that gives them significant influence;
c) companies controlled or jointly controlled by the parties set out in the previous point;
d) the subsidiaries, associates or jointly controlled entities of Mercury;
e) key management personnel of Nexi, its direct and indirect parents and their subsidiaries, associates and joint ventures;
f) close relatives of the natural persons included in points b) and e);
g) the pension fund set up for group employees or related entities.

The effects of transactions carried out with the related parties identified above are summarised in the following table:

	31 December 2018				31 December 2017			31 December 2016		
	Managers and members of supervisory body	DepoBank	Mercury UK	Total	Managers and members of supervisory body	ICBPI	Total	Managers and members of supervisory body	ICBPI	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Cash and cash equivalents	-	40,654	-	**40,654**	-	128,693	**128,693**	-	-	**-**
Financial assets at amortised cost - loans and receivables with banks	-	244,054	-	**244,054**	-	58,853	**58,853**	-	3,224	**3,224**
Non-current assets held for sale and disposal groups	-	-	-	**-**	-	1,888	**1,888**	-	1,368	**1,368**
Other assets	-	15,712	-	**15,712**	-	20,434	**20,434**	-	2,816	**2,816**
Financial liabilities at amortised cost - due to banks	-	31	-	**31**	-	1,722,936	**1,722,936**	-	1,120,752	**1,120,752**
Liabilities associated with disposal groups	-	-	-	**-**	-	2,663	**2,663**	-	2,523	**2,523**
Other liabilities	-	2,283	-	**2,283**	66	24,000	**24,066**	45	33,240	**33,285**
Net fee and commission income (expense)	-	7,137	-	**7,137**	-	(421)	**(421)**	-	(1,318)	**(1,318)**
Net interest income (expense)	-	(11,687)	35,994	**24,307**	-	(18,756)	**(18,756)**	-	(14,328)	**(14,328)**
Personnel expense	-	139	-	**139**	-	955	**955**	-	386	**386**
Other administrative expenses	(6,974)	(446)	-	**(7,420)**	(864)	(22,348)	**(21,484)**	(977)	(21,591)	**(22,568)**
Other operating income and expense	-	299	-	**299**	-	-	**-**	-	-	**-**
Profit (loss) from continuing operations	(944)	-	-	**(944)**	(111)	(190)	**(79)**	129	1,326	**1,197**

The Nexi Group did not carry out transactions with Mercury for 2017 and 2016 as it only performed transactions with DepoBank S.p.A..

At 31 December 2016, Mercury Processing D.o.o. has a €10 million loan with Latino Italy which it repaid in full in 2017.

The transactions are governed by specific agreements that, while aiming at optimising synergies and economies of scale and purpose and the use of centres of excellence, make reference to objective parameters that are constant over time, characterised by transparency and substantial fairness. Transfer pricing is defined and formalised based on parameters that account for the actual use of the service by each end user.

Specifically, with respect to transactions carried out during the year with DepoBank (holding company of the Nexi Group until 1 July 2018):

- there was a funding facility in the first half of 2018, which bore interest at market rates and was available until 1 July 2018 when, after the Mercury Group's Reorganization, this facility was extinguished and replaced by new financing provided in the form of factoring agreements with third party banks. Therefore, the above interest expense refers to the first half of 2018;

- service contracts were agreed after the Group's Reorganization and with effect from 1 July 2018. Specifically:
    - given that nearly the entire ICT department of DepoBank was transferred to Nexi Payments, an outsourcing agreement was entered into for IT services. The fee paid is in line with the actual use of internal and external resources;
    - a commercial services agreement was signed, setting out the terms and conditions whereby Nexi Payments offers its customers DepoBank products and services through its sales network. The fee, calculated using a market benchmark analysis, is in line with the annual business volumes recorded by Depobank as a result of Nexi Payment's commercial activities.

Transactions with Mercury UK

For the purposes of the Reorganization, the €380 million loan granted by Mercury to DepoBank was included in the business unit spun-off by DepoBank to Nexi against a smaller portion of equity transferred. The loan was repaid concurrently with the Reorganization by using part of the proceeds on the bond issues. Interest of €17 million accrued on the loan was paid to Mercury.

Following completion of the Reorganization, on 1 July 2018, Nexi provided a bridge loan of €2,018 million to Mercury UK to enable it to pay cash advances on the bonds and to redeem the bonds issued by Mercury BondCo plc. These transactions took place while awaiting finalisation of the non-recurring dividend distribution, which took place on 20 December 2018. The loan was repaid when the dividends were distributed and accrued interest of €36,031 thousand.

40. SHARE-BASED PAYMENT

None.

41. Group funding transactions

41.1 Bond issues

The Group carried out its Reorganization in 2018 which entailed, inter alia, a review of its funding structure. Specifically, the bonds issued by the vehicle Mercury BondCo plc (not part of the Mercury Group) principally to finance the Sponsors' acquisition of Istituto Centrale delle Banche Popolari and Mercury Payments Services (the "outstanding bonds"), were refinanced. This refinancing involved the transfer of the bonds to the Nexi Group via the vehicle Nexi Capital S.p.A. set up on 16 April 2018 and merged into Nexi S.p.A. at 31 December 2018. Nexi Capital issued new bonds (described in note 14) to facilitate this transfer.

The cash collected by Nexi S.p.A. was used to redeem the outstanding bonds after its transfer via Mercury UK to Mercury BondCo plc (see above for information on transactions with Mercury UK).

The bonds have repayment clauses that did not require the separate recognition of prepayment options, based on the analyses performed. As required by IFRS 9 for amortised cost accounting purposes, the Group estimated the bonds' expected residual life, which was found to equal their contract term considering the uncertainty about their possible refinancing.

41.2 Factoring

Nexi Payments redefined its funding management model as a consequence of the Reorganization and the related termination of the facilities historically provided by DepoBank. Therefore, on 26 June 2018 with effect from 1 July 2018, it entered into a factoring agreement for the daily assignment of receivables mostly related to its credit cards (roughly 92% of the unsettled payments) issued through its partner banks. More information is available in note 6.2.

42. Segment reporting

Segment reporting is provided in accordance with IFRS 8.

It reflects the organisational and production structure of the Mercury UK Group, and now also Nexi Group, used over the three years.

The Group has just one operating segment, the electronic services and payment service, which includes the corporate centre. A more detailed breakdown is provided for the net revenue which is split among the four business segments, i.e.:

- services and solutions for the Merchants sector (Acquiring);
- card services (Issuing) and digital payments;
- digital banking solutions;
- other services, including outsourced services.

The tables below provide a breakdown of net revenue by business segment. Based on the current operating structure and allocation of resources in the three years under examination, there is no need to present a breakdown of the statement of financial position by business segment. Note 43.2 presents a reconciliation between the income statement prepared for segment reporting purposes and that presented in the carve-out consolidated financial statements for 2018, 2017 and 2016. The reconciliation shows the impact of the non-recurring items on the carve-out income statement.

Net revenue is not presented by geographical segment as it is generated entirely in Italy, which is considered to be a single geographical segment.

42.1 Segment reporting: income statement for the years ended 31 December 2018, 2017 and 2016

2018	Payments	Consolidation adjustments	Total segment reporting
Merchant Services & Solutions	479,732	(44,040)	435,693
Cards & Digital Payments	361,147	(528)	360,619
Digital banking solutions	119,690	(5,967)	113,723
Other services	61,047	(28,611)	32,436
Net operating revenue	**1,021,616**	**(79,146)**	**942,471**
Personnel expense	(158,137)	94	(158,044)
Administrative expenses	(442,328)	79,843	(362,486)
Adjustments and net operating provisions*	(2,093)	(800)	(2,893)
Operating costs net of amortisation and depreciation	**(602,558)**	**79,136**	**(523,422)**
			-
NORMALISED GROSS OPERATING PROFIT	**419,058**	**(10)**	**419,048**
			-
Amortisation, depreciation and impairment losses	(74,703)	-	(74,703)
Normalised operating profit	**344,355**	**(10)**	**344,345**
Amortisation, depreciation and impairment losses (customer contracts)			(40,167)
Interest on bonds and loan			(32,034)
Gain (loss) on equity investments and sale of investments			-
Other non-recurring items			(130,559)
Pre-tax profit			**141,585**
Income taxes			(66,730)
Post-tax profit from discontinued operations			(6,130)
Profit for the year			**68,725**
Loss for the year attributable to non-controlling interests			(1,499)
Profit attributable to the owners of the parent			**67,226**

The reconciling items mainly refer to the call centre services provided by Help Line and Nexi Payments.

2017	Payments	Consolidation adjustments	Total segment reporting
Merchant Services & Solutions	352,527	-	352,527
Cards & Digital Payments	342,149	-	342,149
Digital banking solutions	97,351	-	97,351
Other services	57,815	(28,056)	29,759
Net operating revenue	**849,842**	**(28,056)**	**821,786**
Personnel expense	(132,765)	-	(132,765)
Administrative expenses	(372,336)	29,001	(343,335)
Adjustments and net operating provisions	(7,479)	-	(7,479)
Operating costs net of amortisation and depreciation	**(512,581)**	**29,001**	**(483,580)**
NORMALISED GROSS OPERATING PROFIT (LOSS)	**337,261**	**945**	**338,206**
Amortisation, depreciation and impairment losses	(55,107)	-	(55,107)
Normalised operating profit	**282,154**	**945**	**283,099**
Amortisation, depreciation and impairment losses (customer contracts)			(33,446)
Net gains on equity investments			2,307
Other non-recurring items			(133,537)
Pre-tax profit			**118,423**
Income taxes			(46,503)
Post-tax profit from discontinued operations	1,150	(945)	205
Profit for the year			**72,125**
Profit (loss) for the year attributable to non-controlling interests			987
Profit attributable to the owners of the parent			**73,112**

The reconciling items mainly refer to the call centre services provided by Help Line and Nexi Payments.

2016	Payments	Consolidation adjustments	Total segment reporting
Merchant Services & Solutions	207,972	-	207,972
Cards & Digital Payments	234,825	-	234,825
Digital banking solutions	60,131	-	60,131
Other services	38,316	(30,341)	7,974
Net operating revenue	**541,244**	**(30,341)**	**510,902**
Personnel expense	(88,061)	-	(88,061)
Administrative expenses	(271,622)	30,845	(240,776)
Adjustments and net operating provisions	(10,785)	-	(10,785)
Operating costs net of amortisation and depreciation	**(370,467)**	**30,845**	**(339,622)**
NORMALISED GROSS OPERATING PROFIT (LOSS)	**170,777**	**504**	**171,281**
Amortisation, depreciation and impairment losses	(27,421)	-	(27,421)
Normalised operating profit	**143,356**	**504**	**143,860**
Net gains on equity investments			-
Other non-recurring items			(49,843)
Pre-tax profit			**94,017**
Income taxes			(33,553)
Post-tax profit from discontinued operations	2,730	(504)	2,226
Profit for the year			**62,690**
Profit (loss) for the year attributable to non-controlling interests			(3,838)
Profit attributable to the owners of the parent			**58,852**

The reconciling items mainly refer to the call centre services provided by Help Line and Nexi Payments.

42.2 Segment reporting: reconciliation of the income statement prepared for segment reporting purposes and that included in the carve-out consolidated financial statements for 2018, 2017 and 2016

2018	Segment reporting	Reconciliation	Carve-out
Net operating revenue	**942,471**	**(37,936)**	**904,535**
Personnel expense	(158,044)	(20,796)	(178,840)
Administrative expenses	(362,486)	(95,926)	(458,412)
Adjustments and net operating provisions*	(2,893)	(28,426)	(31,319)
Operating costs net of amortisation and depreciation	**(523,423)**	**(145,148)**	**(668,571)**
	-		
NORMALISED GROSS OPERATING PROFIT	**419,048**	**(183,084)**	**235,964**
	-		
Amortisation, depreciation and impairment losses	(74,703)	(40,167)	(114,870)
Normalised operating profit	**344,345**	**(223,251)**	**121,094**
Amortisation, depreciation and impairment losses (customer contracts)	(40,167)	40,167	-
Interest on bonds and loan	(32,034)	32,034	-
Net gain on equity investments and sale of investments	-	20,491	20,491
Other non-recurring items	(130,559)	130,559	-
Pre-tax profit	**141,585**		**141,585**
Income taxes	(66,730)		(66,730)
Post-tax profit from discontinued operations	(6,130)		(6,130)
Profit for the year	**68,725**		**68,725**
Profit for the year attributable to non-controlling interests	(1,499)		(1,499)
Profit attributable to the owners of the parent	**67,226**		**67,226**

Notes 28.1, 28.2, 29 and 31 provide information about the non-recurring items. Interest on the bonds and loan is classified under interest income and interest expense.

2017	Segment reporting	Reconciliation	Carve-out
Net operating revenue	**821,786**	**(3,049)**	**818,737**
Personnel expense	(132,765)	(50,788)	(183,553)
Administrative expenses	(343,335)	(84,488)	(427,823)
Adjustments and net operating provisions	(7,479)	4,787	(2,692)
Operating costs net of amortisation and depreciation	**(483,580)**	**(130,488)**	**(614,068)**
NORMALISED GROSS OPERATING PROFIT	**338,206**	**(133,537)**	**204,669**
Amortisation, depreciation and impairment losses	(55,107)	(33,446)	(88,553)
Normalised operating profit	**283,099**	**(166,983)**	**116,116**
Amortisation, depreciation and impairment losses (customer contracts)	(33,446)	33,446	-
Net gains on equity investments	2,307	-	2,307
Other non-recurring items	(133,537)	133,537	-
Pre-tax profit	**118,423**	**0**	**118,423**
Income taxes	(46,503)	-	(46,503)
Post-tax profit from discontinued operations	205	-	205
Profit for the year	**72,125**	**-**	**72,125**
Profit for the year attributable to non-controlling interests	987	-	987
Profit attributable to the owners of the parent	**73,112**	**-**	**73,112**

Notes 28.1, 28.2 and 31 provide information about the non-recurring items.

2016	Segment reporting	Reconciliation	Carve-out
Net operating revenue	**510,902**	**935**	**511,837**
Personnel expense	(88,061)	(15,659)	(103,720)
Administrative expenses	(240,776)	(36,137)	(276,913)
Adjustments and net operating provisions	(10,785)	1,019	(9,766)
Operating costs net of amortisation and depreciation	**(339,622)**	**(50,777)**	**(390,399)**
NORMALISED GROSS OPERATING PROFIT	**171,281**	**(49,843)**	**121,438**
Amortisation, depreciation and impairment losses	(27,421)	(0)	(27,421)
Normalised operating profit	**143,860**	**(49,842)**	**94,017**
Net gains on equity investments	-	-	-
Other non-recurring items	(49,843)	49,843	-
Pre-tax profit	**94,017**	**1**	**94,017**
Income taxes	(33,553)	-	(33,553)
Post-tax profit from discontinued operations	2,226	-	2,226
Profit for the year	**62,690**	**-**	**62,690**
Loss for the year attributable to non-controlling interests	(3,838)	-	(3,838)
Profit attributable to the owners of the parent	**58,852**	**-**	**58,852**

Notes 28.1, 28.2 and 31 provide information about the non-recurring items.

43. Contingent liabilities

At 31 December 2018, 2017 and 2016, the Group does not have contingent liabilities.

44. Events after the reporting date

No events have taken place in the period between the reporting date and the date of approval of these carve-out consolidated financial statements. The disposals of the assets classified as held for sale are nearing completion at amounts in line with those used to prepare the carve-out consolidated financial statements.

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