

nexi

**2018**  
REPORT  
AND  
FINANCIAL  
STATEMENTS





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# LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholders,

2018 was a year of extensive transformation for Nexi, characterised by significant confirmations and milestones. We strengthened and reaffirmed our positioning as the PayTech provider for Banks, through a systematic and ongoing approach based on three major pillars: an innovative offer with which to drive market growth, together with the Banks; investments in technology enabling us to bring more cutting edge products to the market and modernise the payment infrastructure; strengthening and enhancing the specialist skills of our human capital.

We launched numerous new products on the market, covering all the main business segments, from new acceptance systems, data analytics solutions, mobile payments, a new range of cards up to the new open banking platform. In addition to innovation, we have also invested together with our Partner Banks to stimulate the usage of digital payments in the market, by final customers, merchants and the entire Public Administration.

In the *Merchant Services & Solutions* area, 2018 was a year of renewal of the range of solutions available to merchants with an important goal: to support Italian commercial activities to modernise and digitalise their everyday business. Nexi was the first company to introduce SmartPOS® to the market; these are used alongside the traditional range of POSs but represent a digital technological leap, as they transform the POS into a service centre for the merchants. This is further amplified with an App Store able to host a wide range of digital solutions that simplify point of sale operations. Moreover, the Nexi Business app, which is available to all merchants, is an important reminder of our ability to support merchants in developing their business: indeed, through this solution even smaller size merchants are able to access business analytics information, run comparisons within their own product category and obtain much more information which until now was solely available to large retailers. In addition to acceptance in physical stores, our e-commerce activities continued with extensive distribution of the Xpay solution. A new business frontier opened in this area as well, consisting of invisible payments at the crossro-

ads of online payment technology and its usage in the physical world.

In the Cards & Digital Payments area we are supporting our Partner Banks by our launch of new international consumer and business debit products that are able to contribute to the evolution of the basic bank offer, in addition to innovations developed to support ATMs. Moreover, thanks to our agreements with global OTT players, we were the first to place a complete mobile payment offer on the Italian market, simplifying the process for final customers who are now able to make mobile payments on any device. Italy has one of the highest mobile penetration rates in the world and this is why we are certain that over the long term, mobile transactions will be the determining factor in the accelerated cultural conversion toward digital payments. To this end, we also expanded the digital functionalities available through credit cards, increasing the value thereof for customers through apps and web services that allow final customers to personalise card features based on their own profile and use. The new digital functionalities mark a momentous change from static plastic cards to dynamic digital cards. We have developed a very structured engagement programme, based on the specific requirements of our Partner Banks, to support customers in getting to know and adopt the functionalities and encourage use of the cards.

In the area of *Digital Banking Solutions*, 2018 marked a major break in terms of the renewal of the major portion of the range offered to Partner Banks. In particular, we developed solutions on the Instant Payments platform for the management of instant transfers: this is a significant change for fund transfers between private individuals and companies, which adds speed to traditional wire transfers while providing immediate confirmation. Again in the basic banking services area, we continued the development of advanced ATMs and self-banking, to allow Partner Banks to add new 24/24 functionalities for their customers: from cash and cheque deposits, to bill payments and recharges. Finally, we launched the new Digital Corporate Banking services to allow corporations to access new systems that are advanced in terms of functionality as well as user experience. It is precisely in this latter area that Nexi brought a very deep-seated



innovation to the market, rolling out its own digital skills to the maximum possible extent and applying a user friendly logic to even highly complex services, such as corporate banking services.

In addition, as Nexi we were chosen by the banking system via the CBI Consortium to develop the CBI Globe platform system. This system will allow Italian Banks to comply with Psd2 obligations and offer competitive, co-operative Open Banking services to Banks and Third Parties. A new chapter of innovation and potential growth begins for the Italian market through this project, with Nexi participating not only as a tech partner, but also as a business partner developing value added services.

In our PayTech provider role, we committed deeply to promote digital payments in 2018. We undertook numerous promotion initiatives, aimed at significantly transforming consumer and retail merchant behaviours and habits, such as a loyalty programme that rewards customers for using their card more and a promotion for no charge acceptance of payments under Euro 10 by all merchants.

We also worked on promoting digital payments through the Public Administration: in particular, Nexi concluded an AgID Agreement which enables us to become Payment Service Providers, Technological Intermediaries and Technological Partners to the Public Administration. Moreover, as Nexi, we worked on increasing the distribution of POSs in public sector offices to make it simpler to accept card payments from citizens paying for services, while also acting as a stimulus for cultural change.

Moreover, in 2018 we continued to pursue our commitment to invest in technology, innovation, new skills development and to provide support within our partnerships with the Banks, with over Euro 150 million invested (or 16% of the Group's Net Operating Revenues).

We furthermore improved the quality of our infrastructures, bringing system stability to levels of excellence and also accelerated our offer of innovative products and services, which enabled us to create a cutting edge range of solutions and services.

We continued to invest in a highly competent and professional team. In fact, Nexi's human resource capital was enriched further with the addition of new IT, Digital, Big Data & Advanced Analytics skills and an intensive drive to update already existing skills was initiated.

2018 was also a milestone year in terms of Nexi's corporate focus on digital payments in its role as a PayTech provider to Banks. As a matter of fact, various operations were carried out to further expand the business scale, including the acquisition of a business unit that manages services for Banca Carige merchants, as a continuation of the operations pursued with Monte dei Paschi and Deutsche Bank, and the acquisition of the start-up Sparkling 18 to strengthen digital skills applicable to merchant services. The merger by incorporation of Basilichi SpA and Consorzio Triveneto SpA into Nexi Payments was also initiated. The banking operations were split off in July. Nexi is now the holding company of a Group comprising exclusively electronic money institutions and payment institutions focusing on digital payments.

2018 was a good year also in terms of economic results, with Net Operating Revenues of Euro 931 million and Normalised EBITDA of Euro 424 million, both reflecting Nexi's current scope of operations. With these results, we posted major organic growth over the last three years, during which Net Operating Revenues and Normalised EBITDA increased at a compound annual growth rate (CAGR) of 7.8% and 15.5%, respectively.

The new Business Plan for 2019-2023 was drafted and approved in the final months of the year. It is based on your vision that each payment will become a digital payment and that technology and innovation will be the drivers and key elements of this transformation. Continuing the strategic course initiated with the previous business plan approved in 2017 (in respect of which further investments are planned), the new Plan confirms Nexi's strategy to become the reference PayTech provider in Italy, promoting the development of digital payments in partnership with the Banks. Our strategy is based on five pillars: to grow through the offer of innovative products with a



Chief Executive Officer  
Paolo Bertoluzzo

high technological content covering all digital payment sectors; to invest in technology and best-in-class development; to develop operating excellence; to further develop the best skills focused on digital payments internationally and, finally and to continue to strengthen Nexi through potential strategic partnerships and acquisitions aimed at creating more value for our shareholders.

In the near future, together with our Partner Banks, we intend to promote many initiatives aimed at rewarding the use of digital payment instruments with an increasingly more responsible approach and integrated sustainability governance, with top management directly involved in selecting social and environmental initiatives. The Environment, Social and Governance Report was in fact prepared on this basis and its purpose is to ensure increasing

transparency toward the stakeholders who have stood alongside us throughout this process of transformation, providing information on corporate social responsibility actions undertaken by the Group during the year.

These important results represent a new starting point on a course leading to our most important objective: to make every payment a digital one, together with our Partner Banks. This is a course that will require that all our skills, ability to act and our energy be put into play and we will do this in the firm belief that we will be working for the benefit of our Company and our Partner Banks as well as the future of digitalised payments, which will carry enormous benefits in terms of modernising the entire Country and simplifying the life of its citizens, businesses and the Public Administration.

2018 was a year of extensive transformation for Nexi, characterised by significant confirmations and milestones. We strengthened and reaffirmed our positioning as the PayTech provider for Banks, through a systematic and ongoing approach based on three major pillars: an innovative offer with which to drive market growth, together with the Banks; investments in technology enabling us to bring more cutting edge products to the market and modernise the payment infrastructure; strengthening and enhancing the specialist skills of our human capital.



# CORPORATE OFFICES

at 13 February 2019

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## BOARD OF DIRECTORS

Chairman	Franco Bernabè
Deputy Chairman	Giuseppe Capponcelli
Chief Executive Officer	Paolo Bertoluzzo
Directors	Luca Bassi Francesco Casiraghi Michaela Castelli Simone Cucchetti Federico Ghizzoni Maurizio Mussi Robin Marshall Jeffrey Paduch Antonio Patuelli

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## BOARD OF STATUTORY AUDITORS

Chairman	Piero Alonzo
Statutory Auditors	Alberto Balestreri Marco Giuseppe Zanobio
Alternate Auditors	Fabio Oneglia Andrea Vaglié

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## GENERAL MANAGEMENT

General Manager	Paolo Bertoluzzo
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# NOTICE OF CALL

The Shareholders Meeting, both in ordinary and in extraordinary form, is convened at the registered office of the Company in Milan, Corso Sempione 55, on **12 March 2019 at 1pm CET**, on first call, and, if need be, on 13 March 2019, on second call, same day and same hour, to resolve upon the following items on the

## **AGENDA**

### **Ordinary Part**

- 1) Presentation of the Company's financial statements for the year ended on 31 December 2018 accompanied by the Directors' Report on operations, Board of Statutory Auditors' the Report and the External Auditors' Report. Related and consequent resolutions;
- 2) Presentation of the Nexi Group consolidated financial statements for the year ended on 31 December 2018 accompanied by the Directors' Report on operations and the External Auditors' Report;
- 3) Proposal to allocate the losses of the year. Related and consequent resolutions;
- 4) Presentation of the Shareholders' Meeting Regulations. Related and consequent resolutions;
- 5) Proposal to authorise the purchase and disposal of treasury shares. Related and consequent resolutions;
- 6) Approval of the new remuneration policies; relevant and consequent resolutions.

### **Extraordinary Part**

- 1) Reverse stock split proposal. Related and consequent resolutions;
- 2) Proposal to amend article 6 of the company's by-laws; related and consequent resolutions;
- 3) Proposal to increase the share capital for the purpose of the Company's listing, with the exclusion of the right of option, in accordance with Article 2441, paragraph five, of the Italian Civil Code. Related and consequent resolutions;
- 4) Proposal to grant the Board of Directors, in accordance with Article 2443 of the Italian Civil Code, with the power to increase the Company's share capital, one or more times and, in any case, in tranches, in accordance with Article 2349, paragraph 1 of the Italian Civil Code. Related and consequent resolutions;
- 5) Proposal to adopt a new text of the Articles of Association. Related and consequent resolutions.

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BOARD OF DIRECTORS' REPORT ON GROUP OPERATIONS

# BOARD OF DIRECTORS' REPORT ON GROUP OPERATIONS

## International economy

*Dear Shareholders,*

The global economy accelerated in 2018, growing by an overall 3.9% compared to 3.7% last year. Its performance was characterised by a good initial trend, brought about by economic cycle inertia, followed by a slowing in the second part of the year. Before the summer, the moderation in growth was determined by trade tension that had a significant impact in terms of the obstacles created by tariffs already introduced and by the uncertainty regarding future prospects.

The trend differed according to the area: the US budgeting policy and the monetary and budgeting policy in China, in fact, sustained the economies of both countries over the summer, whilst the Eurozone paid for the slowing global trade (which rose by 4.1% in the year compared to 4.8% in 2017) in terms of lower exports. Temporary factors added to this phenomenon, such as that associated with the car market crisis in Germany.

Specifically, during the year the USA achieved growth of 2.7% (still accelerating compared to +2.3% in 2017), China confirmed growth of close to 7% and Japan slowed from +1.8% in 2017 to +1.2% in 2018.

Aside from the EMU forecasts of deceleration (+1.9% versus +2.5% in 2017), Germany closed the year with GDP up by 2.3% (+2.5% in 2017) but with a more consistent brake in the last few months of the year.

Global inflation remained constant (+3.4%), in the USA increasing from 2.1% in 2017 to 2.3% in 2018, in Japan from 0.5% to 0.9% and in the Eurozone from 1.5% to 1.7%.

## Italian economy

In 2018, the Italian GDP rose by 0.8% (figure corrected for calendar days). Its performance was characterised by a sudden halt: from the third quarter of the year, after sixteen quarters of growth, GDP contracted by 0.1% compared to the previous quarter.

This phenomenon, part of the global slowing process, resulted in the decline in exports (particularly to non-EU areas) which fell from +6.3% in 2017 to +1.0% in 2018. Added to this is the phase of financial instability, characterised by uncertainty regarding the sustainability of Italian debt and the resulting widening of the spread, capable of conditioning household spending and business investment decisions. Household spending fell from 1.5% in 2017 to 0.6% in 2018, investments from 4.4% to 4.1%. The only component recording a growth, PA expenditure, rose from -0.1% to +0.1%. Inflation stood at 1.2%.



## Reference markets

The following section provides some information about the Nexi Group operating markets.

### E-money

In the Italian market of E-Money, cash still plays the dominant role. In 2017, 100 transactions per capita were executed with cashless instruments, compared to 231 in the Eurozone (Bank of Italy data processed from ECB, BRI and Poste Italiane sources).

The payment cards industry is going through a development phase, leveraging all products.

In 2017 <sup>1</sup>, the POS-enabled debit cards market grew in terms of the number of cards (+3.4%) and use (volumes +1.9%, transactions +5.7%). Prepaid products continued to record growth in terms of the number of cards in circulation (+7.3%), and especially volumes (21.0%) and transactions (+26.7%). Credit cards recorded a slight decline in circulation terms (-2.7%) and likewise activations (-1.0%), but their use increased (volumes +5.6%, transactions +10.2%).

The Nexi estimates for the market in 2018 see international volumes (VISA and MasterCard) up by 20.1%, with a significant, growing contribution from prepaid and international debit cards, whose POS volumes have increased by 37.4%; in particular, prepaid by 18.8%, international debit by 53%. Credit cards increased by 8.6%: the Classic segment by 7.4%, Commercial by 10.4% and Premium by 3.3%.

As for the revolving segment, there was <sup>2</sup> an increase of +4.3% in volumes financed through revolving credit cards in 2018.

### Payment systems

Globally and in the Eurozone, the trend in the use of alternative cash instruments is growing rapidly: between 2005 and 2016, in the Eurozone, transactions rose from 166 to 231. The use of cards, which are more directly compared to cash at points of sale, has increased considerably: in the same period, the percentage of cards on total transactions with alternative means to cash increased from 30.1% to 57.6%.

In the international comparison, Italy is characterised by a low number of transactions with instruments other than cash: in 2016, 95 transactions per capita in Italy compared to an average 231 for the Eurozone. However, the use of these instruments in Italy shows strong growth: on average, in the period 2013-2016, payment card transactions increased by 13.1% compared to 8.8% in the Eurozone.

In the next few years, the world can expect to see consolidation of the new digital payments, which will be the vehicle for spending volumes up by 117% in the period 2017-2020. In particular, it is forecast that contactless payments will increase by 150%, mobile payments by 60% and e-commerce payments from PCs and tablets by 10%.

### Group evolution

From the end of 2017, a corporate reorganisation of the former ICBPI banking group and other subsidiaries of Mercury was undertaken to align the corporate structure with the nature of business conducted. This corporate reorganisation project aimed at separating, within the group, the technological and digital payments activities from those connected to the banking licence, eliminating existing competitive disadvantages with respect to competitors and increasing overall efficiency. The reorganisation, in fact, was in line with the strategy of focusing on the core business of payments with the option of concentrating management, time and resources into payments without wasting them on other non-synergic activities.

The reorganisation saw companies dedicated to payment services initially included in the ICBPI banking group transferred to Latino Italy (now Nexi), with the aim of creating the Italian payment services champion.

In addition, the reorganisation envisaged the setup of a new UK holding with, as investors, the consortium of funds managed by Advent International Corporation, Bain Capital Investors LLC and Clessidra SGR SpA, to which the controlling interest in ICBPI was transferred (now DEPObank).

<sup>1</sup> Source: Bank of Italy

<sup>2</sup> Source: Assofin

This reorganisation was achieved through the following corporate transactions arranged in a single context:

- i) transformation of Nexi Payments into an Electronic Money Institution;
- ii) transfer to Nexi Payments of the non-banking business unit of ICBPI which, amongst others, includes activities accessory to payment services that do not require a banking licence, electronic money issuing, logos and trademarks and all the personnel necessary to ensure fully independent management of the new group of companies headed by Latino Italy (now Nexi);
- iii) proportionate partial spin-off of Nexi (now DEPObank) with the beneficiary Latino Italy (now Nexi) of the equity investments held by Nexi (now DEPObank) in Nexi Payments, Oasi Diagram SpA, Helpline SpA, Basilichi SpA and Consorzio Triveneto SpA;
- iv) setup by Mercury UK HoldCo of Equinova UK HoldCo;
- v) transfer to Equinova UK HoldCo, through contribution in kind, of the equity investment held by Mercury UK HoldCo in ICBPI. In particular, Mercury UK HoldCo subscribed newly issued shares of Equinova UK HoldCo through the contribution in kind of shares held by Mercury UK HoldCo in ICBPI (now DEPObank);
- vi) distribution to its shareholders by Mercury UK HoldCo of Equinova UK HoldCo shares.

After the corporate reorganisation finalised in July 2018, and the release of authorisations by the relevant Supervisory Authorities, the corporate structure is now as follows:

- the current Nexi (formerly Latino Italy), holding for a group that includes electronic money institutions and payment institutions focusing on digital payments:
  - focused exclusively on its core business and the development of related technology;
  - with a flexible corporate structure able to support additional investments (e.g. IT and payment infrastructure) and future M&A activities;
  - with better access to the capital market thanks to the lower risk perceived for activities related to digital payments compared to regulated banking activities.
- DEPObank SpA, a bank with a simplified organisational structure and a greater focus on banking services such as:
  - securities services;
  - settlement to be offered through a joint commercial offer with Nexi.

Consolidation of the payments business also continued in 2018, through acquisitions by the subsidiary Nexi Payments:

- the business unit relating to services management for Banca Carige SpA merchants, in continuity with the transactions arranged with Monte dei Paschi and Deutsche Bank;
- the start-up Sparkling18, one of the most innovative new digital payments businesses.

Consistent with the process of consolidating Nexi's positioning in the core business of digital payments, the disposal began of equity investments considered non-strategic. In particular, the disposals included the following equity investments/non-core activities:

- Mercury Processing Services International (sold by the former Latino Italy in December 2017);
- Basilichi Business Services (sold by the former Basilichi Group on 30 June 2018);
- Basilichi CEE (sold by Basilichi in December 2018).

In addition to the above, note that:

- on 22 January 2019, a binding agreement was signed for the disposal to Cedacri SpA of Nexi's entire interest in Oasi. The transaction closing is expected during 2019.
- on 28 December 2018, a binding agreement was signed for the disposal to CSH Srl of the entire interest held by Basilichi and Consorzio Triveneto (both merged into Nexi Payments) in Money.net. The transaction closing is subject to Bank of Italy authorisation.

Following the extraordinary transactions described above, the Group adopted its current corporate structure composed of Nexi Payments SpA, Mercury Payment Services SpA and Help Line SpA.

## Bond loans and Group financial resources

The financial structure of the Group changed significantly in 2018 as a result of the reorganisation, as part of which, amongst other things, Bond Loans were issued. Prior to issue of the Bond Loans the Group had no medium/long-term financial payables, except for a number of loans for limited amounts included in the scope of consolidation following the acquisition of Basilichi.

Nexi Capital (later merged into Nexi) issued the following:

- on 18 May 2018, the bond loans (i) "Senior Secured Fixed Rate Notes" for Euro 825 million with six-monthly fixed rate coupon at 4.125% p.a., maturing 1 November 2023 and (ii) "Senior Secured Floating Rate Notes" for Euro 1,375 million with quarterly floating rate coupon at the 3M Euribor rate for the period (and a minimum value of 0% p.a.) plus a spread of 3.625% p.a., maturing 1 May 2023;
- on 2 July 2018, the bond loan "Senior Secured Floating Rate Notes" for Euro 400 million with quarterly floating rate coupon at the 3M Euribor rate for the period (and a minimum value of 0% p.a.) plus a spread of 3.625% p.a., maturing 2 July 2024.

The aim of the bond loan issues was to obtain the necessary funds to repay and subsequently settle the existing financial indebtedness on the bond loans issued by Mercury BondCo plc (an indirect investee of Advent, Bain and Clessidra) with the names "Euro 900,000,000 81/4%/9% Senior Secured Fixed Rate PIK Toggle Notes due 2021 and Euro 200,000,000 Senior Secured Floating Rate PIK Toggle Notes due 2021", "Euro 600,000,000 privately-placed Senior Secured Floating Rate PIK Toggle Notes due 2021" and "Euro 600,000,000 71/8%/77/8% Senior Secured Fixed Rate PIK Toggle Notes due 2021", as well as the revolving credit facility granted to Mercury Bondco plc on 10 November 2015.

## 2019-2023 Business plan

On 11 February 2018, the Parent Company Board of Directors approved the Group 2019-2023 Business Plan.

The ambition of this Plan is to consolidate the Group's position as national leader in digital payments, investing in technology, services and skills with the aim of growing faster than the market, guiding the development of digital payments in Italy together with partner banks and, in particular, to pursue a significant increase in profitability.

This growth strategy focuses on payments and is based on five fundamental pillars:

- organic growth, on the various business units, through real product leadership and customer experience leadership together with partner banks, accelerating the shift from cash to digital payments;
- operating excellence to achieve the best customer and bank experiences, more simply and efficiently;
- strong investments in technological excellence, in skills, in the commercial area and in partnerships with banks;
- continuous development of the sector's best talent and state-of-the-art skills;
- continuous inorganic growth with further acquisitions and partnerships in the payments sector to encourage scale growth and skills development more rapidly.

The Plan sees a digital transformation of the Group and initiatives aimed at implementing innovative projects that allow, on the one hand, the offer of services designed to meet the most technologically advanced needs of the market and, on the other, to identify the best investment opportunities both in already established companies and in start-ups.

## Governance and control structures

On 3 July 2018, the Nexi Shareholders' Meeting resolved to establish the number of members on the Board of Directors as thirteen and appointed the following as members until approval of the financial statements at 31 December 2020:

Franco Bernabè - Chairman  
 Giuseppe Capponcelli  
 Paolo Bertoluzzo  
 Luca Bassi  
 James Brocklebank  
 Michaela Castelli  
 Francesco Casiraghi  
 Simone Cucchetti  
 Federico Ghizzoni  
 Stuart Gent  
 Robin Marshall  
 Jeffrey Paduch  
 Antonio Patuelli

On the same date, the Board of Directors appointed Paolo Bertoluzzo as Chief Executive Officer and General Manager, and Giuseppe Capponcelli as Deputy Chairman. The Board also set up four internal Committees: the Risk Management and Sustainability Committee, the Remuneration Committee, the Strategic Committee and the Related Party Transactions Committee.

On 11 December 2018, accepting the resignation of Director Stuart Gent, the Board of Directors co-opted Maurizio Mussi to the Board with effect from 11 December.

The Director James Brocklebank resigned on 21 December 2018.

## Group Internal Control System

In 2018, the projects to develop the Group Internal Control System continued in line with the evolution of the Group and with applicable reference legislation.

The Audit Function, in continuity with the development activities of its control model, carried out further evolutionary measures in the areas of finalising and managing the “findings” emerging from the Audits, developing and improving reports useful for the analysis and monitoring of the actions also by the Management involved. The actions implemented are maintained with a view to continuously improving the effectiveness of the audit action, particularly through increasingly direct correlation with the main business risks.

Furthermore, the exit in July 2018 of the Group’s banking segment - i.e. DEPObank - led to the launch of a review of the Governance systems and the Organisational and Operating Model of the Group which also involved assessment of the Internal Control System (ICS). In this context, the Audit Function initiated and conducted a project to evolve the SCI Overall Evaluation Framework and to extend the scope of analysis consistent with the change in corporate structure.

Action continued to harmonise and align the audit methods adopted by the various Group companies, in order to ease the integration of Basilichi into Nexi Payments. The set of remote controls was fine-tuned and integrated into “e-money” activities.

With regard to IT tools, in line with the aforementioned methodology developments, the action required to align the SAS tool to provide support to internal controls was identified and designed.

Lastly, during the year the Audit function arranged the definition and updating of the Organisational and Control Model pursuant to Italian Legislative Decree 231/2001 for Nexi, Nexi Payments, Oasi and Help Line.

The second level controls, which aim to help define the business risk measurement methods, verify compliance with limits assigned by the various operating units and check that operations of individual production areas are consistent with the assigned risk-return objectives, as well as business operating rules for the Group’s supervised companies, are entrusted to structures different from operations, and specifically to:

- the Risk Management Function;
- the Compliance & AML Function, which includes the Anti-Money Laundering function and the Group DPO, which operate in specific reference to regulatory areas under their respective responsibilities;
- the Subject Matter Experts, i.e. business structures with responsibility for continuously ensuring compliance of activities and processes with regulations under their respective responsibilities.

During the year, the Compliance & AML Function of Nexi Payments, which continuously monitors its assigned rules according to a risk-based approach, updated the scope of applicable regulations to incorporate regulatory changes and to expand the corporate scope as a result of the extraordinary transactions.

Action continued to harmonise the compliance risk management model within the supervised companies.

Also during the year, planning continued for the implementation of Directive (EU) 2015/849 concerning prevention of the use of the financial system for money laundering or terrorist financing (the “AML IV Directive”) and Directive (EU) 2015/2366 on payment services in the domestic market (PSD2).

As a result of the planning activities to implement Regulation (EU) 2016/679 on data protection (the GDPR) into the Group Companies, a new Privacy organisational model was defined and internal regulations were reviewed. Specific training has been provided. The consolidation activities continue.

Efficiency improvement action on IT tools in support of the Function are still in progress, whereas computerisation of the self-assessment on money laundering and terrorism financing risks was completed.

## Nexi Group organisational structure

With reference to the new corporate structure, the parent Nexi exercises management and control through regulated mechanisms and committees as part of the General Regulations of the Nexi Group.

In relation to the merger of Basilichi SpA, the ATM & Cash Automation Monitoring operating unit activities were transferred to Help Line. As part of the Quality Management System, the verifications for confirmation of the ISO9001 Certification and UNI EN 15838 certifications (certification of excellence specific to the Contact Centres) were successful.

In November 2018, as part of the operational integration of the Basilichi Group into the Nexi Group, Pay-Care was established, a company dedicated to Call Centre activities to provide an excellent call centre service to former Basilichi customers, operating through improvement in internal processes and investing in the best available technologies. The company achieved the following quality certifications: ISO 9001, ISO 27001 and PCI-DSS.

## Nexi Payments SpA

With reference to the guidelines of the 2017-2021 Business Plan, in continuity with the transformation process launched in 2016, in 2018 the organisational structure of Nexi Payments was reviewed as a result of two transactions:

- July 2018: the transfer to Nexi Payments of the technology and digital payments business units and part of the Corporate Centre functions that provide control and support processes;
- December 2018: the merger of Basilichi SpA, Consorzio Triveneto SpA and Sparkling 18 into Nexi Payments.

Reporting to the Chief Executive Officer under the general organisational structure are certain Business Units (Digital Payments & Cards; Merchant Services & Solutions; Digital Banking Solutions), the Commercial Division, Operations Division and the CIO Unit.

On his staff are the control functions (Risk Management; Compliance & AML), the support divisions and units (CEA, CFO, CAO), including the Business Development Division dedicated to strategic initiatives to support Company business (particularly product and service innovation, including digital).

In detail, the main changes involved:

- for the Digital Banking Solutions BU, incorporation of the structure dedicated to the ATM & Self Banking line of business, included in which were the activities carried out by Nexi Payments operations and the operations business units deriving from the Basilichi merger. In addition, two new organisational units were set up in the Digital Corporate Banking function dedicated to Marketing and related product development. In the other two BUs (Digital Payments & Cards and Merchant Services & Solutions) action focused on digital product development as part of issuing business and on the corporate proposition for merchants;
- for Operations, the creation of structures to incorporate operations activities deriving from Basilichi and Consorzio Triveneto. In addition, dedicated controls to address aspects relating to the operating model of Operations and define specific processes were enhanced in the Operational Planning & Change Management staff unit;
- for the CIO Unit, the identification of staff for each line of IT expertise in the role of Transformation & Service Officer (the point of reference for IT Competence pertaining to management of the projects portfolio, budget, purchasing cycle and SLAs) and the role of Solution Architect (point of reference for IT Competence pertaining to control of the general systems/applications architecture, also in terms of compliance with guidelines and standards defined by the IT Strategy & Governance structure); the organisational separation into areas of responsibility for Key Initiatives associated with complex projects and applications linked to "business-as-usual" type activities; the creation of Data & Analytics, a line structure dedicated to managing the integrity, quality and the entire lifecycle of data, in order to facilitate its dissemination and use by the entire organisation;
- creation of the Privacy & Data Protection organisational unit as part of the Compliance & AML Function, including the position of Data Protection Officer, assigned responsibility for supervising correct compliance with current privacy regulations, with particular reference to Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the "GDPR");
- reorganisation of the Audit function to improve the focus on company business priorities; creation of the Monitoring & QA Audit unit, the responsibilities of which include the task of verifying compliance with certification requirements, whether mandatory or voluntary (e.g. PCI);

- reorganisation, as part of the CFO Area, of the financial control and analysis structures into three separate and dedicated functions, based on a partnership logic, as follows: business (BU & Commercial Business Partners), general costs and cost monitoring (Business Partner Costs and CM), costs associated with infrastructures and technology services (ICT Costs Management & Administration Support). Again in the CFO Area, the incorporation into a single unit - Strategic Planning & Reporting - of the strategic planning, reporting and project monitoring activities.

With a view to facilitating the work and to more effectively support business activities, on 1 June 2018 part of the CIO Area was transferred to the new offices in Via Montefeltro, Milan. The aim, in terms of IT Strategy, is to give the necessary space to the technology factory, the hub for implementation of Information Technology projects and pursue initiatives such as creation of the Control Room and the factories dedicated to Digital and Corporate Banking & ATMs.

As part of the Quality Management System, the verifications for confirmation of the ISO9001 Certification for Nexi Payments were successful.

## Mercury Payment Services SpA

During the year, subject to Board of Directors approval, the reorganisation of Mercury Payment Services continued with a view to optimising operating efficiency and focusing on responsibilities for control. Specifically:

- The following changes were made to the Operations organisational structure, to strengthen control over activities, enhance operating synergies and improve capacity management as a whole:
  - distinction between telephone support management and the management of back office and administrative support, transferred to the new Fraud, Disputes & Administrative Services structure;
  - as part of the Contact Unit, control over activities was consolidated, strengthening the role of those responsible for managing the control of operations for the structure;
  - the Acquiring Operations structure was divided into three areas, POS Management, POS Assistance and POS Development, to guarantee more effective control of support activities.
- The following changes were made to the organisational structure of the Information Technology Unit, with the aim of simplifying the structure and adapting it to planning needs emerging within the Group:

- integration of activities from the pre-existing Digital and Authorisation Systems structures into a new structure known as Payment Gateway & Authorisation Systems;
- integration of activities of the pre-existing Back End Processing Applications structure with control of the platforms DWH and Analytics Core Platform & Analytics, the new structure into which they were merged.

The transfer was completed of the Card Production structure to the new production site in Marcallo con Cassone, which was granted certification as a Card Vendor by the international circuits.

## Help Line SpA

In relation to the merger of Basilichi SpA, the activities and resources of the operating hub Monitoring ATM & Cash Automation were transferred to Help Line, therefore in addition to the other four existing operating hubs, i.e. Issuing Customer Operations, Merchants Customer Operations, Issuing in Servicing Customer Operations and Payments Customer Operations.

As part of the Quality Management System, the verifications for confirmation of the ISO9001 Certification and UNI EN 15838 certifications (certification of excellence specific to the Contact Centres) were successful.

## Regulatory compliance

As regards Nexi SpA, 2018 saw the launch and conclusion of the project for the definition and first draft of the Organisational Model pursuant to Italian Legislative Decree 231/01. The Code of Ethics was also updated as part of this project. Both documents will be approved by the Board of Directors at the next suitable meeting in 2019.

In relation to the direct subsidiaries and/or supervised companies, Nexi Payments, OASI, Help Line and Monynet, updating of the Organisational Model pursuant to Italian Legislative Decree 231/01 was arranged in 2018 to implement the organisational changes and new legal aspects introduced (e.g. gangmaster system crime, organ trafficking, criminal code reforms). The Code of Ethics was also updated. Specifically, for Nexi Payments alone, the updated versions of the Organisational Model and Code of Ethics will be approved by the Board of Directors at the next suitable meeting in 2019.



During 2018, as a result of the assessment conducted in 2017 on the New European data protection regulation, the GDPR, a full plan of action was launched to adapt to the new regulations.

The project continued to adapt to the new regulations introduced by the Directive (EU) no. 2015/2366 on payment services in the internal market (Payment Services Directive, so-called "PSD2") and the related secondary regulation issued by EBA and Italian implementing rules, also in consultation (particularly regarding the Update to Supervisory Provisions for Payment and Electronic Money Institutes and the Provisions on Banking and Financial Services Transparency), in line with the different regulatory deadlines. The implementation of the actions identified is in line with the overall adaptation plan.

With reference to anti-money laundering, in 2018 and with reference to Nexi Payments, an assessment was conducted to define the adequacy of current business processes with the Bank of Italy Instructions, still under consultation, in implementation of Decree no. 90/2017 (with particular regard to "adequate customer verification", "internal organisation, procedures and controls", "transaction reporting" and "storage and use of data and information"). Based on this assessment, an adaptation plan was defined which will in any event be updated and then implemented following issue of the final measures.

With reference to the bond loan issued by Nexi and listed on the Luxembourg MTF, an internal process was formalised to process the Relevant/Inside Information, the set up and maintenance of the Insider List and Internal Dealing procedures in compliance with provisions of the Market Abuse Regulation (MAR). Consequently, suitable training activities were arranged.

In reference to the introduction of IFRS 9, during 2017, Nexi carried out the project activities aimed at identifying the main impact areas and defining the reference methodological framework for the classification, measurement and impairment of financial assets. Within the scope of the project, the guidelines for the application of the IFRS 9 rules were defined and approved by the Board of Directors, and in particular:

- the business model;
- the procedures for carrying out the SPPI test (Solely Payments of Principal and Interest);
- the impairment model also for the purposes of performing exposure classification.

Lastly, the changes relating to hedge accounting and the accounting treatment of own credit risk will not have any impact because such cases are not present.

The transition to IFRS 9 will not have any impact on the Group's Equity but only reclassification of the "Hedging Result" from retained earnings to the valuation reserve, as a result of the fair value measurement of the object hedged against equity.

With reference to IFRS 15, the Nexi Group decided to apply the prospective implementation with cumulative effect. Consequently, the transition date to the new standard is 1 January 2018. The impacts have been determined with reference only to the contracts that have not been completed as the date of first-time application.

The new accounting standard IFRS 16 Leases will enter into force from 1 January 2019. This standard changes the accounting rules for the lessee in relation to operating leases.

## Group IT system

During the year, in addition to execution of the planning initiatives service distribution activities and maintenance of the applications range, the IT Department focused on the following topics:

- continuation of the reorganisation and strengthening of internal staff through a hiring/insourcing plan;
- execution of the IT Strategy initiatives in the Infrastructures, Digital, Merchant Services and Payments areas;
- execution of IT activities envisaged as part of the corporate restructuring projects;
- completion of the "Remediation" program aimed at improving the Group's technological infrastructures and resolving operational criticalities;
- finalisation of the spending review initiatives planned for cost containment, in cooperation with the CFO area;
- consolidation of the IT Governance area with strengthening of the Vendor Management and Enterprise Architecture structures.

## ICT Services and Solutions for Issuing & Operations Systems

As part of the Issuing & Operations Systems, extensive work was carried out in 2018 with the Issuing and Sales BUs and with the Service Manager teams in order to ensure continuous and effective customer management.

Specifically:

- as regards International Debit, the Issuing commercial offer was extended with the international debit product, available on the equensWorldline and SIA platforms. From the fourth quarter of 2018, production implementation is through a new communication

- protocol (On Boarding Issuing), which directly links the banks' sales systems (Front End) with Nexi;
- the Value Partnership business model for the so-called "Large Banks" was defined in order to introduce new functionalities in line with the needs of the market and the objective of offering "best in class" services;
- the roll-out for banks was completed for adoption of the ContactLess technology for cards and terminals enabled to operate on the PagoBancomat® Circuit in order to comply with the obligation required by national and international circuits;
- with reference to the digitisation of Italian debit cards (Bancomat cards), the Beta Test was successfully launched as requested of the Italian Applications Centres by Bancomat SpA, enabling mobile payments via smart phones using the digitised Bancomat cards as the payment instrument;
- new Custom Value Partnership functions have been released to increase the number of cards managed as a customer expansion measure and to limit the books of cards in issue as an effect of the aggregation of banks in the Italian market (e.g. the merger of Veneto Banca and Banca Popolare di Vicenza into Intesa Sanpaolo);
- transformation began of the Customer Relationship Management and Disputes management platforms with adoption of the Salesforce framework.

The global architecture of the fraud prevention systems was reviewed, integrating the current engine with cloud-developed Artificial Intelligence and Machine Learning systems.

### ICT Services and Solutions for Merchant Services

2018 activities focused on the launch of product and service innovation initiatives, applications consolidation and IT transformation, with the aim of supporting the commercial offering, improve levels of services and lay the foundations for construction of the IT target platforms.

Architecture and technology-related skills were enhanced with the aim of insourcing know-how and building the internal software factory on strategic platforms such as Merchant OnBoarding, Core Processing and POS application management.

The main product and service innovation initiatives include:

- One Stop Shop: a new contract that incorporates all services offered to merchants (POS, Acquiring, eCommerce, Micropayments, Start offer, etc.) into a single framework;

- new commercial offerings: the market launch of new bundled commercial offerings;
- pricing: enabling of new types of acquiring fees (e.g. EAA) and repricing initiatives;
- migrations: the implementation of migration projects associated with Veneto region Banks, acquisition of the merchant books of Carige and Deutsche Bank;
- Smart POS: enabling of sales services and activation of the new POS Android;
- new acquiring authorisation system: migration to the new equensWorldline target system;
- VAS: enabling of new services (Invoicing and acceptance of digital meal vouchers);

The main IT Transformation initiatives include:

- Merchant OnBoarding: debut launch of the new application based on Salesforce, in support of sales processes;
- Core Platform: launch of analyses for design of the new Core processing platform for Merchants;
- POS: POS-related initiatives have been launched in different environments (POS Terminal Operator, POS Lifecycle, VAS Platform and POS Settlement) with the aim of building the new target platform and gradually consolidating the existing range of applications.

### ICT Services and Solutions for Payment and ATM Systems

In regard to payment systems, the activities carried out during the year promoted the function and technology upgrade of the main ICT platforms in the ATM, Corporate Banking and B2B/B2C/C2C Payments sectors.

Note in particular:

- expansion of the Instant Payments infrastructure (ACH, Gateway) with connection to the Pan-European EBA and TIPS systems;
- implementation of the CBIGlobe system infrastructure for PSD2 and Open Banking;
- creation of the Digital Corporate Banking Blueprint enabling e-invoicing and Mobile Management and SCA tools for around 400,000 Italian businesses in partnership with the Nexi banks;
- creation of the ATM Blueprint (phase 1) enabling roll-out for around 9,000 ATMs on new front-ends and UX, such as rapid withdrawal, payment to current accounts, screen-based payments;
- roll-out for banks also began on the new technology stack for the ATM Terminal Operator, leading to the abandonment of IBM mainframe technology in favour of Java-based technology.

## ICT Services and Solutions for Digital Systems

Digital activities focused on the launch of product innovation initiatives, application consolidation and technological innovation aimed at supporting the commercial offerings of the Partner Banks (Mobile payments).

Architecture and technology-related skills were enhanced with the aim of insourcing know-how on strategic platforms such as Gateway PSD2, Issuing OnBoarding and Mobile.

Lastly, efficiency improvement continued of IT operations through the organisational consolidation of the Digital Factory and the extensive adoption of work methods (Agile, DevOps).

The main areas of activity include:

- Mobile Payments - Google and Samsung Pay: enabling the payment service through Samsung and Google Wallet Providers for cards issued by Nexi Payments;
- Mobile Payments - YAP: launch of the new app targeting millennials on the prepaid product in instant issuing and integrated mobile/p2p payments;
- Mobile Payments - Digitised PagoBancomat: the digitisation of PagoBancomat (Italian debit cards) was implemented with tokenisation on TSP (Gemalto) for c-less in-store transactions via mobile;
- Digital Channels- Cardholder Portal e Nexi Business: continuous improvement of digital properties with new customer experiences and new functions for consumer customers and merchants;
- Nexi Pay: development and launch of the new Nexi Pay consumer app for card control with architecture consistent with the IT strategy and enabling of innovative new services (e.g. registration via OCR developed with new paradigms for ML/AI algorithms);
- Integrated DWH: created for the Issuing and Acquiring business with reporting and advanced KPIs;
- Test Automation Framework: a custom tool for testing automation has been created and released into production with the first suite of 600 automated tests on the Nexi Business app;
- Marketing Automation - CVM Issuing & Acquiring: infrastructure consolidation of "customer value management" campaigns in respect of Cardholders and Merchants, in order to retain clients and promote the Nexi Group offering;
- E-Commerce (XPay): major growth in the market share for the integration of additional market Content Management Systems and the introduction of new payment systems (APM, e.g.: Amazon Pay) and review of the customer experience;
- GDPR - Consent centralisation project: project to unify consent processing in compliance with regulations and the adaptation of standard consent lifecycle management processes across all channels.

## ICT infrastructures

2018 was the first year of full implementation of the Nexi IT Strategy with regard to Infrastructures. Significant changes have been made in all relevant environments: from technology architectures, to processes, personnel and sourcing. These changes resulted in considerable improvement in all the main KPIs:

- the distributed capacity of infrastructures to support business projects has increased by over 100% (from around 2,000 servers to over 4,000);
- the running costs have reduced despite doubling the capacity;
- the number of production incidents has fallen by almost 70%.

The main events, projects and results for 2018 are as follows:

- "Nexi Blu" - Data Centre Insourcing: the Mid Range Facility Management contracts with the supplier equensWorldline have been terminated; the infrastructural assets used by the provider were bought back and in six months a new Data Centre infrastructure was implemented - known as Nexi Blu and in co-location with British Telecom and Verizon - which is now fully owned by Nexi and offers complete control of its proprietary systems;
- "Nexi Blu Private Cloud": accelerated adoption of the most modern technology for implementing Cloud Computing infrastructures. 2018 saw the activation of new Server Farms and Private Cloud Computing software, thereby creating Nexi's Private Cloud platform (Nexi Blu Private Cloud) with immediate and positive repercussions on all business innovation projects as, in a short time, it can release highly scalable, secure and low-cost application infrastructures that are competitive with respect to the major public Cloud Service Providers;
- "Skills" - Insourcing of skills: with completion of the recruitment plan envisaged in the IT Strategy and subsequent merger of the IT Operations teams from Bassilichi/Consorzio Triveneto, Nexi has insourced the skills needed to manage the planning, delivery and operations management of its infrastructures (Data Centre, applications infrastructures, Network, corporate infrastructures, etc.);
- "One Nexi" - Unification and streamlining of Group infrastructures: the spin-off of DEPObank, the merger with Bassilichi/Consorzio Triveneto, the combination of Oasi and other business units resulted in significant consolidation and streamlining action, unifying and standardising all the Corporate infrastructures (Group geographic network, mailing systems, collaboration systems, etc.). The "Nexi-ReNew" project was also launched with the aim of renewing individual devices (e.g. Personal Computers) to increase employee productivity and at the same time enable smart working models by replacing most of the PCs with laptops.

### IT security

For IT Security, the main activities undertaken for the continuous improvement process of IT controls and security and measures to combat cyber crime have been:

- technical certification of the main Group applications relating to compliance with IT security regulations (PCI-DSS Certification);
- continuation of a series of tactical activities to improve IT Security and reduce the vulnerability of Nexi Group information systems, including strengthening the technical and organisational measures to control use by key users, masking of data on test environments, strengthening of network segregation, blocking USB drives (Security Priority Programme);
- enhancement of the 24/7 service monitoring of security events, development launch of a central platform to gather all security warnings;
- implementation of an access management platform to manage access to properties published on the Internet;
- sensitisation of employees to IT security issues through the issue of periodic security awareness notices and the simulation of phishing campaigns.

### IT Strategy & Governance

Governance activities in 2018 focused in particular on:

- control of the organisational development process for the CIO Area, with particular reference to continuing the hiring plan and review of the structures;
- implementation of action to adjust governance processes and tools following the corporate restructuring initiatives (separation from DEPObank, merger of Basilichi);

- development of processes and methodologies to control and monitor the projects portfolio, with particular reference to governance of the IT Strategy Programme and the Key Initiatives;
- management of critical ICT outsourcers and related performance monitoring (contract management, SLA reports, etc.);
- setup of a catalogue of Group applications and infrastructures, based on automatic detection and capable of ensuring alignment and certification of such information, used for the governance and control of ICT assets;
- updating and dissemination to the various business segments of the document on methodologies for application system development, enabling standardised control of the development projects;
- design of the Group's overall technology architecture and continuous control/certification of the architectural designs produced as part of implemented projects.

### Human resources

As regards human resources, the Group workforce at 31 December 2018 totalled 2,292 resources, compared to 3,012 at 31 December 2017, broken down as follows among the individual companies.

2018	NEXI	Nexi Payments	Help Line	OASI	Basilichi	Consorzio Triveneto	PayCare	Bassmart	Moneynet	Sparkling 18	Mercury	31.12.2018
Senior managers	4	70	1	4	11	3	-	-	1	-	6	100
Middle managers	-	498	11	39	27	8	2	-	1	5	28	619
White-collar staff	-	439	254	52	178	60	203	5	69	12	268	1,540
Others(1)	-	29	-	4	-	-	-	-	-	-	-	33
<b>Total</b>	<b>4</b>	<b>1,036</b>	<b>266</b>	<b>99</b>	<b>216</b>	<b>71</b>	<b>205</b>	<b>5</b>	<b>71</b>	<b>17</b>	<b>302</b>	<b>2,292</b>
TI	4	1,028	266	98	216	71	205	5	71	17	278	2,259
TD	-	8	-	1	-	-	-	-	-	-	24	33

(1) Para-subordinate workers.

2017	Latino (1)	Nexi Payments	Help Line	OASI	Basilichi	Consorzio Triveneto	Pay Care	BassmArt	Moneynet	Sparkling 18	31.12.2017
Senior managers	8	33	1	3	12	3	-	-	1	-	61
Middle managers	27	220	14	38	42	11	-	-	1	-	353
White-collar staff	265	287	283	48	683	125	-	6	76	-	1,773
<b>Total</b>	<b>300</b>	<b>540</b>	<b>298</b>	<b>89</b>	<b>737</b>	<b>139</b>	<b>-</b>	<b>6</b>	<b>78</b>	<b>-</b>	<b>2,187</b>
TI	281	538	293	88	736	139	-	6	76	-	2,157
TD	19	2	5	1	1	-	-	-	2	-	30

(1) The number of individuals indicated in the table refers to the total for ICBPI SpA (now Nexi SpA).

## Information on personnel and the environment

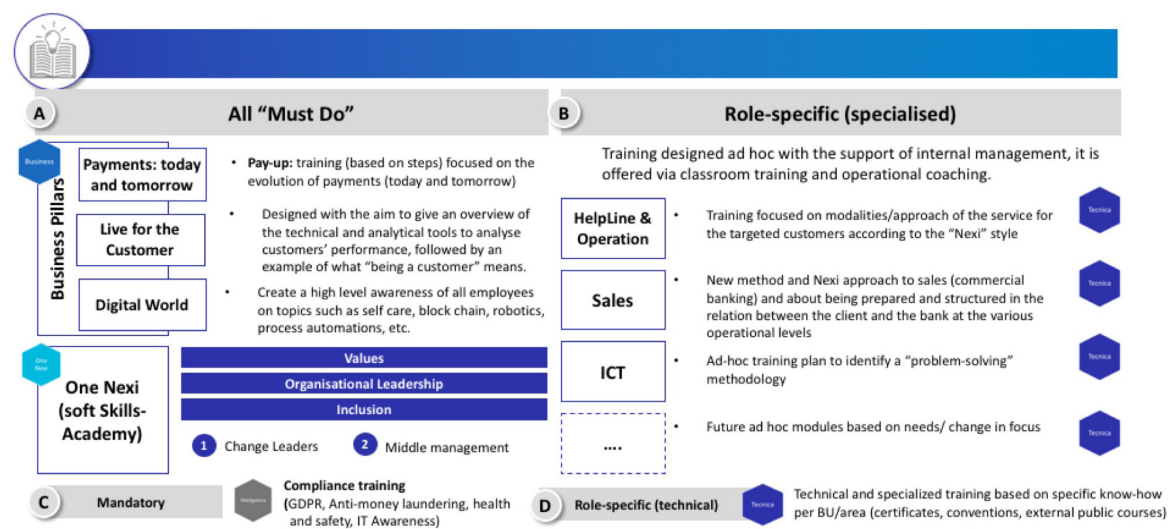
In terms of training, for 2018 the Group Training Plan "Train to accelerate the digital transformation of the NEXI Group" was presented for financing the Banking and Insurance Fund in 2018 and is still at disbursement stage.

The training skills areas were detailed further, identifying 5 clusters:

- compulsory training: includes activities aimed at acquiring knowledge that is suitable to comply with legal and industry regulations (for example: privacy, security, etc.);
- specialist training: includes activities aimed at acquiring, maintaining and developing specialist knowledge relating to one's own professional family and business areas. Specialist training courses were organised this year for the sales area, encompassing the entire family of sales jobs, and focusing them on the Nexi sales process/approach. Likewise, a dedicated course exclusively for our call centre operators was organised, to refocus an approach geared towards customer satisfaction and customer centrality;

- technical training: which instead includes tools, methodologies, know-how vertical to one's own job targeting improved operations. This includes specialist courses held at third-party organisations, and certifications;
- managerial training: it includes activities aimed at the acquisition and improvement of personal abilities (proficiency), in particular, it includes training aimed at operating efficiency (Project management on the job, problem-solving, work smarter), personal effectiveness (empowerment, effective communication) and people management through Broadbanding and Performance Management - Workshop Leader, proficiency in the new organisational environment (Nexi Values workshop);
- business training: to learn about our reference market, trends and developments, our positioning and strategy, our products and services. Having a common language and business categories is fundamental to our work. For this purpose, the Pay UP process was launched relating to the payments of today and tomorrow, which involved all of the Nexi Group's employees and which will become OnBoarding training for all new recruits.

The training options present for Nexi Payments, Oasi and Help Line were in line with the 2018-2019 Learning Strategy summarised as follows:



The objectives of the training plan presented were:

- promoted dissemination of a digital culture across the entire company and development of a common knowledge base relating to innovation of the financial services and payment services sector;
- setup of a common and shared knowledge base on the issue of customer experience and service logic with a view to customer centricity;
- development of a strong sense of belonging to the Nexi Group so as to better address the transformation procedure.

In addition to the financed plan, other training was also provided with a focus on specialist skills, particularly for the commercial area and for Help Line for the purpose of their upskilling. Furthermore, a pilot training catalogue was launched based on 6 soft skills courses (effective communication, time and priorities management, service culture, proactivity and working by objectives) and involved 15% of employees concerned. It will be expanded and extended to all Group employees in 2019.

The training activities were carried out by blended methods, with a mix of classroom, online, social learning and attendance facilitation approaches. The updating of skills, at the request of the various managers (so-called "On demand") has provided for both participation in inter-company courses and the organisation of internal classrooms that involved all employees.

All compulsory training actions validated at the beginning of the year were completed. Part of the contents, where possible and in compliance with the regulations, have been updated and revised in line with current regulations.

In 2018, the training activities involved a total of 1381 Nexi Payments, Help Line and Oasi resources for a total of 37,256 hours of training, of which 35% compulsory training, 35% business training, 10% specialist training, 10% technical training and 10% managerial training, with an average of about 26 hours on average on the total employees.

As regards the former Bassilichi Group and in the context of corporate development and related trade union repercussions, in 2018 it was not possible to define and provide a structured training plan. Therefore, only the compulsory training was provided, totalling 2,400 hours, particularly on GDPR, PCI and IT Security Awareness.

Former Bassilichi personnel merged into the Nexi Group will be included in the training plan from 1 January 2019.

In relation to Health and Safety, a risk assessment on work-related stress was carried out for the Nexi Group according to the new INAIL methodology (2017 version). Its final results showed that stress risk is immaterial in almost all the offices and companies of the Nexi Group, except for certain limited environments such as the Help Line call centre in Milan on which suitable further study envisaged in the methodology will be carried out.



Work on monitoring the quality of workplaces continued, such as the microclimate (temperature, humidity, ventilation and air quality) and lighting (natural and artificial light). As required by the law, evacuation drills were carried out at each location.

## External communication and media relations

As regards the communications plan implemented in 2018, note in particular:

- press office and communication activities for institutional and business events;
- media relations aimed at enhancing the company's positioning on the market, new products and services marketed during the year, and corporate and business events and activities;
- formal and informal engagement activities to disseminate corporate culture and values and to accelerate the company transformation process;
- organisation of meetings on Nexi projects and ongoing activities;
- supervision of events promoted by third parties (ABI, NetComm, Politecnico) with the aim of increasing the company's participation;
- content management and distribution of the internal newsletter.

## Performance of the Parent Company and the Group companies

The results of the Financial Statements and the initiatives of the Parent Company and the subsidiaries subject to Nexi management and coordination.

### Nexi SpA

Nexi reported a loss for the year of Euro 50.9 million compared to a 2017 profit of Euro 132.4 million.

An operating loss of Euro 64.4 million was recorded, compared to a profit of Euro 125.1 million in 2017.

Equity amounted to Euro 418.6 million, including the loss for the year of Euro 50.9 million, compared to Euro 1,178.6 million, including profit of Euro 132.4 million, in 2017. The decrease was associated with the dividend distribution arranged during the year as explained in greater detail in the financial statements.

### Nexi Payments SpA

The company, of which Nexi holds 98.92% of the share capital, ended the year with EBITDA of Euro 288.5 million (+25.7% compared to 2017) and a pre-tax profit of Euro 175.9 million (+46.6% compared to 2017).

The 2018 business performance led to a total management of approximately 13.8 million cards and over 3.2 billion transactions.

The activities are analysed below in relation to the three main lines of business managed by the company:

- Issuing and acquiring activities under Direct Licence and on behalf of Banks;
- Servicing activities;
- POS and ATM terminal management activities;
- DCB and Clearing activities.

#### *Issuing and acquiring activities under Direct Licence and on behalf of Banks*

- the card range recorded growth compared to 2017 of 20.1%, reaching over 7.7 million cards at the end of the period, thanks to the maximum block on inactive co-branded prepaid cards (over 2 million cards);
- the breakdown by product of new issues of the year (1.6 million cards) reflects a reduced contribution from prepaid products compared to the previous year;
- the breakdown by product of cards in circulation at the end of the year shows a decrease in prepaid products, consequently generating an increase in the percentage weight of other products;
- the total spending of cardholders amounted to about Euro 32.2 billion and, compared to 2017, recorded a growth of 6.7%, with positive performance both of the Direct Licence model (+5.9%) and the model on behalf of Banks (+8.8%);
- the average use of credit cards under Direct Licence, which is confirmed among the highest in the reference market, has increased (+5.7%), also due to the promotional and spending stimulation initiatives implemented during 2018;
- acquiring transaction volumes amounted to approximately Euro 71.1 billion, up (+14.8%) compared to 2017; this growth was also influenced by acquisition in 2017 of the Acquiring business units of Monte dei Paschi di Siena and Deutsche Bank which contributed for all of 2018 for the management of incremental PagoBancomat volumes, and the acquisition of Carige in 2018 (again limited to incremental PagoBancomat volumes). Net of the inorganic increase, growth is +8.8% compared to 2017;
- overall, the number of transactions managed by issuing and acquiring reported a growth of 22.7%.

*Servicing activities*

- the stock of cards managed on behalf of third party licensees totalled approximately 6.1 million cards, down compared to the previous year (-7.1%). In detail, performance driven by credit cards recorded a decline of 5.2% and by prepaid cards a decline of 10.9%;
- the number of features linked to national debit cards (27 million) is down compared to that of 2017 (-12.7%);
- the total number of transactions managed (1,694 million) is up compared to last year (+0.9%).

*Terminal management activities*

- the stock of managed POS (898 thousand units), composed of e-commerce terminals (over 24.4 thousand units) and physical terminals (about 873.4 thousand units), has significantly increased due to the acquisition of the Bassilichi Group during the year (+23.8%). Net of the inorganic increase, growth is +4.4% compared to 2017;
- the ATM terminals managed reached 13.4 thousand units with an increase of 45.2% compared to 2017 due to acquisition of the Bassilichi Group during the year. Net of the inorganic increase, the total number of ATMs compared to 2017 showed a decline of -4.8%.

*DCB and Clearing activities*

- the DCB and Clearing activities refer to the business unit disposal in 2018 of Nexi SpA (formerly ICBPI), and therefore no past comparative data is presented. The volumes at year end show 223.4 thousand DCB workstations, 242 million domestic clearing transactions and 248 million SEPA clearing transactions.

The main economic indicators of 2018, compared with those of 2017, show the following results:

- the income statement at 31 December 2018 reports a result for the period of Euro 113.8 million compared to Euro 81.4 million at 31 December 2017 (+39.8%);
- net revenue and commission income amounted to Euro 664.2 million, compared to Euro 552.8 million in 2017 (+20.2%);
- net interest expense stood at Euro -9.7 million, whilst in 2017 it was Euro -12.4 million (-22.2%);
- personnel expense amounted to Euro 76.4 million, compared to Euro 44.0 million in 2017 (+73.7%). This increase is mainly due to employees acquired as part of the Payments and Corporate Centre business unit, in addition to non-recurring expenses associated with the corporate reorganisation;
- administrative expenses totalled Euro 365.1 million, compared to Euro 308.4 million in 2017, with an increase of 18.4%.

The Statement of Financial Position at 31 December 2018 reports total assets of Euro 2,865.0 million, compared with Euro 3,629.5 million in 2017.

Specifically:

- receivables amounted to Euro 1,393.0 million, compared to Euro 2,572.2 million in 2017. The decrease is associated with the Group reorganisation that led to closure of the funding line in place with ICBPI and its replacement with other facilities, including factoring, which involved the without-recourse factoring of receivables and resulted in their derecognition;
- property, equipment and investment property amounted to Euro 110.2 million compared to Euro 83.2 million in 2017;
- payables amounted to Euro 1,046.1 million, compared to Euro 2,298.5 million in 2017;
- provisions amount to Euro 40.6 million compared to Euro 13.0 million in 2017.

The commercial activity of Nexi Payments in 2018 was characterised by coordinated action on all business lines and customer segments, with particular attention to innovation and value creation for the partner banks.

An integrated programme of ongoing engagement initiatives was implemented in 2018 with the objective of strengthening the value of partnerships with banks, aimed at ensuring continuous updating of the commercial strategy of the offer and presentation of the main terms of technological innovation and market developments. The meetings were also occasions to discuss the main challenges and strategic opportunities of the market and gather ideas and suggestions on possible paths to be taken to develop the digital payments market in Italy.

During September, the annual convention dedicated to the partner banks was also organised, an opportunity for presentation of the Nexi Payments commercial strategy and for sharing offering news in all business areas.

In reference to the activities of monitoring and commercial stimulation, in collaboration with the banks, commercial activities were carried out during the year aimed at increasing the dissemination and use of payment instruments.

In particular, the following commercial activities were carried out:

- commercial stimulation plans for the partner banks targeted growth in the range of cards, support for the issue of international debit card products, growth of the POS portfolio and subscription to loyalty and digital services;

- promotional activities targeting the growth of digital payments, stimulating the activation of new cards and incentivising growth in spending volumes;
- expansion of the acceptance network for merchants;
- participation in major tenders issued by banking groups in Issuing, Merchant Services and Payments areas.

During the year, the boost in marketing of the new licensed international debit card product continued, which for the partner banks represents a further opportunity for growth in the field of electronic payments, making it possible to offer their customers a payment instrument authorised for use on all channels without any credit risk.

The international debit card can also satisfy bank customer needs in the e-commerce sector: growth forecasts suggest a further acceleration in use of the product which will generate strong growth in volumes and revenues in the coming years.

Within the scope of services for public administration, the commercial activities with partner banks intensified during the period to promote digital payments within treasury services that are proposed to public entities.

With regard to the Payments Node in 2018, Nexi acted as partner to the Agency for a Digital Italy in the beta testing of WISP 2.0, the new online payments architecture on PagoPA which aims to simplify the user experience, reduce abandonment rates and increase the volumes of digital payments.

The Company has also expanded its business proposition with Samsung Pay and Google Pay features, the new payment systems for cardholders in possession of Samsung smartphone and Android operating systems.

In 2018, the Nexi Purchasing Observatory widened its scope of observation, from that of purchases to electronic payments, confirming the new focus on insights that are more consistent with media requests. Added to the traditional analysis of monthly purchasing performance is the verticalisation of spending behaviour in the stronger high-season periods of the year and analysis of specific issues, such as online payments, Fitness & Wellness and Smart Mobility.

## Mercury Payment Services SpA

This company is directly controlled by Nexi SpA (with 100% of Mercury Payment Services share capital), which exercises management and coordination pursuant to article 2497-bis of the Italian Civil Code.

It closed the year with EBITDA of Euro 119.9 million (+21.4% compared to 2017) and an pre-tax profit of Euro 96.3 million, higher than that of the previous year (+31.1%).

During the year, the company's activities continued to provide processing services (to its key customer, Intesa Sanpaolo and the group banks), acquiring limited to its own customers and other services.

The company focused on processing services for the Intesa Sanpaolo Group and on reviewing its proposition in terms of other services provided.

With regard to the Processing activities, the services provided between Mercury Payment Services, Intesa Sanpaolo and banks of the Intesa Sanpaolo Group are governed by specific agreements.

As regards the acquiring activities, almost all the contracts with merchants authorised to accept card payments were transferred to Intesa Sanpaolo in 2016.

Issuing activities (issue of proprietary payment cards) is an immaterial segment of the total operations of Mercury Payment Services. The risk profile for this activity is constantly monitored.

Development continued of the business projects and those of an innovative nature as part of the Acquiring services. The trade sectors mainly involved were: Telecommunications, Passenger Transport, Petrol, Supermarket chains and the Luxury/Fashion industry.

The total number of transactions "managed" by Mercury Payment Services (issuing, acquiring and ATM) increased by around 17% compared to 2017 (from 1,978 million transactions to 2,320 million transactions) and the related transacted volume increased by approximately 11% (from Euro 180.8 billion to Euro 199.9 billion).

Specifically:

- the number of transactions on cards issued by Intesa Sanpaolo, released by the Group Banks (Issuing Processing Business) recorded an increase of around 18% compared to 2017, rising from 833 million transactions in 2017 to roughly 983 million in 2018. The transacted volume rose by approximately 11% from Euro 82.2 billion in 2017 to Euro 91.3 billion in 2018;

- the number of POS transactions (Acquiring Processing & POS Business) was up by about 19% on the same period of 2017, from around 952 million transactions in 2017 to approximately 1,131 million transactions in 2018. The related transacted volume increased by around 13% from Euro 54 billion to Euro 61 billion;
- the number of ATM transactions was up by about 7% on the same period of 2017, from around 193 million transactions in 2017 to approximately 206 million transactions in 2018. The related transacted volume increased by around 7% from Euro 44.6 billion to Euro 47.5 billion.

## Help Line SpA

The subsidiary Help Line SpA, of which Nexi SpA holds 69.24% and Nexi Payments SpA 1.08% of the share capital, recorded an EBITDA of Euro 2.7 million.

The company achieved a pre-tax profit of Euro 1,176 thousand, compared to the Euro 7,438 thousand loss recorded at 31 December 2017, with net profit of Euro 801 thousand compared to the net loss of Euro 5,657 thousand at 31 December 2017, which was due to the accounting effects of non-recurring expenses for staff leaving incentives and the solidarity fund for the period.

The company carries out activities mainly for the Nexi Group, but also operates for some major Italian banks, supporting their customers 24 hours a day, 365 days a year.

In 2018, work continued on improving the processes for managing contacts with customers, with the aim of improving internal efficiency and cost containment.

Dear Shareholders,

## Financial Statement highlights

The income statement and statement of financial position figures at 31 December 2018 are not comparable with those of 2017, in reference to the internal statements produced by Nexis for the purpose of consolidation into Mercury UK, as a result of the reorganisations carried out in 2018 and effective from 1 July 2018.

## Consolidated Statement of Financial Position

To allow comparison of the statement of financial position figures with the current year, the 2017 figures were restated in the comparative statement illustrated below. In particular, it includes the effects of consolidation of the acquired companies (Nexi Payments, Help Line, Oasi, Bassilichi, MoneyNet and Bassmart) and the Payment and Corporate Centre business unit, adopting the same value continuity logic as the consolidated financial statements of DEPObank.

This value continuity principle is consistent with that used to prepare the consolidated financial statements, as described in greater detail in the explanatory notes.

### ASSETS (Amount in Euro mln)

	31.12.2018	31.12.2017
Cash and cash equivalents	40,688	134,420
Financial assets measured at fair value through profit or loss	10	154
Financial assets measured at fair value through OCI	100,114	83,255
Financial assets measured at amortized cost	1,668,452	3,112,352
Equity investments	730	-
Property, equipment and investment property for functional use	156,193	156,907
Property, equipment and investment property for investment	3,151	6,206
Intangible assets	2,668,293	2,607,637
Tax assets	62,873	54,086
Non-current assets and groups of assets held for sale	80,498	66,071
Other assets	405,704	339,754
<b>Total Assets</b>	<b>5,186,707</b>	<b>6,560,842</b>

### LIABILITIES (Amount in Euro mln)

	31.12.2018	31.12.2017
Financial liabilities measured at amortized cost	3,716,834	2,606,046
Financial liabilities held for trading	3,154	1,051
Hedging Derivatives	16,557	5,520
Tax liabilities	163,194	133,897
Liabilities associated with assets held for sale	39,069	22,937
Other liabilities	716,375	720,504
Post-employment benefits	14,084	17,955
Provisions for risks and charges	46,552	33,127
Equity	470,888	3,019,804
<b>Total liabilities</b>	<b>5,186,707</b>	<b>6,560,842</b>

At 31 December 2018, the group has "total assets" of Euro 5,187 million compared to Euro 6,561 million at 31 December 2017.

In particolare, dall'esame dei principali aggregati che concorrono alla formazione dell'attivo patrimoniale al 31 dicembre 2018, risulta che:

- **"financial assets measured at amortised cost"** amounted to Euro 1,668 million, of which Euro 1,107 million in loans and receivables with customers and Euro 561 million in loans and receivables with banks;
- **"intangible assets"** totalled Euro 2,668 million, of which Euro 2,097 million goodwill.

With respect to liabilities:

- **"financial liabilities measured at amortised cost"** amounted to Euro 3,717 million, of which Euro 2,570 in securities issued, Euro 793 million in amounts due to banks and Euro 354 million in amounts payable to customers;
- **"tax liabilities"** totalled Euro 163 million, of which Euro 132 million deferred tax liabilities and Euro 31 million current tax liabilities.

## Consolidated Income Statement

As regards the income statement figures, note that the 2018 results include business combination transactions from their effective date. In particular, in the separate financial statements, the companies and business units acquired during the year contributed to the Group result from the effective date of transfer. In order to provide a more transparent and complete disclosure, the following analysis compares the Group income statement results with those of 2017 as if the business combinations under common control (the spin-off and transfer of the Payments and Corporate Centre business unit) had already been completed by 1 January 2017.

The table below shows that at 31 December 2018 the Nexi Group recorded operating profit of Euro 121 million compared to Euro 116 million in 2017, and profit for the year of Euro 69 million compared to Euro 72 million at 31 December 2017.

### INCOME STATEMENT (Amount in Euro thousands)

	31.12.2018	31.12.2017
Interest and similar income	1,575,874	1,417,007
Interest and similar expense	(620,882)	(582,474)
<b>Net Interest Expense</b>	<b>954,991</b>	<b>834,533</b>
Fee and commission income	56,114	22,078
Fee and commission expense	(99,089)	(37,654)
<b>Net Fee and commission income</b>	<b>(42,975)</b>	<b>(15,576)</b>
Profit/Loss of held for trading/hedging assets and liabilities measured at fair value through profit or loss	(2,293)	(521)
Dividends and profit/loss for assets measured at fair value through OCI	(5,188)	300
<b>Net result of financial management</b>	<b>904,535</b>	<b>818,736</b>
Personnel expenses	(178,840)	(183,553)
Other administrative expenses	(459,247)	(427,032)
<b>Total administrative expenses</b>	<b>(638,087)</b>	<b>(610,586)</b>
Net other expenses/income	4,107	(791)
Amortisation and net impairment losses on assets at amortized cost	(2,239)	(2,767)
Net provisions for risks and charges:	(33,188)	75
Amortisation and net impairment losses on tangible and intangible assets	(114,870)	(88,553)
<b>Operating Margin</b>	<b>120,259</b>	<b>116,115</b>
Profit (Loss) on investments and disposals	21,326	2,307
<b>Profit (Loss) before tax from continuing operations</b>	<b>141,585</b>	<b>118,422</b>
Income taxes	(66,730)	(46,503)
Profit (Loss) after tax for disposals	(6,130)	205
<b>Profit (Loss) of the year</b>	<b>68,725</b>	<b>72,125</b>
Parent Profit (Loss)	67,226	73,112
Third parties Profit (Loss)	(1,499)	987



With respect to these figures:

- The result of financial management and operations was Euro 905 million, compared to Euro 819 million in 2017;
- Personnel expense totalled Euro 179 million, compared to Euro 184 million for 2017;
- Other administrative expenses amounted to Euro 458 million, compared to Euro 427 million in 2017.

## Business outlook

The Nexi Group will leverage the initiatives provided for in the new 2019-2023 Business Plan, described previously, aimed at maintaining a sustainable level of profitability over time, maximising the value of the Group's components and maintaining an increasingly efficient cost structure.

## Information on financial risks

Information is provided below on the nature and extent of financial risks to which the Group is exposed.

The Nexi Group is a market leader in numerous Italian industrial segments including Cards & Digital Payments Merchant Services, ATM Management, Interbank Corporate Banking and Clearing & Settlement.

The Nexi Group offers best-in-class payment solutions in support of banks, financial institutions and insurances, merchants, companies and public administration: from cards to technology for payment acceptance, money transfers between companies and individuals, management of highly complex techniques for collection and payment services.

Given these characteristics, the Nexi Group is mainly exposed to operational risk (including fraud risk, legal/conduct risk and IT risk) and reputational risk.

Other risks under monitoring by the Nexi Group are the strategic risk, the credit risk, the liquidity risk, the interest rate risk and the currency risk as shown in the following table:

Risks/Nexi Group	Nexi SpA (Holding)	Nexi Payments SpA (Electronic Money Institution Supervised by Bank of Italy)		Mercury Payments (Payment Institution Supervised by Bank of Italy)		Help Line (ancillary company)
Strategic Risk	x					
Reputational Risk	x		x	x	x	x
Operational risk			x	x	x	x
Credit Risk			x	x		
Liquidity Risk	x		x	x		
Interest Rate Risk	x		x	x		
Currency Risk			x	x		

## Risk management at Nexi Group

In regard to risk management, the model adopted by Nexi provides that the Parent Company monitors the strategic risk and the internal control system of the Group.

The Internal Control System - i.e. an organisational, regulatory and methodological environment for the effective and economic exercise of guidance activities and strategic, management and technical-operating control - is a process designed to offer reasonable certainty in achieving the business objectives of effectiveness and efficiency of operations, reliability of financial statements information and compliance with laws and regulations in force.

The regulations governing relations between the Parent Company Nexi and the subsidiaries specifically aim to standardise the organisational and conduct rules in an effort to direct the Group development policies and operational strategies toward consistent objectives, in compliance with the strategic guidelines set by the Parent Company.

The regulations were also drawn up to safeguard the operational independence of subsidiaries subject to supervision and operating in the payment and electronic money service sectors (defined as "supervised companies") which implement the provisions in compliance with applicable special laws.

The Parent Company Nexi has an Audit function which, amongst its other duties, supports the Board of Directors of the Parent Company, via the Risk Committee, in verifying that the Group companies define their Internal Control Systems in accordance with the strategic guidelines and risk management policies defined by the Nexi Board of Directors at Group level.

Monitoring of the internal control system covers all the Group risks, in compliance with mandatory regulations applying to the supervised companies. In this respect, the Parent Company Board of Directors:

- defines the guidelines of the Group internal control system and risk management in compliance with the mandatory regulations applicable to the supervised companies;
- guarantees the control of the overall exposure of the Group to business risks;
- is informed via the Parent Company Internal Audit function - along with the Boards of Directors and Boards of Statutory Auditors of the subsidiaries - if significant findings or anomalous or problematic situations emerge from controls carried out by the relevant organisational units of the subsidiaries. The primary power and responsibility for supervising the activities

of the Internal Control and Risk Management System (hereinafter "ICRMS") of all the companies of the Nexi Group (design, management and monitoring) rest with the Boards of Director and with the management teams of the individual subsidiaries also as regards the compliance profiles applicable to the supervised companies. These companies are in charge of the establishment and the adequate and effective maintenance of the ICRMS, implementing the Guidelines defined by the Parent Company.

The subsidiaries:

- are responsible for the implementation of the strategies and policies for risk management;
- provide reports to the Parent Company, defined from time to time based on the needs of the Group, on a regular basis or upon request, in order to ensure a consistent risk management at consolidated level;
- set up corrective actions for the removal/mitigation of any anomalies and problems identified, in line with any indications provided by the Parent Company.

In accordance with current supervisory provisions, the Internal Control System is structured on the following three levels of control:

- "First level controls - line controls" - aimed at ensuring correct operating practices. These are therefore hierarchical controls managed by the production units themselves, generally incorporated into their procedures or performed as back office activities;
- "Second level controls":
  - "Risk management controls" designed to define risk measurement methods, check compliance with limits assigned to the various operating units (second level controls) and check consistency of each production unit's operations with their risk/ return objectives;
  - "Compliance controls" - designed to monitor risks of non-compliance with external and internal regulations;
- "Third level controls - Internal Audit" - designed to identify irregularities, violations of procedures, internal and external regulations and assess the overall operations of the Internal Control System.

Non-operational and independent units carry out control activities on risk management, compliance and internal audit.

## Risks specific to the Parent Company

The Group shows a significant financial indebtedness, represented primarily by bond loans which incur high financial charges. These financial charges could generate negative effects on Nexi Group results and on its capacity to generate cash flows and distribute dividends, with possible effects on its capacity to repay debts at their due dates, as well as the capacity to support the investments necessary for business development.

## Liquidity risk and interest rate risk

The Group is exposed to the risk of failing to meet obligations and covenants envisaged in contractual documentation relating to such financial indebtedness and, in particular, in relation to bond loans or existing bank credit facilities, can result, inter alia, in application of the acceleration clause, also due to cross default clauses envisaged in certain contracts governing the Group's financial indebtedness.

The sustainability of the level of indebtedness of the Nexi Group is, first of all, associated with its operating results and consequently with its capacity to generate sufficient liquidity, as well as the capacity to refinance the debt at its due date.

The risk profiles related to the guarantees issued are associated with possible defaults in the underlying loan agreements and consequently with the possibility that the financing parties, using the remedies set up in the contract, proceed to enforce the guarantees thus protecting their rights to lodge claims with possible negative effects on the economic, equity and/or financial position of the Nexi Group.

The risk is contained thanks to clauses set in the contracts that represent "standard" conditions for similar transactions. The Group is exposed to the risk that significant interest rate fluctuations may occur and that the policies adopted to neutralise these fluctuations prove to be insufficient. Interest rate fluctuations depend on different factors that are not controllable by the Group, such as monetary policies, macro-economic trends as well as the economic conditions and political uncertainty in Italy.

Changes in interest rates affect the market value of the company's financial assets and liabilities and the level of financial charges, since some of the loans were agreed at floating rate.

The Group has set up procedures aimed at identifying, monitoring and managing these types of risk, which include (a) weekly monitoring of the interest rates market curve to which the debt is indexed, the performance of its listed securities and the country risk as well as oth-

er macroeconomic market indicators and (b) periodic alignments with studies conducted by leading banks on the outlook for the financial market.

## Risks relating to subsidiaries' activities

The Group may incur liabilities and may suffer damages, also to its reputation, related to fraudulent digital payment transactions, fraudulent receivables claimed by merchants or other parties, or fraudulent sales of goods and services, including fraudulent sales by merchants of the Group in the line of business Cards & Digital Payments and Merchant Services & Solutions.

## Operational risk

Examples of fraud may include the malicious use of a credit or debit card stolen or counterfeited, the use, by merchants or other parties, of the number of a payment card or of other credentials for recording a false sale or transaction, the sale of counterfeit goods, malicious failure to deliver goods or services sold within the scope of an otherwise valid transaction.

Failure to identify thefts, as well as ineffective risk management and fraud prevention, may increase the chargeback liability of the Group or cause the Group to incur other liabilities, including penalties and fines.

To address these risks, Nexi has adopted a specific framework to identify, manage and monitor risks, comprising policy, processes, organisational controls and tools. This framework transposes the requirements and provisions of Italian and international law, as well as sector best practices for the development and upgrading of methods and support tools.

The Group uses sophisticated transaction control and detection systems as well as effective organisational controls for fraud prevention and risk management controls.

Given the high degree of technological innovation of the services provided by the Group, and the importance of the management of sensitive data concerning payments, specific policies and methods have been defined for the identification and management of information system risks (including cyber-security), and specific organisational controls with the scope of the Information Security Management System for line controls and controls over risk management, have been implemented. Operational risks are also mitigated by targeted insurance coverage.

## Reputational risk

Reputational risk is defined as the current or future risk of a loss, a decline in business volume or profits, or fall in value of company shares resulting from a negative perception of the Group image by its customers, counterparties, shareholders, investors or competent supervisory authorities; these events may also affect the capacity of Nexi to maintain, or create, new business relations and to continue to access funding resources also through the capital market or banking channel.

The Group, considering the importance of the reputational risk and the negative effects that may result from it, has set up special controls aimed at preventing risk factors (operational and compliance) which may affect the reputation of the Group, including:

- anti-money laundering task force;
- privacy task force;
- IT risk monitoring and control task force;
- business continuity management task force;
- brand and communications management task force for "Nexi" brand payment card products;
- crisis management task force (to manage reputational risk);
- monitoring and second level controls task force to manage compliance and operational risk.

In addition to the above, the Group undertakes, on a consistent basis, actions to prevent and monitor the effects on the reputation of the Group (with particular reference to the company Nexi Payments, owner of the brand "Nexi") including (i) the assessment of the reputational risk resulting from the periodical assessments of compliance and process operational risk; (ii) the assessment of the potential reputational risk during the planning stage for the design of new services/products; (iii) the assessment of the potential impacts on reputation, in the case of operational "accidents"; (iv) a dashboard for monitoring the reputational risk; and (v) a dashboard for monitoring conduct risk.

## Credit risk

The Group is exposed to credit risk as specified below.

### Credit risk in acquiring activities

The settlement between counterparties carried out as acquirer, implies that the merchant-customer receives the funds before the Group receives them:

- i. from the factor, for receivables generated by Group-issued cards covered by the Factoring Contract;

- ii. from the banks of cardholders, for all other receivables generated by Group-issued cards not subject to the Factoring Contract; and/or
- iii. from the international payment card circuits for cards issued by other issuers.

Furthermore, in regard to the acquiring services provided under traditional, associate and referral licence agreements governed by the business line Merchant Services & Solutions, the Group, in its capacity as acquirer, is exposed to the counterparty risk arising from the amounts paid to merchants before the goods or services are provided to the consumer or contested by the cardholder. In this case, the amount of the transaction is normally charged back to the merchant and the purchase price is reimbursed by the Group, in its capacity as acquirer, to the cardholder.

The Group is also subject to credit risk for (a) the amount of fees of the International Circuits of payments cards and (b) its own fees due by the merchants. When the acquirer pays merchant customers the payment amount of the transaction, it does not always deduct the fees due, but in certain cases charges them later, on a monthly basis. If the merchant refuses or delays the payment of these amounts, the Group may suffer a loss.

### Credit risk in issuing activities

The Group companies, in their capacity as issuers, grant credit to the cardholders to fund their purchases using payment cards managed by the Cards & Digital Payments business lines.

The collection times from cardholders depend on the type of card used. If the purchase is carried out with a debit card, no exposure is expected for the issuer; vice versa, with credit cards, the issuer is often exposed to an average range between 15 and 45 days.

If the cardholder is not able to pay the balance due to bankruptcy or insolvency, the partner bank arranges repayment of the amounts due from the cardholder. In the case of insolvency of a partner bank, the issuer can try to recover the amounts directly from the credit cardholder. In this regard it should be noted that if the card of an insolvent cardholder is blocked, the partner bank remains responsible for any insolvency related to purchases made in the 5 following days. Once these 5 days have elapsed, if the issuer has not yet blocked the card, any additional amount (i.e. the purchases made from the sixth day forward) are under the responsibility of the issuer.

### Credit risk in servicing activities

In the case of special agreements with banks concerning the servicing model related to the line of business Cards & Digital Payments, the Group is exposed to counterparty risk for the payment of the services provided to these parties and to the credit risk associated with the POS and ATM management services with merchants and with customer banks of these services.

### Credit risk monitoring

Credit Risk is monitored constantly, checking that the exposures are within the budget limits set at the beginning of each year. Nexi Payments also carefully rates each new merchant or cardholder in the case of directly issued cards before agreeing new contracts.

The Risk Management function constantly monitors credit risk trends and activates, if the limits are exceeded, triggers appropriate escalation measures.

The Group has specific maximum gross and net insolvency limits, and limits to the impact on cost, to control and measure risk. It monitors these limits constantly as well as expected losses compared to actual losses and the performance of losses incurred in relation to business performance.

This Credit Risk control consists of preliminary checks by the first level units, starting with the analysis of the credit application. It includes:

- internal controls;
- consistency controls;
- use of positive and negative Credit Bureau information;
- Credit Scoring algorithms.

Another process relevant for Credit Risk is the monitoring and recovery of receivables from cardholders and merchants, in order to contain the impact of risk events. With respect to its servicing activities, the Group does not have risks related to receivables due directly from retail customers as its core business is Issuing servicing and Acquiring servicing activities. Therefore, the related credit risk falls on the Banks holding the issuing and/or acquiring licences.

This year, as in previous years, no significant critical issues were found in relation to this type of risk compared to the set limits.

## Interest rate risk

Given the unique nature of Nexi Payments business, the exposures are mostly concentrated in the “within one month” class and therefore with minimum exposure to risk, except for exposures related to revolving cards, which have an average residual life of 10 months. Exposure to this type of risk can be considered substantially immaterial.

The other Group companies are not exposed to this type of risk.

## Currency risk

The Group companies are marginally exposed to currency risk since payments and collections, respectively for amounts to pay or collect related to the Mastercard and Visa circuits, are carried out in Euro.

## Price risk and currency risk hedging

In order to hedge the risk of a reduction in the price and exchange rate of the Visa C Class shares held (convertible into Visa Series A shares at a variable conversion factor according to the charges deriving from contingent liabilities of the former Visa Europe, acquired by Visa Inc.), a collar was stipulated on a number of shares that does not take into account the discount applied in the financial statements, but which has a strike such that, from an economic point of view, the pay-off the derivative, in the event of a reduction in the Euro value of Class A Shares to below the carrying amount, is equal to the reduction in the value of the security compared to the objective of the hedge.

In addition, to hedge against currency risk associated with POS purchases in USD, certificates of deposit in dollars were taken out.

## Research and development activities

Note that the Group did not undertake any research and development activities in 2018.

## Treasury shares

The parent company and Group companies did not hold treasury shares at the reporting date.

## Going concern

The Directors confirm the reasonable expectation that the Group will continue to operate in the foreseeable future and that, as a result, the financial statements for 2018 have been drafted from a going concern perspective. We emphasise, therefore, that no symptoms have been found in the assets and financial structure and in operating performance that could constitute cause for uncertainty regarding the business as a going concern.

## Rating

In 2018 the rating agency Standard & Poor's confirmed the long-term rating of Nexi SpA and Nexi Payments SpA as B+, with stable outlook.

Similarly, Moody's rating agency confirmed a CFR (“Corporate Family Rating” of B1 with stable outlook.

## Registered office

The registered office of the parent is Corso Sempione 55, Milan.

## Significant events after the end of the year

On 22 January 2019, a binding agreement was signed for the disposal to Cedacri SpA of Nexi's entire interest in Oasi. The transaction closing is expected during 2019.

Is currently in progress completion of sale to Comdata SpA of Nexi Payments' entire stake in PayCare Srl.

**Milan, 13 February 2019**  
THE BOARD OF DIRECTORS



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CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2018

# CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

## CONSOLIDATED BALANCE SHEET

(Amount in Euro thousands)

ASSETS		31.12.2018
Cash and cash equivalents	3	40,688
Financial assets at fair value through profit or loss	4	10
Financial assets at fair value through OCI	5	100,114
Financial asset measured at amortised cost	6	1,668,452
a) loans and receivables with banks		561,209
b) loans and receivables with customers		1,107,243
Equity investments	7	730
Property, equipment	8	156,193
Investment property	8.1	3,151
Intangible assets	9	2,668,293
goodwill		2,097,379
Tax assets	10	62,873
a) current		29,299
b) deferred		33,574
Non-current assets held for sale and discontinued operations	11	80,498
Other assets	12	405,705
<b>Total assets</b>		<b>5,186,707</b>
LIABILITIES		31.12.2018
Financial liability measured at amortised cost	13	3,716,834
a) due to banks		792,896
b) due to customers		354,249
c) securities issued		2,569,689
Financial liabilities held for trading	14	3,154
Financial liabilities designated at fair value	15	16,557
Tax liabilities	10	163,194
a) current		31,124
b) deferred		132,070
Liabilities associated with non-current assets held for sale and discontinued operations	11	39,069
Other liabilities	16	716,375
Post-employment benefits	17	14,084
Provisions for risks and charges	18	46,552
Share capital	19	50,000
Share premium	19	389,275
Reserves	19	-47,735
Valuation reserves	19	36,899
Profit for the period (+/-)	20	35,933
Equity attributable to non-controlling interests (+/-)	19	6,516
<b>Total liabilities and equity</b>		<b>5,186,707</b>



**CONSOLIDATED INCOME STATEMENT**

(Amount in Euro thousands)

		2018
Fee for services rendered and commission income	21	906,948
Fee for services received and commission expense	22	-328,118
<b>Net fee and commission income</b>		<b>578,830</b>
Interest and similar income	23	45,640
Interest and similar expense	24	-79,741
<b>Net interest income</b>		<b>-34,101</b>
Profit / loss on trading activity / hedging on financial assets and liabilities designated at fair value through profit or loss	25	-265
Dividends and profit / loss from investments and sale of assets at fair value through OCI (ex AFS)	26	-5,470
<b>Financial and operative income</b>		<b>538,994</b>
Personnel expense	27.1	-105,444
Other administrative expenses	27.2	-270,955
<b>Total administrative expenses</b>		<b>-376,399</b>
Other operating income, net	28	-264
Net value adjustments on assets measured at amortized cost	29	100
Net accruals to provisions for risks and charges	30	-14,353
Net value adjustments / write-backs on tangible and intangible assets	31	-84,392
<b>Operating margin</b>		<b>63,686</b>
Share of profits (losses) of investees and net gains (losses) on sales of investments	32	20,717
<b>Pre-tax profit from continuing operations</b>		<b>84,403</b>
Income taxes	33	-40,261
Income (Loss) after tax from discontinued operations	34	-7,431
<b>Profit for the period</b>		<b>36,711</b>
Profit for the period attributable to the owners of the parent		35,933
<b>Profit for the period attributable to non-controlling interests</b>	<b>35</b>	<b>778</b>

**STATEMENT OF COMPREHENSIVE INCOME**

(Amount in Euro thousands)

CAPTIONS	2018
<b>Profit (loss) for the year</b>	<b>36,711</b>
<b>Items that will not be reclassified subsequently to profit or loss</b>	
Financial assets at fair value through OCI	52,002
Hedging of equity instruments designated at fair value through OCI	-15,407
Defined benefit plans	565
<b>Items that will be reclassified subsequently to profit or loss</b>	
Cash flow hedges	161
<b>Other comprehensive income (net of tax)</b>	<b>37,322</b>
<b>Total comprehensive income</b>	<b>74,033</b>
Comprehensive income attributable to the owners of the parent	1,209
<b>Comprehensive income attributable to non-controlling interest</b>	<b>72,824</b>

**STATEMENT OF CHANGES IN EQUITY**

(Amount in Euro thousands)

31.12.2018	Balance at 01.01.2018	Change in opening balance	Allocation of prior year profit		Change of the period		2018 Comprehensive income		Balance at 31.12.2018
			Reserves	Dividend	Change in Reserves	Transaction on net equity	Profit for the year	Other comprehensive income items	
<b>1. Equity attributable to the owner of the parent</b>	<b>1,067,457</b>	<b>-</b>	<b>-</b>	<b>-56,000</b>	<b>33,180</b>	<b>-653,092</b>	<b>35,933</b>	<b>36,890</b>	<b>464,369</b>
Share capital	50,000	-							50,000
Share premium	989,672					-600,398			389,274
Reserves	-3,551		31,326	-56,000	33,180	-52,694			-47,739
Valuation reserves	9							36,890	36,899
Profit for the year	31,326		-31,326				35,933		35,933
<b>2. Equity attributable to non-controlling interest</b>	<b>-</b>	<b>-</b>			<b>5,306</b>		<b>778</b>	<b>432</b>	<b>6,516</b>
<b>Total</b>	<b>1,067,457</b>	<b>-</b>	<b>-</b>	<b>-56,000</b>	<b>38,486</b>	<b>-653,092</b>	<b>36,712</b>	<b>37,322</b>	<b>470,885</b>

**STATEMENTS OF CASH FLOWS: INDIRECT METHOD**

(Amount in Euro thousands)

	Notes	2018
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Operations</b>		
Profit for the year		36,711
Net losses on financial assets held for trading and other financial assets/liabilities at fair value through other comprehensive income and hedged assets		265
Net accruals to provisions for risks and charges and other costs/revenue		14,353
Amortisation, depreciation and net impairment losses on assets held for sale		6,050
Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets	36.1	84,392
Unpaid taxes, duties and tax assets	36.2	20,356
<b>Other adjustments</b>		<b>-2,021</b>
		<b>160,106</b>
<b>2. Cash flows generated by (used for) financial assets</b>		
Financial assets at fair value through other comprehensive income		-
Financial assets held for trading	36.3	158
Loans and receivables with banks		-190,034
Loans and receivables with customers	36.4	1,473,037
Assets held for sale		-
<b>Other assets</b>		<b>13,784</b>
		<b>1,296,945</b>
<b>3. Cash flows generated (used) by financial liabilities</b>		
Due to banks	36.5	-1,689,988
Due to customers		314,316
Financial liabilities held for trading		-158
Hedging derivatives		-
Liabilities associated with disposal groups		-
<b>Other liabilities</b>	36.6	<b>-296</b>
		<b>-1,376,126</b>
<b>Net cash flows generated by operating activities</b>		<b>80,925</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flows generated/used by</b>		
Acquisitions of property and equipment	36.7	-31,569
Sales of property, equipment and investment property and intangible assets		-
Acquisitions of intangible assets	36.8	-58,841
Acquisitions of subsidiaries and business units	36.9	-2,422
<b>Net cash flows used in investing activities</b>		<b>-92,832</b>
<b>C. FINANCING ACTIVITIES</b>		
Repayment of loan to parent	36.10	-380,000
Dividends paid	31.11	-56,000
Issue/purchase of equity instruments	31.12	-
Issue of debt instruments		2,556,960
Dividends distributed to third parties		-2,202,750
Sale/acquisition of non-controlling interests		0,10
<b>Net cash flows generated by (used in) financing activities</b>		<b>-81,791</b>
<b>NET CASH FLOWS GENERATED IN THE YEAR</b>		<b>-93,697</b>
Net cash flows for the year		-93,697
Opening cash and cash equivalents		134,385
<b>Closing cash and cash equivalents</b>		<b>40,688</b>



# 1.3

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Accounting policies

### GENERAL PART

#### Statement of compliance

Pursuant to Regulation (EC) no. 1606 of 19 July 2002, the Company, has prepared these separate financial statements as at and for the year ended 31 December 2018 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. They were introduced into Italian law with Legislative decree no. 38/2005.

In the preparation of the Financial Statements, the IAS/IFRS standards in effect at 31 December 2018 were applied.

It did not make any departures from the IFRS.

#### Basis of presentation

The Consolidated Financial Statements at 31 December 2018 comprise a Statement of Financial Position, an Income Statement, a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows and the Explanatory Notes which include the criteria adopted in their preparation. The Consolidated Financial Statements includes also the Directors' report which comments on the Group's performance, its results of operations and its equity and financial position.

It should be noted that the financial statements at 31 December 2018 are the first consolidated financial statements published by Nexi SpA. In fact until 31 December 2017 the company was not required to prepare consolidated financial statements since it is 100% owned by Mercury UK which prepares consolidated financial statements in compliance with the international accounting standards. Consequently the data could not be compared.

The presentation currency of the Financial Statements at 31 December 2018 is the Euro. The accounting statements and the Explanatory Notes are shown in thousand of Euros.

The measurement criteria were applied on the basis of 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 Directors' Report and the Explanatory Notes provide all the information required by the IFRS and the law, as well as additional disclosures which are not mandatory but are deemed useful to give a true and fair view of the Company's financial position.

The following table shows the new standards or amendments with the related regulations and approval requirements. Their application is mandatory as from 1 January 2019 (for the companies adopting the calendar year) or from a later date.

Approval date	Standard/Interpretation		Year of application
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

In reference with IFRS 16, which was approved in 2016 and the application of which is mandatory as from 1 January 2019, in 2018 a project was started for the transition to this standard which highlighted the following types of agreements falling under the IFRS 16 application:

- lease of property assets;
- business car rental;
- ICT equipment rental and ICT outsourcing.

This new accounting standard, in fact, provides to the lessees a single accounting model for all operating and financial leasing agreements, which shall also apply to agreements that include leasing. In particular the lessee must recognise:

- under "assets", the Right to use of the asset underlying the agreement that will generate depreciation/amortisation in the income statements;
- under "liabilities", the Payable for leasing, representing the obligation to pay rentals. This payable will generate the recognition in the income statement of interest expense according to the logic of amortised cost.

The initial amount of the asset for the Right of use includes, in addition to the lease liability, the direct cost for the transaction, the instalments paid early, the cost for the removal and the reversal of the asset, as well as the incentives of the leasing received by the lessee.

In fact, IFRS 16 sets forth special rules to be followed in the case of changes in the estimation parameters that were initially used.

The Group decided, at the time of the first application of IFRS 16, not to redetermine comparative data (namely, retrospective modified application) and therefore the initial impacts will be recognised in the opening net equity at 1 January 2019. In addition, in order to measure the Right of use, the Group decided to opt for the following practical expedients:

- the possibility to attribute to the Right of use a value equal to that of the liability for leasing;
- determine the value of the liability for leasing based on the discount rate at the date of the first time application of the standard;
- exclude the initial direct costs for the Right of use from the measurement of the asset.

Given these options, at the first time application of IFRS 16, no significant impacts on the net equity of the Group is expected. These estimates may be subject to changes since:

- the Group has not yet completed the tests carried out on the new information system specific to the management of these agreements;
- the accounting choices may be changed until the publication date of the first 2019 reporting.

The following table shows the most recent new standards for which some amendments were issued but are not yet subject to ratification by the European Union.

IASB Document	IASB publication dates
IFRS 17: Insurance contract	18/05/2017
Amendments to IAS 28: Long term Interests in Associates and Joint Ventures	12/10/2017
Annual improvements to IFRS: 2015-2017 Cycle	12/12/2017
Amendments to IAS 19: Plan Amendment, Curtailment of Settlement	07/02/2018
Amendments to References to the 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

Since none of them have been approved by the European Commission, they have not impacted the preparation of the Consolidated Financial Statements.

## Basis of presentation of the consolidated financial statements

### Statement of financial position and income statement

They comprise captions, sub-captions and additional information. In the income statement revenue is shown without a plus sign while costs are shown with a minus sign.

### Statement of comprehensive income

The statement of comprehensive income, starting from the profit (loss) for the period, shows the income items recognised as balancing entries of the valuation reserves, net of the related tax effects and in compliance with the international accounting standards.

### Statement of changes in equity

This statement shows changes in equity during the year split between share capital, equity-related reserves, income-related reserves, valuation reserves and the profit (loss) for the year. Treasury shares are offset against equity. The bank has not issued equity instruments other than ordinary shares.

### Statement of cash flows

The statement of cash flows for the year of reference of the financial statements and for the previous year has been prepared using the indirect method, whereby cash flows from operations are the profit for the year adjusted by the effects of non-monetary transactions.

Cash flows are split between those from operating, investing and financing activities.

Cash flows generated during the reporting period are indicated without a sign while those used during the same period are shown with a minus sign.



## Basis of presentation of the Explanatory Notes

The Explanatory Notes include all information deemed necessary to give a true and fair view of the economic and financial position.

The accounting criteria described below have been adopted to determine all the information contained in these consolidated financial statements.

### Consolidation criteria

The consolidation scope has been determined in accordance with IFRS 10 "Consolidated financial statements". Accordingly, the requirement of control is fundamental to the consolidation of all types of entities and applied when an investor, concurrently:

- has the power to decide on the relevant assets of the entity;
- is exposed to or benefits from variable returns from the relationship with the entity;
- has the capacity to exercise its power to affect the amount of its returns.

Therefore, the Group consolidates all types of entities when all three elements of the control are present.

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

In other cases, the assessment of control is more complex and requires the 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 the Nexi Group, all the consolidated entities are directed mainly through voting rights. Accordingly, the group did not have to exercise special judgements or make significant assumptions in order to establish the existence of control over subsidiaries and significant influence over associates.

The Financial Statements of the Parent Company and Consolidated Companies were used for consolidation purposes, after being reclassified and adjusted to comply with the consolidation requirements and the IFRS.

Equity investments in subsidiaries are consolidated by combining the captions of financial position and income statement on a "line-by-line" basis, making the following adjustments:

- (a) the carrying amount of the Parent Company's equity investments in each subsidiary and the parent's portion of equity of each subsidiary are eliminated;
- (b) the equity and profit or loss attributable to non-controlling interests are recognised separately.

Positive differences arising from the above adjustments are recognised as goodwill in caption "100 Intangible assets" at the date of first consolidation after allocation to the subsidiary's assets and liabilities. Any negative differences are recognised in the income statement.

Intragroup assets and liabilities, off-statement of financial position transactions, income and expense and profits and losses among the consolidated companies are eliminated.

The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. The income and expense of a subsidiary that is sold are included in the income statement up to the sales date, i.e., until the date when the parent ceases to control the subsidiary.

Pursuant to IAS 28, the consolidated financial statements of the Group also include the results of equity investments in associates, 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 equity investments are measured using the equity method which entails the initial recognition of the investment at cost and its subsequent adjustment based on the change in value of the share pertaining to the net equity of the subsidiary. The share of the associate's profit or loss is recognised under a specific caption of the income statement.

The difference between the equity 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 the income statement.

At present, the Nexi Group is not a party to joint arrangements as defined by IFRS 11 in the form of joint ventures (the ventures have rights to the arrangement's net assets).

### Equity investments in fully controlled subsidiaries

Following the Group re-organisation, described in section "40" of these Financial Statements, the Nexi Group's scope has significantly changed in 2018.

This table shows the new scope of the Nexi Group.

Company name	Operating office	Registered office	Type of relationship <sup>(1)</sup>	Parent	Investment %	Voting rights %
Nexi SpA	Milano	Milano	1	Mercury UK Holdco Ltd	93.21	93.21
Nexi Payments SpA <sup>(3)</sup>	Milano	Milan	1	Nexi SpA <sup>(2)</sup>	98.92	98.92
Mercury Payments SpA	Milano	Milan	1	Nexi SpA	100	100
Help Line S.p.A	Cividale del Friuli / Milan	Cividale del Friuli	1	Nexi SpA <sup>(2)</sup>	69.24	69.24
			1	Nexi Payments SpA <sup>(2)</sup>	1.08	1.08

#### Notes

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

(2) Company now owned by Nexi SpA following completion of the Reorganisation and consolidated since 1 July 2018.

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

The consolidation scope of the consolidated financial statements of the Nexi Group at 31 December 2018, include, in addition to the above listed companies consolidated on a line-by-line basis, the following associates, measured with the net equity method:

Company name	Registered office	Operating office	Investor	Investment %	Voting rights %
Win Join	Lecce	Lecce	Basilichi SpA	24	24
Rs Record store	Piacenza	Piacenza	Basilichi SpA	30	30
BASSNET Srl	Monteriggioni	Monteriggioni	Basilichi SpA	49.68	49.68
K.Red	Milano	Milano	Basilichi SpA	50	50

It should be noted that the consolidated financial statements also include the following companies, the assets and liabilities of which are consolidated on a line-by-line basis although classified in compliance with IFRS 5 since they are held for sale:

Company name	Registered office	Operating office	Investor	Investment %	Voting rights %
Oasi SpA	Milan	Milan	Nexi SpA	100	100
Moneynet SpA	Palermo	Palermo	Nexi Payments SpA	100	100
BassmArt Srl	Florence	Florence	Nexi Payments SpA	95	95
Pay Care	Florence	Florence	Nexi Payments SpA	100	100

**Significant estimates and assumptions adopted to define the consolidation scope**

As already indicated above, since the control of the entities is based primarily on the majority of voting rights held, no circumstances have required the exercise of particular levels of subjective judgements or the adoption of relevant assumptions to determine the consolidation scope and methods.

This consideration is also applicable to associates in the presence of a significant influence which is substantially attributable to the level of voting rights held by the Group.

**Equity investments in subsidiaries with significant non-controlling interest****Non-controlling interests, their voting rights and dividends distributed to them**

31 December 2018

	Investments	Voting rights	Dividends
Help Line SpA	29.7%	29.7%	-

(1) Available votes at the ordinary Shareholders' Meeting.

**Equity investments with significant non-controlling interests: accounting information**

31 December 2018

Company Name	Total assets	Cash and cash equivalents	Property and equipment Intangible assets	Equity	Net Interest Income	Net Fee and Commission Income	Operating Margin	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Profit (loss) for the year (1)	Other comprehensive income, net of income taxes (2)	Comprehensive Income (3) = (1) + (2)
1, Help Line Spa	21,907,440	663	7,096,641	3,744,893	-636	32,348,419	1,175,628	1,175,628	800,959	800,959	74,365	875,324

**Significant restrictions to voting rights**

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

**Other information**

The Consolidated financial statements are subject to auditing by KPMG SpA and will be published within the terms and procedures set forth by the law.

## **Main accounting policies**

### **Financial assets designated at fair value with impact on the income statement**

#### **Classification criteria**

This category includes financial assets other than those classified under Financial assets designated at fair value, with impact on the comprehensive income, and under Financial Assets valued at the amortised cost. At the reporting date, this caption includes exclusively equity instruments held for purposes other than trading for which the Group has not opted for a designation to fair value with impact on the comprehensive income.

According to the IFRS 9 provisions on reclassification of financial assets (except for equity securities for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted, except if the entity changes its business model for the management of financial assets. In these cases, which are expected to be very infrequent, financial assets may be reclassified from the category measured at fair value with impact on the income statement in one of the other two categories set in IFRS 9 (Financial assets measured at amortised cost or Financial assets designated at fair value with impact on the comprehensive income). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification are applied prospectively starting from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value as at the reclassification date and this date is considered to be the initial recognition date for the assignment under different stages of credit risk for impairment purposes.

#### **Recognition criteria**

Financial assets designated at fair value with impact on the income statement are initially recognised at their fair value, normally represented by the transaction price.

#### **Measurement criteria**

After initial recognition, financial assets with their fair value recognised in the income statement are measured at fair value. Any profit or loss resulting from the fair value is recognised as a trade gain/(loss) in the consolidated income statement.

The fair value is determined according to the criteria described in the section "Fair value policy".

#### **Derecognition criteria**

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.

More specifically, transferred financial assets are derecognised when the entity retains the contractual rights to receive the cash flows of the assets, but undertakes concurrently an obligation to pay these and only these cash flows, with no significant delays, to third parties.

### **Financial assets designated at fair value with impact on the comprehensive income**

#### **Classification criteria**

This category, at the reporting date, includes only equity instruments other than those held for trading for which the Company has applied the option to designate at fair value with impact on the comprehensive income. In fact, the non derivative financial assets held in compliance with the business model "Held to collect and for sale" do not show a balance at the reporting date since they are subject to sale on a daily basis within the scope of a factoring agreement.

According to the provisions of IFRS 9 on the reclassification of financial assets (except for those equity instruments for which the reclassification is not permitted) reclassifications to other categories of financial assets are not permitted un-

less the Company changes its business model for such financial assets. In these cases, which should not be infrequent, financial assets may be reclassified from those designated at fair value, with impact on the comprehensive income, to one of the other two categories set in IFRS 9 (Financial assets measured at amortised cost or Financial assets designated at fair value with impact on the comprehensive income statement). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification are applied prospectively starting from the reclassification date. In the case of a reclassification from the category in question to the amortised cost category, the accrued gain (loss), recognised in the valuation reserve, is posted as an adjustment of the fair value of the financial asset as at the reclassification date. In the case of a reclassification to the fair value category with impact on the income statement, the accrued gain (loss) previously recognised in the valuation reserve is reclassified from net equity to profit (loss) for the year.

### **Recognition criteria**

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

### **Measurement criteria**

Equity instruments are measured at fair value and recognised as a balancing entry to the equity (Other items of the comprehensive income). Dividends are recognised under profit (loss) for the year, while any impairment loss and the profits and losses resulting from the transfer are not recognised in the income statement.

### **Derecognition criteria**

Financial assets or parts thereof are derecognised when the contractual rights on the cash flows are expired or have been transferred without this affecting the retention of the associated risks and benefits.

In particular, the transferred financial assets are derecognised when the entity retains the contractual right to receive the financial flows of the asset, but undertakes the concurrent obligation to pay these and only these cash flows, with no significant delays, to third parties.

As per the receivables transferred within the scope of the non-recourse factoring, for which the derecognition is carried out, the result from the transfers equal to the difference between the carrying amount and the sale price, is recognised under "Dividends and profits/losses from the transfer of financial assets at fair value with impact on the comprehensive income" of the income statement.

## **Financial assets measured at amortised cost**

### **Classification criteria**

This category consists of the non-derivative financial assets included in the business model Held to Collect, the contractual terms of which generate cash flows which are exclusively payments of principal and interest (SPPI criterion).

According to the general rules set forth in IFRS 9 on the reclassifications of financial assets, these are not permitted toward other categories of financial assets unless the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, the financial assets may be reclassified from the category measured at amortised cost to one of the other two categories set forth in IFRS 9 (Financial assets designated at fair value with impact on the comprehensive income or Financial assets designated at fair value with impact on the income statement). The transfer amount is represented by the fair value at the reclassification time and the effects of the reclassification applied prospectively starting from the reclassification date. The profits and losses resulting from the difference between the amortised cost of the financial asset and the related fair value are recognised in the income statement in the case of a reclassification under the Financial assets designated at fair value with impact on the income

statement, and under equity, in the appropriate valuation reserve, in the case of a reclassification under Financial assets designated at fair value with impact on the comprehensive income.

### Recognition criteria

Financial assets valued at the amortised cost are initially recognised at the execution date of the agreement, which normally is the disbursement date, at the fair value of the financial instrument, which normally corresponds to the amount disbursed including any direct costs of the transaction.

### Measurement criteria

After the initial recognition, the assets posted under this caption are valued at the amortised cost using the effective interest rate method.

The financial assets valued at the amortised cost are subject to impairment at each reference date. In particular, the impairment provisions described below are also applied to the commitment to disburse loans and to the financial collateral agreements issued.

For these financial instruments, the impairment loss is determined on the basis of an expected loss. The application of the impairment model requires the classification of the financial instruments in three stages according to whether a significant increase of the credit risk has occurred, compared with the initial recording. For each stage, a different level of recognition is applied. Specifically:

- Stage 1: includes performing financial instruments which have not recorded a significant increase in the credit risk compared with the initial recording or financial instruments that show a low credit risk at the reference date. For these instruments, the value adjustment is estimated on credit losses expected in the next 12 months;
- Stage 2: includes performing financial instruments that have shown a significant increase in credit risk compared with the initial recording. For these instruments, the impairment is measured on the basis of the expected losses over their entire residual life;
- Stage 3: includes impaired financial instruments. For these instruments, the impairment is measured based on the expected losses over the entire residual life. The impaired assets include financial assets classified with a non-performing status, unlikely to pay or past due beyond ninety days according to the provisions issued by the Bank of Italy, in line with IAS/IFRS.

As regards the impairment area:

- the methods for monitoring the evolving of the credit quality of the positions in the portfolios of the financial assets valued at the amortised cost and at fair value with a balancing entry to net equity, were defined;
- the criteria for the determination of the significant increase in credit risk were defined for the correct assignment of the performing exposures to stage 1 or stage 2. As regards instead the impaired exposures, the alignment of the definitions of accounting and regulatory default allows considering as identical the current logic for the classification of the exposures under those considered as non-performing/impaired versus the logic used to classify the exposures within stage 3.

In estimating the expected losses described above, the Company incorporates, in addition to the historical statistical information, all the information available at the reporting date, including forecast information on the potential worsening of the recorded historical losses.

Impairment losses are recognised under the net value adjustments of the income statement.

Written-down debt instruments are restored to their original value in the next periods if the reasons for the impairment loss have ceased to exist, provided that this assessment refers objectively to an event that has occurred after the recognition of the impairment loss. Value restorations are recognised in the income statement and may not exceed the value that would have been attributed to the amortised cost if the impairment loss had not been recognised.

## Derecognition criteria

Financial assets or parts of the financial assets are derecognised when the contractual rights on the cash flows expire or are transferred together with all related risks and benefits.

More specifically, transferred financial assets are derecognised when the entity retains the contractual rights to receive the cash flows of the assets, but undertakes concurrently an obligation to pay these and only these cash flows, with no significant delays, to third parties.

## Hedging transactions

### Classification criteria

Assets and liabilities captions include the financial hedging derivatives, which at the reference date of the financial statements show respectively a positive or negative fair value.

The hedges try to mitigate potential losses recognisable on a certain financial instrument or group of financial instruments, attributable to a specific risk, offsetting them with the gains recognisable on a different financial instrument or group of financial instruments.

The following types of hedging relationships set in IFRS 9 are used:

- hedging of the fair value in order to hedge the exposure to changes in the fair value (attributable to the different risk categories) of the assets and liabilities recognised in the financial statements, or part of them; this type of hedging is used to hedge the exposure to changes in the fair value of a specific asset, attributable to the exchange rate or price risk.
- hedging of the financial flows in order to hedge the exposure to changes in future cash flows attributable to particular risks associated with the financial statement captions. This type of hedging is essentially used to neutralise foreign exchange risks arising from very likely future transactions.

As set in IFRS 9, the derivative instruments are designated as hedging instruments provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented and that all requirements set by the standard, including those related to the efficacy of the hedging, are met.

### Recognition criteria

Hedging derivative instruments are initially recognised at fair value at the transaction date.

### Measurement criteria

Hedging derivatives are designated at fair value. More specifically, in the following cases:

- fair value hedging: the hedging derivative in place is represented by a hedging instrument used to hedge an equity instrument for which the Company has chosen to include the changes in the fair value in the Comprehensive income. Consequently, both the hedged instrument and the hedging instrument are measured at fair value with balancing entry to the comprehensive income.
- hedging of financial flows: the hedging instruments are represented by deposits in USD held for the purpose of hedging the foreign currency risk related to a planned purchase of assets. Consequently, the foreign currency effect resulting from the valuation in Euro of the deposit, classified under Financial assets at amortised cost, is recognised under net equity (cash flow hedge reserve). When the future transaction takes place, these amounts are written off from the cash flow hedge reserve and included in the carrying value of the acquired asset.

### **Derecognition criteria**

If the hedge effectiveness test is not successful, the risk management objective underlying the hedging relationship, is changed. The hedging transaction is interrupted and the derivative instrument is classified under trading transactions. In addition, the hedging relationship is interrupted when:

- the derivative instrument expires;
- the hedging instrument is derecognised;
- the hedged items are derecognised.

### **Equity investments**

This caption includes the equity investments in associates, measured according to the equity method, as described in the section "Consolidation Criteria".

Investments in entities other than subsidiaries, associates or companies under joint control are classified in the portfolio of the financial instruments measured at fair value through the income statement or in the portfolio of the financial instruments measured at fair value through the comprehensive income.

### **Property, equipment and investment property**

#### **Classification criteria**

Property, equipment and investment property include land, property for business use, furniture, works of art of great value, POS and ATM, electronic machinery and equipment of any type, which are presumed to be used for more than one period.

Property, equipment and investment property held for use in production or supply of goods and services are classified as "assets for business use" according to IAS 16. Assets held for investment (to collect rentals or to increase invested capital) are classified as "assets held for investment" according to IAS 40.

#### **Recognition criteria**

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, if the criteria for capitalisation are met, while other ordinary maintenance costs are recognised in the income statement.

#### **Measurement criteria**

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

The depreciable value 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 assets' estimated useful life to reflect their technical-economic life and residual use.



The useful life of the main categories of property, equipment and investment property is as follows:

- owner-occupied property: maximum 33 years;
- office electronic machinery: 5 years;
- POS and ATM, classified as electronic equipment, are depreciated over 3 and 7 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 company tests the assets for impairment at every financial statement date if there is any indication that the value of property, equipment and investment property may be impaired. 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 criteria**

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

## **Intangible assets**

### **Classification criteria**

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

### **Recognition criteria**

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.

In particular, technology related intangibles, such as software acquired and software development cost, which are amortised on the basis of their expected technological obsolescence and over a maximum period of five years. In particular, the costs incurred for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met:

- the cost of development activities can be reliably calculated;
- there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale;
- the future economic benefits to be generated by the asset can be demonstrated.

Furthermore, there are customer-associated intangible assets represented by the valuation of contracts with customers, at the time of business combinations, and stable relationships with the customers.

### **Measurement criteria**

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.

Software development capitalised costs only comprise the costs directly attributable to the development process.

Intangible assets resulting from the accrual of the goodwill related to acquisition transactions, have a useful life estimated analytically for each transaction, equal to:

- Customer contracts: based on the contractual terms;
- Customer relationship: about 20 years.

Their residual value is taken to be nil.

The company tests the assets for impairment at every reporting date if there is an indication that the value of the intangible assets may be impaired. 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 criteria**

The company 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 the income statement (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 resulting from a business combination is allocated to the cash generating units (CGU) or groups of CGUs that are assumed to benefit from the synergies of the combination. The recoverable value of an asset or CGU is the greatest between its value in use (VIU) and its fair value less costs of disposal ("FVLCD"). An impairment loss is recognised if the carrying value of the CGU exceeds its recoverable value. Impairment losses of the goodwill are recognised in the consolidated income statement and are not reversed in the next periods.

### **Non-current assets or groups of assets/liabilities held for disposal**

"Non-current assets or groups of assets held for disposal" are classified under assets and

"Liabilities associated with assets held for disposal", non-current assets or groups of assets/liabilities for which their disposal was decided upon and their sale is deemed as highly likely, are classified under liabilities.

These assets/liabilities are valued at the lowest between the carrying amount and their fair value net of disposal costs.

Income and expenses (before taxes), generated by groups of assets held for disposal or recognised as such during the period, are separately posted in the income statement.

### **Current and deferred taxes**

Provisions for income taxes are determined based on an estimate of the current and deferred tax assets and liabilities.

Current taxes, calculated considering the domestic "tax consolidation scheme", not yet paid in whole or in part at the reporting date are recognised as tax liabilities in the statement of financial position. If payments on account in the current or previous reporting period exceed the related tax expense, the difference is recognised as a tax asset of the statement of financial position, i.e. "Tax assets - a) current".

Current and deferred taxes are recognised under "Income taxes" in the income statement unless they relate to gains or losses on actuarial gains and losses on defined benefit plans and financial instruments designated at fair value with impact on the Comprehensive income. Any value changes are recognised directly in the valuation reserves, before taxes.

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

The provision for income tax expense is calculated on the basis of an estimate of the current and deferred tax assets and liabilities. 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 bank recognises deferred tax assets (in caption 100.b) for deductible temporary differences and carry forward 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 asset.

Deferred tax liabilities are calculated on all taxable temporary differences.

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.

Deferred tax assets and liabilities are re-measured regularly to reflect any changes in the tax laws or rates or any subjective situations present in the Companies of the Group.

## **Financial liabilities measured at amortised cost**

### **Classification criteria**

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

### **Recognition criteria**

Amounts due are recognised at the contract agreement date, which is usually when the bank 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 criteria**

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Interest is recognised in caption 20 "Interest and similar expense" of the income statement.

### **Derecognition criteria**

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

## **Financial liabilities held for trading**

This caption includes derivatives held for trading 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 the income statement.

The measurement and recognition criteria are identical to those used for "Financial assets designated at fair value through the income statement".

## **Post-employment benefits**

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

Since the payment is certain, but not the time of its occurrence, the post-employment benefits, as are the defined benefits plans, are classified as a benefit subsequent to the termination of the employment relationship.

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 company'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 the comprehensive income statement while the interests accrued on net liability are recognised in the income statement.

## **Provisions for risks and charges**

The provisions for risks and charges include accruals from past events for which it is probable that an outflow of resources will be required if a reliable estimate can be made of the amount.

At each reporting date, the provisions are periodically checked and released in whole or in part to the income statement when it is no longer likely that an outflow of resources will be necessary.

When the effect of the time value of money is significant, the provision is discounted using the current market rates at the closing date. The accrual is recognised in the income statement.

## **Foreign currency transactions**

### **Initial recognition**

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

### **Subsequent recognition**

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 rate differences arising from the settlement of monetary items are recognised in the income statement in the period in which they arise; exchange rate differences on non-monetary items are recognised in equity or in the income statement 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.

## Other information

### Income statement

#### Interest income and expense

Interest income and expense are recognised in the income statement on all instruments measured at amortised cost, using the effective interest method, and including in the calculation the fees and direct costs of the transaction.

#### Fee and commission income and other income for services

Fee and commission income other than that included in the amortised cost and the other income for provided services, are recognised when the obligation to duly act by transferring the service to the customer is fulfilled.

According to IFRS 15, the service is transferred to the customer when the income can be recognised:

- at a specific time, when the entity fulfils the obligation to duly act by transferring to the customer the promised good or service, or
- over time, as the entity fulfils the obligation to duly act by transferring to the customer the promised good or service. The good is transferred when, over the period, the customer acquires its control.

Specifically:

- membership dues are recognised in the income statement based on the validity date of the credit cards;
- fees and commission income from merchants and circuits are recognised in the income statement based on the trading date of the cardholders' purchases;
- up front income related to the start-up of new customers or new products, or related to changes subsequent to contracts that do not involve a substantial change in the contractual obligations, are recognised over the expected duration of the contracts;
- income related to recurring services (primarily maintenance and rental of POS and ATM, processing services), are equally divided according to the contracts duration.

It must be noted that, in application of IFRS 15, the amount of fees and commissions is adjusted in order to reflect the fair value of the Loyalty programme rewards. The catalogue fair value is calculated as per-unit average value of points compared with the market value of the rewards, including VAT and shipping costs, in order to restore the fair value to the value perceived by the customer. The unit fair value is applied to the number of outstanding points, net of the points which, based on the carried out analyses, are expected not to be redeemed (based on redemption estimates). Deferred fees and commissions are recognised in the income statement according to point redemption.

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

#### Fee and commission expense

Fee and commission expense, other than those included in the amortised cost, are recognised when they are incurred or when the related gains are recognised.

#### Charges for received services

Charges for received services are recognised when incurred or when the related revenue is recorded.

Costs for the performance of the contract with the customer (such as costs for cards issuance and costs for ICT services, incurred during the start-up of new customers/products or because of non-substantial contract changes) are recognised on a straight line basis according to the useful life of the underlying contracts.

#### Dividends

Dividends are recognised in the income statement at the time when the distribution is resolved on.

## **Use of estimates and assumptions during the preparation of the Financial statements**

The separate financial statements are measured using the standards set out above.

The application of these standards sometimes involves the adoption of estimates and assumptions that may have a significant effect on the figures of the statement of financial position and income statement.

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

- measurement of the financial instruments designated at fair value (including the derivatives) not listed in active markets;
- measurement of financial assets valued at their amortised cost and of the commitments to disburse funds;
- measurement of intangible assets;
- measurement of property investments;
- estimate of the useful life of property, equipment and investment property;
- quantification of accruals to provisions for risks and charges and of payables from Loyalty programmes;
- quantification of deferred tax 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 the income statement of the period of the change and, if the change affects future periods, also in future periods.

No significant changes were made to the estimate criteria already applied to the financial statements at 31 December 2017.

## **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 income statement.

## **Transfers between portfolios of financial assets**

No transfers were carried out between portfolios of financial assets referring to the financial statements at 31 December 2018.

## **Policy on fair value disclosure**

The IAS/IFRS international accounting standards require that financial products classified under “Financial assets designated at fair value with impact on the comprehensive income” or “Financial assets designated at fair value with impact on the income statement” are measured at fair value.

The IFRS 13 standard governs the measurement of the fair value and the related disclosure.

In particular, fair value is the price that would be received from the sale of an asset or paid for the transfer of a liability in a normal transaction between market participants (i.e., not a forced liquidation or distress sale) 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 directly observable (in the case of prices) or indirectly observable (if resulting from prices) for the assets and liabilities to be measured;
- 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 subjective changes affecting the issuer.

For financial assets and liabilities carried at cost or amortised cost, the fair value is disclosed in the Explanatory Notes and is determined as follows:

- for the bond issues: fair value obtained from the active markets where the liability is traded;
- for non-current financial assets and liabilities with fixed rate (other than the issued securities) discounting of future cash flows at a market rate and adjusted to include credit risk;
- for on demand 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 floating-rate and current fixed-rate securities issued, the carrying amount is deemed to adequately reflect fair value, for the reasons set out above;
- for non-current floating and fixed rate liabilities: discounting of the future cash flows at a market rate. Changes in the credit spread are not considered given their immateriality.

## Qualitative disclosure policy

### Fair value levels 2 and 3: assessment techniques and inputs used

Assets and liabilities designated at fair value on a recurring basis mainly refer to Visa Inc. shares held in the portfolio and to derivative instruments held in order to reduce the price and exchange rate risk arising from those instruments.

For these instruments, for which there are no prices directly observable on the active markets, the fair value has been determined as follows:

- Unlisted equity instruments: they are measured based on the market value of the Visa Inc Class A shares, listed in active markets, where the portfolio share (class C) will be converted.
- OTC derivatives: these were measured using models that are in accordance with market practices (Black&Scholes, with continuous treatment of future dividends) and feeding into said models using market parameters. Since these are derivatives under CSA (Credit Support Annex), the counterparty risk is mitigated by the daily collateral settlement with the counterparty.

### Measurement processes and sensitivity

Non-applicable for the absence of Level 3 instruments

### Fair value hierarchy

Transfers between the fair value levels are made to reflect changes in the instruments or its 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

(Amount in Euro thousands)	31.12.2018		
	Level 1	Level 2	Level 3
Financial assets held at fair value through profit or loss	-	10	-
Financial assets measured at fair value through OCI	-	100,114	-
Property, equipment and investment property	-	-	-
Intangible assets	-	-	-
<b>Total</b>	<b>-</b>	<b>100,125</b>	<b>-</b>
Financial liabilities held for trading	-	3,154	-
Hedging derivatives	-	16,557	-
<b>Total</b>	<b>-</b>	<b>19,711</b>	<b>-</b>

No transfers were carried out within the categories of financial assets and liabilities between Level 1, Level 2 or Level 3.

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

None.

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

None.

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

(Amount in Euro thousands)	31.12.2018			Total Financial Statements
	Level 1	Level 2	Level 3	
Loans and receivable from banks	-	561,209	-	561,209
Loans and receivable from customers	-	1,106,295	948	1,107,243
Investment properties	-	3,780	-	-
<b>Total</b>	<b>-</b>	<b>1,671,285</b>	<b>948</b>	<b>1,668,452</b>
Due to banks	-	792,896	-	792,896
Due to customers	-	354,249	-	354,249
Securites	-	2,582,285	-	2,569,689
<b>Total</b>	<b>-</b>	<b>3,729,430</b>	<b>-</b>	<b>3,716,834</b>

### Information on the “day one profit or loss”

This does not apply since the Nexi Group does not recognise this type of transactions.



## 2. Statement of Financial Position

(Amount in Euro thousands)

### ASSETS

#### 3. Cash and cash equivalents

	31.12.2018
a) Cash in hand	34
b) Deposits and current accounts	40,654
<b>Total</b>	<b>40,688</b>

The caption "Deposits and current accounts" refers to the cash available in the current bank account of Nexi SpA, at DEPObank, where its outstanding balance is deposited and that includes the effects deriving from:

- liquidity from capital contributions carried out in 2016 by the subsidiary in order to complete the acquisition of Mercury Payment Services;
- the liquidity from the transfer in 2017 of Mercury Processing D.o.o.;
- the liquidity related to the net cash flows of 2018 from the issue of bond loans, the distribution of dividends and the incurring of Reorganisation costs.

#### 4. Financial assets designated at fair value with impact on the income statement

	31.12.2018		
	Level 1	Level 2	Level 3
<b>A. Assets</b>			
1. Debt instruments	-	-	-
2. Equity instruments	-	10	-
<b>B. Derivatives</b>	-	-	-
<b>Total (A + B)</b>	-	10	-

This caption refers exclusively to the shares of Intesa SanPaolo related to incentive plans and assigned to some employees of Mercury Payments.

There are no Level 3 Financial instruments held for trading.

#### 5. Financial assets designated at fair value with impact on the comprehensive income

##### 5.1 BREAKDOWN BY PRODUCT

	31.12.2018		
	Level 1	Level 2	Level 3
Debt instruments	-	-	-
Equity instruments	-	100,114	-
Financing	-	-	-
<b>Total</b>	-	100,114	-

**5.2 BREAKDOWN BY ISSUER**

	<b>31.12.2018</b>
a) Banks	60
b) Financial Institutions	100,012
- Visa Europe Limited	-
- Visa Inc.	99,968
- International Card System AD - Casys	44
c) Non Financial Institutions	42
<b>Total</b>	<b>100,114</b>

The caption "Other financial companies" refers to the financial assets on which the Group does not exercise any control, joint control or significant influence. In particular, the caption is composed almost entirely of Visa Inc. preferred shares, assigned following the transfer of the equity investment in Visa Europe. In this regard, it should be noted that, in September 2017, an operation for the hedging of price and currency risk arising from the Visa Shares in the portfolio was carried out.

**6. Financial assets measured at amortised cost****6.1 LOANS AND RECEIVABLES WITH BANKS: BREAKDOWN BY PRODUCT**

31.12.2018	Stages 1 and 2	Fair Value			
		Stage 3	Level 1	Level 2	Level 3
Loans and receivables with banks					
Deposits and Current accounts	403,586		-	403,586	
Prepaid cards liquidity	45,864	-	-	45,864	-
Other asset	111,759	-	-	111,759	-
Total	561,209	-	-	561,209	-

The balance of the current accounts includes the liquidity of the operating companies.

The balance of the bank current accounts includes Euro 76.8 million related to Mercury Payments which represents the balance of the daily settlement of the transactions processed on behalf of Sanpaolo and that must be read in relation to the exposure toward Intesa Sanpaolo itself, posted under "Due to banks", for Euro 91 million, although for accounting purposes these two positions are posted separately. Net of these positions, the remaining part of the current bank accounts balance is represented by the liquidity available at the level of the operating entities alone.

The current bank accounts balance includes also the liquidity transferred within the Payments business unit, not related to the prepaid cards (Euro 5,471 thousand).

The liquidity of the prepaid cards refers to the ELMI activities carried out on these cards within the Payments business unit conferred to Nexi Payments by DEPObank within the scope of the Group Reorganisation. This liquidity should be considered separately from the operating liquidity since it is deposited in a restricted bank account at DEPObank and can only be used to cover the use of prepaid cards by the account holders.

The caption "Other assets" refers to receivables for services (Euro 58,608 thousand) related primarily to services provided by Mercury Payments to Intesa Sanpaolo SpA. This caption includes the restricted bank accounts related to the management of factoring transactions carried out on the balance of the ordinary cards (Euro 53,151 thousand).

**6.2 LOANS AND RECEIVABLES WITH CUSTOMERS: BREAKDOWN BY PRODUCT**

31.12.2018	Carrying amount			Fair Value		
	Stages 1 and 2	Stage 3		L1	L2	L3
		Purchased	Other			
Ordinary Credit Cards	378,797				378,797	
Receivables with member international circuits and merchant with said companies	504,451				504,451	
Revolving Credit Cards	212,327		201		212,327	201
Personal Loans	5,790				5,790	
Other assets	4,931		747		4,931	747
<b>Total</b>	<b>1,106,295</b>	<b>-</b>	<b>948</b>	<b>-</b>	<b>1,106,295</b>	<b>948</b>

The caption ordinary Credit Cards (or balance cards) represents the balance existing at the end of the period related to the amount cumulatively spent until that date by the card holders during the last operating month and which is debited to their current account, through the partner banks, generally on the 15th of the next month. The balance at the reporting date is significantly lower since, upon completion of the Reorganisation and with its exit from the banking group, Nexi Payments, starting from 1 July 2018, has entered into a factoring contract for the transfer of the receivables arising from its balance credit cards, issued under specific arrangements with partner Credit Institutions, which involved the derecognition of a relevant amount of the credits originated by the Company. It should be noted that the caption "ordinary credit cards" includes receivables with recourse for Euro 192,524 thousand that were derecognised. For additional details on the factoring operation, see section 41 of these Explanatory Notes.

The positions toward international circuits concern the daily settlement balances on the circuits Visa-Mastercard of which Nexi Payments and Mercury Payment Services are direct members and include the advance disbursed by Nexi Payments to its client merchants on the transactions still to be settled on the circuits. All these positions are settled within a time frame of a few days (generally from 1 to 3 days). These end of the year balances are affected by the number of holidays overlapping the end of the year, days when the settlement systems are closed, thus involving a greater accumulation of transactions and consequent draw-downs from the bank funding.

**6.3 LOANS AND RECEIVABLES WITH CUSTOMERS: GROSS BALANCES, NET BALANCES AND IMPAIRMENT LOSSES ON PERFORMING AND NON- PERFORMING EXPOSURES**

	31.12.2018			Partial write off *
	Gross	Allowance	Net	
Performing				
- First Stage	1,107,953	1,657	1,106,296	
- Second Stage	-	-	-	
Non performing				
- Third Stage	5,922	4,973	949	
<b>Total</b>	<b>1,113,874</b>	<b>6,630</b>	<b>1,107,244</b>	

\* Value for disclosure purposes.

## 7. Equity investments

At 31 December 2018, the balance of the equity investment caption amounted to Euro 730 thousand and refers to the equity investments held by Nexi Payments (following the merger of Basilichi effective at 31 December 2018) as hereinafter described.

	31.12.2018
1. Win Join	48
2. Rs Record store	682
3. Bassnet Srl	-
4. K.Red	-
<b>Total</b>	<b>730</b>

## 8. Property and equipment: breakdown of assets measured at cost

	31.12.2018
<b>1. Owned</b>	-
a) land	17,218
b) buildings	53,685
c) furniture	1,159
d) electronic systems	81,334
e) other	2,797
<b>Total</b>	<b>156,193</b>

The assets held through financial leasing contracts amounted to Euro 0.67 million.

The value of the property assets includes the effect of designation at fair value of the assets acquired in 2015 with the establishment of the Mercury Group following the purchase price allocation (PPA) which, in compliance with the principle of going concern adopted for the first time consolidation of Nexi Payments (see Note "40") was also recognised in the consolidated financial statements of Nexi. The recognised amount is net of the depreciation until the financial statement date.

The caption electronic equipment includes the POS and the ATMs.

In this regard, no impairment indicators on property and equipment require that impairment tests are carried out.

### 8.1 INVESTMENT PROPERTY

#### 8.1.1 Investment property: breakdown of assets measured at cost

31.12.2018	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
<b>1. Owned</b>		-	-	-
a) land	2,332	-	-	-
b) buildings	819	-	-	-
<b>Total</b>	<b>3,151</b>	-	<b>3,780</b>	-

This is the San Giovanni al Natisone property and other properties held by Nexi Payments due to the merger with Basilichi.

These investments are recognised based on IAS 40 and include property assets held (both through ownership and financial leasing) aimed at generating income from rentals or to benefit from returns from the invested capital due to their appreciation in market value.

The properties held for investment purposes are measured at cost net of depreciation.

At the reporting date, the following is not present:

- restrictions or limitations to the sale of assets or to the collection of rent;
- Contractual obligations or commitments for purchase, construction, development, repairs or extraordinary maintenance of these properties.

## 9. Intangible assets

### 9.1 INTANGIBLE ASSETS: BREAKDOWN

	31.12.2018	
	Finite	Indefinite
A.1 Goodwill	-	2,097,379
A.2. Intangible assets- Customer contracts	418,603	
A.3 Other intangible assets	152,311	-
<b>Total</b>	<b>570,914</b>	<b>2,097,379</b>

The goodwill at 31 December 2018 was composed of:

- Goodwill resulting from the acquisition, in 2016 of the company Mercury Payment for Euro 590.8 million, already net of the accrued amount, following the PPA process concluded in 2017, to customer contracts for Euro 365.5 million;
- Goodwill resulting from the consolidation of the equity investments acquired in 2018 for Euro 931 million following the spin-off of the equity investment business unit carried out by DEPObank. This transaction, as more detailed in Note 40, was recognised based on the principle of continuity of value compared with the consolidated financial statements of the transferor DEPObank. The recognised goodwill includes the PPA (Purchase Price Allocation) effects previously recognised in the transferor's consolidated financial statements and it is net of the goodwill referring to OASI, classified as an asset under disposal, including the PPA effects and amounting to Euro 1,050.7 million.
- The goodwill recognised in the financial statements of Nexi Payments amounted to Euro 575.6 million, and is composed of:
  - Euro 433 million referring to the books acquiring of Monte dei Paschi di Siena and Deutsche Bank, for which the PPA process, already concluded before the acquisition of the control by Nexi SpA, involved the allocation of Euro 126.7 million to customer relationships;
  - Euro 22 million referring to the book acquiring of Banca Carige purchased in the second half of 2018 with reference to which the Purchase Price Allocation process was not concluded;
  - Euro 119.7 million referring to the payment business unit acquired by DEPObank, recognised as described in Note 40 in accordance with the principle of continuity of value.

It should be noted, as already explained earlier, that all the above goodwill do not include those related to "Non-current assets and groups of assets under disposal", classified under a specific caption (see note 11). For details, see Note 40.

The other intangible assets are represented by:

- purchase of software and technological upgrades through investments in line with the development plans defined by Mercury UK;
- intangible assets with indefinite useful life as resulting from the afore-described PPA processes. In particular, these assets, net of the amortisation accrued up to the financial statements date are composed of: contracts with customers for Euro 304.6 million and customer relationships for Euro 114 million.

## 9.2 INTANGIBLE ASSETS: IMPAIRMENT TEST

Nexi SpA - The Nexi Group has carried out an impairment test only on intangible fixed assets with indefinite life since no triggers were identified referring to intangible assets with definite life.

The impairment test was carried out for the following CGUs (cash generating units) that were identified at the reporting date:

CGU name	Goodwill	Intangible assests
CGU Monetica Nexi Payments	1,506,551	113,995
CGU Mercury Payment Services	590,828	304,608
<b>Total</b>	<b>2,097,379</b>	<b>418,603</b>

The accrual of all the goodwill recognised under the afore-mentioned CGUs was consistently applied to the CGUs identified by the final parent company, Mercury UK HoldCo, in the financial statements of 2017 with only the following differences:

- all the goodwill from business combination transactions concluded in 2017 (acquisition of the Bassilichi Group, MPS and DB business units) represented, in the Mercury UK financial statements of last year, the separate CGUs. In 2018, following the integration process of the acquired assets, these assets no longer represented separate CGUs since they were incorporated in the E-money Nexi Payments CGU;
- the goodwill related to the Payments business unit, transferred in 2018 from DEPObank to Nexi Payments following the Group reorganisation, was recognised under CGU Payments. With the reorganisation of the Group, in 2018 this business unit was in fact included in and consolidated with Nexi Payments.

It should be noted that the impairment test was not carried out on the CGU Outsourcing since it was an asset held for disposal which, based on IFRS 5, must be measured at the lowest amount between the carrying value (including the goodwill) and the fair value net of sale costs.

It should also be noted that the intangible assets with finite useful life were subject to impairment test since they were already included in the afore-described CGUs related to the customer contracts and customer relationships arising from the processes of Purchase Price Allocation carried out in reference with, respectively, the acquisition of Mercury Payments Services and the business units MPS and DB.

The recoverable amount of a CGU is the higher of its:

- Fair value minus costs of disposal
- Value in Use

The estimate of Value in Use was carried out by applying the Discounted Cash Flow Method or "DCF" in the unlevered version, which was developed starting from the Business Plan 2019-2023 of the Nexi Group and approved by the Board of Directors of the parent company from which the business plans of Nexi Payments and Mercury Payment Services were drawn.

The main parameter used to estimate the cost of Capital in the calculation of the Value in Use are the follows:

Capital costs	
Risk free rate 31.12.2018	2.7%
Equity risk premium	5.7%
Beta median	0.98
Ke	8.3%
Kd after tax	1.9%
<b>WACC</b>	<b>7.1%</b>
<b>Grown rate (g rate)</b>	<b>2.0%</b>

They have been determined as follows:

- Risk free: Gross yield of Italian BTP 10Y at 31 December 2018 (Source: Info provider);
- Beta: The remarks refer to a panel of comparable companies and cover a 5 year period on a monthly basis;
- Equity Market Risk Premium: In line with the best professional valuation practices.

In order to determine the Terminal Value of the CGUs:

- Growth rate (g): 2.0%, in line with ECB's target for the inflation rate of the Euro Zone;
- a prudential add-on of 100 bps applied to the discount rate.

As regards the Fair Value determination, it was carried out by applying the stock market multiples method, and in particular the multiple EV/EBITDA and EV/EBIT resulting from a panel of comparable companies.

The measurements resulting from the afore-mentioned impairment test showed the total recoverability of the carrying amounts.

A sensitivity analysis was carried out on the changes in the WACC and in the Growth rate equal to +/-0.50%. These analyses confirmed that no scenario presented impairment situations.

## 10. Tax assets and liabilities

### 10.1 CURRENT TAX ASSETS AND LIABILITIES

At 31 December 2018, the financial statements showed Euro 29.3 million in current tax assets and Euro 31.1 thousand in payments due for IRES and IRAP income taxes.

It should be noted that for the 2018 period, the domestic tax consolidation, in which the parent company Nexi SpA and the subsidiary Mercury Payment Services participate, was in effect.

### 10.2 DEFERRED TAX ASSETS

	31.12.2018
<b>Deferred tax assets</b>	
- of which: recognised in equity	1,299
- of which: recognised in profit or loss	32,275
<b>Total</b>	<b>33,574</b>

Deferred tax assets are as follows:

- the taxes recognised with a balancing entry to equity refer primarily to deferred taxes related to the designation at fair value of the Hedging derivative in effect;
- the taxes recognised with a balancing entry to the income statement refer primarily to the write-down on loans and temporary differences related to the recognised goodwill which are fiscally deductible, in addition to transposing the effects of the first time application of IFRS 15.

**10.3 DEFERRED TAX LIABILITIES**

	<b>31.12.2018</b>
<b>Deferred tax liabilities</b>	
- of which: recognised in equity	3,439
- of which: recognised in profit or loss	27,896
- of which: recognised in profit or loss due to elimination of the equity investments	100,735
<b>Total</b>	<b>132,070</b>

The Italian companies are subject to a corporate income tax (IRES) and a regional tax on productive activities (IRAP).

Deferred tax liabilities refer primarily to the deferred tax concerning the designation at fair value of the Visa Shares in the portfolio.

Deferred tax liabilities include:

- the taxes recognised with balancing entry to net equity refer primarily to the deferred taxes related to the designation at fair value of the Visa Shares in the portfolio;
- the taxes recognised with balancing entry to the income statement refer to temporary differences on the recognised goodwill, in addition to transposing the effects of the first time application of IFRS 15;
- deferred taxes "with a balancing entry to the income statement due to the derecognition of equity investments" refer to the derecognition of the equity investment in Mercury Payments and to the allocation of a portion of the acquisition price to intangible assets with a definite useful life.

**11. Non-current assets and groups of assets held for disposal and liabilities associated with assets held for disposal**

	<b>31.12.2018</b>
<b>A. Non-current assets held for sale and discontinued operations</b>	
A.1 Financial assets	6,149
A.2 Property and equipment	449
A.3 Intangible assets	37,615
A.4 Other assets	36,285
<b>Total (A)</b>	<b>80,498</b>
<i>of which: measured at cost</i>	
<i>of which: measured at fair value level 1</i>	
<i>of which: measured at fair value level 2</i>	
<i>of which: measured at fair value level 3</i>	
<b>B. Liabilities associated with disposal groups</b>	
Liabilities due to banks	
B.1 Other Liabilities	39,069
<b>Total (B)</b>	<b>39,069</b>
<i>of which: measured at cost</i>	
<i>of which: measured at fair value level 1</i>	
<i>of which: measured at fair value level 2</i>	
<i>of which: measured at fair value level 3</i>	



These are assets and liabilities of Oasi Diagram SpA, Bassmart, PayCare and Moneynet.

Specifically:

- for the subsidiaries OASI and Moneynet, the disposal process started in 2018;
- for the other equity investments, including the decision to sell made in 2018, the disposal process is about to start.

It should be noted that intangible assets include the goodwill allocated to Oasi within the process for the allocation of the acquisition price, recognised consistently with the consolidated financial statements of Mercury UK (see note 40 for details).

There are no circumstances requiring the recognition of the loss of value of the assets being disposed since the expected revenue from the sale, based also on the closing conditions, is in any way exceeding the carrying amount.

In contrast, with reference to Bassmart, Moneynet and Paycare, a reduction in value for Euro 6 million was recognised in order to estimate the effects of their sale.

## 12. Other assets

	<b>31.12.2018</b>
Tax assets	51,905
Other assets for commissions to be collected	191,225
Deferred costs	58,098
Other assets	104,477
<b>Total</b>	<b>405,705</b>

## LIABILITIES

### 13. Financial liabilities measured at amortised cost

#### 13.1 DUE TO BANKS (BREAKDOWN BY PRODUCT)

31.12.2018	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
1. Financing	266,476	-	266,476	-
2. Other liabilities	526,420	-	526,420	-
<b>Total</b>	<b>792,896</b>	<b>-</b>	<b>792,896</b>	<b>-</b>

More specifically, the caption "Loans" includes the bilateral credit facilities in support of the revolving cards and the negative current accounts held by Mercury Payment Services on the bilateral facility opened with Intesa Sanpaolo SpA in 2018. These current accounts are related, in terms of operating activities, to the positive current accounts held with the same Intesa Sanpaolo SpA and recognised under the caption "Loans and receivables with banks" (see Note 6).

The caption "Other payables" includes the credit facilities used to finance the settlements of acquiring services and the residual part of direct issuing not covered by the factoring lines. It also includes Euro 35.2 million in 2018 and Euro 57.6 million in 2017 of credit facilities held by Basilichi.

The caption "other payables" refers to liabilities for commercial services used by the companies of the Group.

#### 13.2 DUE TO CUSTOMERS (BREAKDOWN BY PRODUCT)

31.12.2018	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
1. Financing	301,535	-	-	-
2. Other liabilities	52,714	-	354,249	-
<b>Total</b>	<b>354,249</b>	<b>-</b>	<b>354,249</b>	<b>-</b>

The caption "Financing" refers for Euro 192.5 million to payables to the factoring company for advances on ordinary credit cards transferred without recourse and for the remaining portion to the technical adjustment line in place with the factoring company.

The caption "Other payables" refers to liabilities with financial institutions for outstanding amounts.

#### 13.3 SECURITIES ISSUED (BREAKDOWN BY PRODUCT)

This caption includes the securities issued in 2018 by Nexi Capital (now Nexi SpA) within the scope of the debt refinancing operation. For details, see Note 41.

31.12.2018	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
1. Fixed rate securities	816,198	-	819,357	-
2. Variable rate securities	1,753,491	-	1,762,928	-
<b>Total</b>	<b>2,569,689</b>	<b>-</b>	<b>2,582,285</b>	<b>-</b>

The recognised amount includes direct transaction costs for Euro 43 million and the effects of the recognition of debts at their amortised cost.

## 14. Financial liabilities held for trading

	31.12.2018
Cash liabilities	
Financial Derivatives	3,154
<b>Total</b>	<b>3,154</b>
<b>Fair value - Level 1</b>	<b>-</b>
<b>Fair value - Level 2</b>	<b>3,154</b>
<b>Fair value - Level 3</b>	<b>-</b>
<b>Total fair value</b>	<b>3,154</b>

This caption includes the portion of the derivative held which was not included in the hedging relationship of the Visa Inc. shares in the portfolio.

## 15. Hedging derivatives

	31.12.2018
Equity Derivatives	16,557
<b>Total</b>	<b>16,557</b>
<b>Fair value - Level 1</b>	<b>-</b>
<b>Fair value - Level 2</b>	<b>16,557</b>
<b>Fair value - Level 3</b>	<b>-</b>
<b>Total fair value</b>	<b>16,557</b>

As already described in the related note, the caption “financial assets designated at fair value with impact on the comprehensive income” includes a position in the Visa Shares C Series, convertible in Visa Shares A Series at a variable conversion factor based on the charges deriving from potential liabilities of the former Visa Europe. Exchange rate risk and price risk have been hedged with a zero cost collar with strike in EUR and underlying Visa Shares A Series. At 31 December 2018, 84% of the derivative is classified under hedging derivative based on the conversion factor of the Visa Shares C Series.

## 16. Other liabilities

	31.12.2018
Tax Liabilities	15,325
Due to employees	53,587
Other liabilities for fees and commissions to be paid	265,375
Unsettled transactions	256,614
Other liabilities	74,153
Deferred loyalty fees	49,554
Prepaid cards unsettled transactions	1,766
<b>Total</b>	<b>716,375</b>

**17. Post-employment benefits**

	<b>31.12.2018</b>
Post-employment benefits	14,084
<b>Total</b>	<b>14,084</b>

Italian laws set forth that, at the termination of an employment relationship, the employee has the right to receive a severance indemnity based on his/her annual salary and the inflation rate.

**17.1 MAIN DEMOGRAPHIC AND ACTUARIAL ASSUMPTIONS USED TO MEASURE POST-EMPLOYMENT BENEFITS AT 31 DECEMBER 2018****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	1.58%
Annual turnover	2.81%
Retirement	Rate based on the satisfaction of the first requirement for the mandatory general insurance.
Annual discount rate	1.50%
Annual discount rate	1.09% d 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, a sensitivity analysis was carried out on the liability from post-employment benefits based on the most significant discount assumptions, aimed at demonstrating how much the financial statements liability would vary with respect to the reasonably possible fluctuations of each of these actuarial assumptions. Specifically, the following table sets out the variance in the liability for post-employment benefits assuming an increase or decrease in the main parameters used.

	<b>Change in post-employment benefits (amount)</b>	<b>Change in post-employment benefits (percentage)</b>
Change in actuarial assumptions:		
Change	-0.50%	1,892
Change	0.50%	(1,979)

## 18. Provisions for risks and charges

### 18.1 PROVISIONS FOR RISKS AND CHARGES: BREAKDOWN

	31.12.2018
1. Internal pension funds	-
2. Other provisions for risks and charges	46,552
2.1 Legal and tax disputes	4,245
2.2 Employees	2,804
2.3 Other	39,503
<b>Total</b>	<b>46,552</b>

The caption 2.1 "legal and fiscal disputes" covers the fees accrued by the agents in the execution of the mandate.

The caption 2.2 "personnel charges" includes the best estimate of incentives and bonuses to disburse to employees.

The caption 2.3 "other" includes primarily the allocations used to cover different charges, e.g. the reserve for risks and charges related to hedging the risks of losses from abnormal transactions already completed and related to covering fraudulent transactions statistically calculated. This caption also includes the allocation for claims filed by the account holders and the operators and for claims related to other liabilities concerning future contractual commitments.

## 19. Equity

At 31 December 2018, Net equity is composed of the following:

	31.12.2018
Share capital	50,000
Share premium	389,275
Consolidation reserve	-47,735
Valuation reserves	36,899
Equity attributable to non-controlling interests	35,933
Profit for the year	6,516
<b>Total</b>	<b>470,888</b>

It should be noted that the afore-described annual result includes the results posted by the entities and business units acquired in 2018, starting only from the Reorganisation completion date.

Equity at 31/12/2018 transposes the net effects of the spin-off transaction which contributed with a positive difference of Euro 1,550 million and the distribution of extraordinary dividends for Euro 2,205 million.

Both transactions were carried out in order to complete the reorganisation of the Group and the refinancing of the debt (See notes 40 and 41).

The caption "Equity attributable to non-controlling interests" with a balance of Euro 6.51 million refers primarily to the Equity of non-controlling interests of the subsidiaries Nexi Payments (Euro 5.4 million) and Help Line (Euro 1.1 million).

### Restrictions on the payment of dividends

For details, see Note 41 on Securities issued.

## 20. Income Statement

(Amount in Euro thousands)

### 21. Fees and commission income and other income for provided services

	31.12.2018
Issuing&Acquiring fees	705,479
- fees and commissions on processed transactions	614,512
- fees and commissions from cardholders	90,963
- other fee and commision income	4
Revenues from services	201,468
<b>Total</b>	<b>906,948</b>

### 22. Fees and commission expenses and charges for services received

	31.12.2018
Nexi Payments fees due to banks and correspondents	
- Fee due to correspondents	228,770
- Fee due to banks	97,972
Other fee and commission expenses	1,376
<b>Total</b>	<b>328,118</b>

### 23. Interest and similar income

	31.12.2018
Loans and receivables with banks and financial institutions	(35)
Loans and receivables with customers	45,620
Other Assets	55
<b>Total</b>	<b>45,640</b>

Net interest revenues with customers refer primarily to trading transactions through revolving credit cards.

### 24. Interest and similar expense

	31.12.2018
Financial liability measured at amortised cost:	
- due to banks	12,924
- securities	66,765
Other Liabilities and provisions	52
<b>Total</b>	<b>79,741</b>

Interest expense refers primarily to:

- credit facilities without recourse related to the discount agreement executed in 2018 by Nexi Payments. For additional information, see note 41.2;
- Securities issued by Nexi Capital (now Nexi SpA) in 2018 within the scope of the debt refinancing operation (see note 41.1).

## 25. Profit/loss from trading and hedging activities carried out on financial assets and liabilities designated at fair value with impact on the income statement

	31.12.2018
Net trading income on financial assets	-265
Net hedging income on financial assets	-
<b>Total</b>	<b>-265</b>

This caption includes primarily changes in the fair value of the derivative stipulated to hedge the risk and the price of Visa Shares in the portfolio, for the portion classified under trading.

### 25.1 NET TRADING INCOME (EXPENSE): BREAKDOWN

	31.12.2018		
	Trading income	Trading losses	Total
Financial Asset held for trading - debt instruments	2	-12	-10
Other financial assets and liabilities: net exchange rate gain/(loss)	2,389	-2,537	-148
Derivatives: on equity instruments and equity indexes	-	-107	-107
<b>Total</b>	<b>2,391</b>	<b>-2,656</b>	<b>-265</b>

## 26. Dividends and profit/loss from investments and disposal of assets designated at fair value with impact on the comprehensive income

	31.12.2018
Dividends	156
Profit/Loss from disposal of financial assets at fair value through OCI	-5,626
<b>Net Result</b>	<b>-5,470</b>

The balance at 31 December 2018 refers primarily to the charge arising from the transfer without recourse by Nexi Payments, under the factoring contract described in note 41.2, of a relevant portion of the credit portfolio resulting from the issuing of the credit cards.

**27. Administrative expenses****27.1 PERSONNEL EXPENSE: BREAKDOWN**

	<b>31.12.2018</b>
<b>1) Employees</b>	
a) wages and salaries	61,063
b) social security charges	17,939
c) post-employment benefits	10,023
d) pension costs	8
e) accrual for post-employment benefits	544
f) accrual for pension and similar provisions:	-
- <i>defined contribution plans</i>	-
- <i>defined benefit plans</i>	-
g) payments to external supplementary pension funds	
- <i>defined contribution plans</i>	4,017
- <i>defined benefit plans</i>	-
h) costs of share-based payment plans	-
i) other employee benefits	10,516
<b>2) Other personnel</b>	<b>1,334</b>
<b>Total</b>	<b>105,444</b>

**27.2 OTHER ADMINISTRATIVE EXPENSES: BREAKDOWN**

	<b>31.12.2018</b>
1. Third party services	152,409
2. Lease and building management fees	3,753
3. Insurance companies	1,464
4. Rentals	14,860
5. Maintenance	12,922
6. Shipping costs	8,258
7. Telephone and telegraph	4,491
8. Cards and accessories	4,596
9. Printed matter and stationery	1,600
10. Other taxes	5,438
11. Legal, notary and consultancy services	43,742
12. Agents' commissions and expense reimbursement	43
13. Advertising	4,849
14. Promotional materials and competition prizes	5,355
15. Other commercial costs	1,368
16. Other general expenses	5,806
<b>Total</b>	<b>270,955</b>



## 28. Other operating income (expenses)

	31.12.2018
Other operating income	18,423
Other operating expenses	-18,687
<b>Total</b>	<b>-264</b>

## 29. Depreciation and net impairment losses on assets measured at amortised cost

	Impairment losses			Reversals of Impairment losses		
		Stage 3				
31.12.2018	Stage 1-2	Write-off	Other	Stage 1 - 2	Stage 3	Totale
A. Loans and receivables with banks and financial institutions	-	-	0		-	-
B. Loans and receivables with customers	42	0	543	-639	-46	-100
Total	42	-	543	-639	-46	-100

## 30. Net accruals/reversals to provisions for risks and charges

	31.12.2018
Net provisions for risk and charges	13,516
Net provisions for Nexi Payments frauds	837
<b>Total</b>	<b>14,353</b>

## 31. Amortisation, depreciation and net impairment losses on tangible and intangible assets

	31.12.2018
Amortisation and net impairment losses on tangible net assets	26,305
Amortisation and net impairment losses on intangible net assets	58,087
<b>Total</b>	<b>84,392</b>

### 31.1 AMORTISATION, DEPRECIATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS: BREAKDOWN

31.12.2018	Amortisation	Impairment losses	Reversals of impairment losses	Carrying amount
<b>A. Intangible assets</b>				
A.1 Owned	58,087	-	-	58,087
- From business combination	33,495	-	-	33,495
- Other	24,592	-	-	24,592
A.2 Under finance lease	-	-	-	-
<b>Total</b>	<b>58,087</b>	<b>-</b>	<b>-</b>	<b>58,087</b>

**31.2 AMORTISATION, DEPRECIATION AND NET IMPAIRMENT LOSSES ON TANGIBLE ASSETS: BREAKDOWN**

31.12.2018	Depreciation	Impairment losses	Reversals of impairment losses	Carrying amount
<b>A. Property, equipment and investment property</b>				
A.1 Owned				
- Property and equipment	26,037	-	-	26,037
- Investment property	267	-	-	267
A.2 Under Finance Lease	-			-
A.3 Under Operating Lease	-			-
<b>Total</b>	<b>26,304</b>	<b>-</b>	<b>-</b>	<b>26,304</b>

**32. Profit/loss from equity investments and disposal of investments**

	31.12.2018
<b>Profit</b>	
Profit on equity investments	90
Profit on disposal of investments	21,262
<b>Losses</b>	
Losses on equity investments	-630
Losses on disposal of investments	-5
<b>Net Result</b>	<b>20,717</b>

The caption "profit from investment disposals" refers primarily to the income resulting from the disposal of books of the former Veneto region Banks carried out by Nexi Payments in 2018.

**33. Income taxes**

	31.12.2018
Current taxes	-56,873
Change in current taxes from previous period	-
Change in deferred tax assets	3,842
Change in deferred tax liabilities	12,770
<b>Tax expense for the year</b>	<b>-40,261</b>

**34. Profit/loss from assets held for disposal, net of taxes**

This caption refers to positive and negative income items from assets held for disposal (see Note 11) and includes the lower estimated realisable value of Moneynet and Paycare for Euro 6.1 million.

**35. Profit/loss for the year attributable to non-controlling interests**

	31.12.2018
<b>Profit/Loss for the period attributable to non-controlling interest</b>	<b>778</b>

This refers to minorities interest as regards in particular Nexi Payments (Euro 601 million) and Help Line (Euro 177 million).

## 36. Information on the Group operations

(Amount in Euro thousands)

### CONSUMER CREDIT

#### Breakdown by product

	Total 31.12.2018		
	Gross value	Impairment losses	Net value
<b>1. Unimpaired assets</b>			
Personal loans	219,007	694	218,313
- special purpose loans	5,790		5,790
- salary-backed loans			
<b>2. Impaired assets</b>			
Personal loans			
- non-performing exposures			
- probable default			
- impaired past due exposures			
Special purpose loans			
- non-performing exposures			
- probable default			
- impaired past due exposures			
Salary-backed loans			
- non-performing exposures			
- probable default			
- impaired past due exposures			
<b>Total</b>	<b>224,797</b>	<b>694</b>	<b>224,103</b>

#### Classification by past due date bracket and quality

Time ranges	Totale 31.12.2018	
	Unimpaired financing	Impaired financing
- up to 3 months	68,605	-
- from 3 months to 1 year	127,219	-
- from 1 to 5 years	28,279	-
- after 5 years	-	-
- open terms	-	-
<b>Total</b>	<b>224,103</b>	<b>-</b>

## OTHER INFORMATION

### Changes in impairment losses / total accruals

Categories	Amount
<b>A. Value adjustments/initial total provisions</b>	<b>839</b>
<b>B. Increases</b>	
B.1 Value adjustments from impaired financial assets acquired or originated	
B.2 Other value adjustments / provisions	
B.4 Contractual changes without cancellation	
B.5 Other increases	
<b>C. Decreases</b>	<b>-144,528</b>
C.1 Valuation value gains	
C.2 Value recoveries	-144,528
C.3 Gain for sale	
C.4 Write-off	
C.5 Contractual changes without cancellation	
C.6 Other decreases	
<b>D. Value adjustments/final total provisions</b>	<b>-</b>
<b>Total</b>	<b>-143,689</b>

### Operating volumes, number of and revenue from payment transactions

Operation category	31.12.2018			
	Amount	Number	Fee and commission income	Cost recovered
- Credit Cards	31,571,406	417,058	182,296	74,591
- Debit Cards	704,249	8,424	783	
- Bank transfers				
- ordered by customers				
- received by customers				
- Money Transfer transactions:				
- incoming				
- outgoing				
- Charges to accounts of customer payments				
- Crediting the accounts with customer payments				
- Collections by payment against notice (MAV)				

**Fraudulent uses**

Operation category	31.12.2018			
	Amount	Number	Intermediary costs	Insurance reimbursement
- Credit Cards	21,309	316	4,300	-
- Debit Cards	1	2	-	-
- E-money	-	-	-	-

**Credit cards revoked for insolvency**

Risk category	31.12.2018	
	Amount	Number of cards
- with risk in charge of intermediary	458	1
- with risk in charge of third parties	-	-

The Nexi Group is a market leader in numerous Italian industrial segments including Cards & Digital Payments Merchant Services, ATM Management, Interbank Corporate Banking and Clearing & Settlement.

The Nexi Group offers best-in-class payment solutions in support of Banks, Financial Institutions and Insurances, Merchants, Companies and Public Administration: from Cards to technology for payment acceptance, money transfers between Companies and Individuals, management of highly complex techniques for collection and payment services.

## 37. Information on risks and related hedging policies

(Amount in Euro thousands)

### Operational Risk

The Nexi Group is primarily subject to the Operational Risk (which includes fraud risk, legal/conduct risk and information system risk) and to Reputational Risk

Other risks under monitoring by the Nexi Group are the Strategic Risk, the Credit Risk, the Liquidity Risk, the Interest Rate Risk and the Currency Risk as shown in the following table:

RISKS/NEXI GROUP	Nexi SpA (Holding)	Nexi Payments SpA (Electronic Money Institution Supervised by Bank of Italy)	Mercury Payments (Payment Institution Supervised by Bank of Italy)	Help Line (ancillary company)
Strategic risk	x			
Reputational risk	x	x	x	x
Operational risk		x	x	x
Credit risk		x	x	
Liquidity risk	x	x	x	
Interest Rate risk	x	x	x	
Currency risk		x	x	

### Risk Management at Nexi Group

In regard to risk management, the model adopted by Nexi provides that the Parent Company monitors the strategic risk and the internal control system of the Group.

The Internal Control System - i.e. an organisational, regulatory and methodological environment for the effective and economic exercise of guidance activities and strategic, management and technical-operating control - is a process designed to offer reasonable certainty in achieving the business objectives of effectiveness and efficiency of operations, reliability of financial statements information and compliance with laws and regulations in force.

The regulations governing the relationships between the Parent Company Nexi and the companies of the Nexi Group (hereinafter "subsidiaries") contain specific provisions aimed at standardising the organisational and conduct rules in an effort to direct the development policies and operational strategies of the Group toward consistent objectives, in compliance with the strategic guidelines set by the Parent Company.

The Regulations were also drawn up to safeguard the operational independence of subsidiaries subject to supervision and operating in the payment and electronic money service sectors (defined as "supervised companies") which implement the provisions in compliance with applicable special laws.

The parent company Nexi has also set up an Audit Function which, inter alia, supports the Board of Directors of the Parent Company through the Risk Committee and ensures that the companies of the Group define an Internal Control System consistent with the strategic guidelines and the risk management policies defined by the Board of Nexi at the Group level.

The monitoring of the Group's internal control system is suited to oversee all the risks to which the Group is exposed, in compliance with the mandatory regulations applicable to the supervised companies. To this end, the Board of Directors of the Parent Company:

- defines the guidelines of the Group internal control system and risk management in compliance with the mandatory regulations applicable to the supervised companies;
- guarantees the control of the overall exposure of the Group to business risks;

- is informed via the Parent Company Internal Audit function - along with the Boards of Directors and Boards of Statutory Auditors of the subsidiaries - if significant findings or anomalous or problematic situations emerge from controls carried out by the relevant organisational units of the subsidiaries. The primary power and responsibility for supervising the activities of the Internal Control and Risk Management System (hereinafter "ICRMS") of all the companies of the Nexi Group (design, management and monitoring) rest with the Boards of Director and with the management teams of the individual subsidiaries also as regards the compliance profiles applicable to the supervised companies. These companies are in charge of the establishment and the adequate and effective maintenance of the ICRMS, implementing the Guidelines defined by the Parent Company.

The subsidiaries:

- are responsible for the implementation of the strategies and policies for risk management;
- provide reports to the Parent Company, defined from time to time based on the needs of the Group, on a regular basis or upon request, in order to ensure a consistent risk management at consolidated level;
- set up corrective actions for the removal/mitigation of any anomalies and problems identified, in line with any indications provided by the Parent Company.

In accordance with current supervisory provisions, the Internal Control System is structured on the following three levels of control:

- *First level controls - Line controls* - aimed at ensuring correct operating practices; these are hierarchical-type controls performed by the same production unit which are usually part of the same procedures or performed as back office activities;
- *Second level controls:*
  - *risk management controls - risk management* - designed to define risk measurement methods, check compliance with their assigned limits by the various operating units (second level controls) and check consistency of each production unit's operations with their risk/ return objectives;
  - *controls on compliance with rules - compliance* - designed to monitor risks of non-compliance with external and internal regulations;
- *Third level controls - internal audit* - designed to identify irregularities, violations of procedures, internal and external regulations and to assess the overall working of the internal controls.

Non-operational and independent units carry out control activities on risk management, compliance and internal audit.

## 37.1 Risks specific to the Parent Company

### Liquidity risk and interest rate risk

The Group shows a significant financial indebtedness, represented primarily by Bond Loans which incur high financial charges. These financial charges could generate negative effects on Nexi Group results and on its capacity to generate cash flows and distribute dividends, with possible effects on its capacity to repay debts at their due dates, as well as the capacity to support the investments necessary for business development.

The Group is exposed to the risk that failing to meet obligations and covenants, as set forth in the contractual documentation about this financial indebtedness, and in particular, about the bond loans or the existing banking credit facilities, may determine, inter alia, the application of the acceleration clause also due to the effects of cross default clauses set in some of the contracts governing the financial indebtedness of the Group (as better described below).

The sustainability of the level of indebtedness of the Nexi Group is, first of all, associated with its operating results and consequently with its capacity to generate sufficient liquidity, as well as the capacity to refinance the debt at its due date.

The risk profiles related to the guarantees issued are associated with possible defaults in the underlying loan agreements and consequently with the possibility that the financing parties, using the remedies set up in the contract, proceed to enforce the guarantees thus protecting their rights to lodge claims with possible negative effects on the economic, equity and/or financial position of the Nexi Group.

The risk is contained thanks to clauses set in the contracts that represent "standard" conditions for similar transactions. The Group is exposed to the risk that significant interest rate fluctuations may occur and that the policies adopted to

neutralise these fluctuations prove to be insufficient. Interest rate fluctuations depend on different factors that are not controllable by the Group, such as monetary policies, macro-economic trends as well as the economic conditions and political uncertainty in Italy.

Changes in interest rates affect the market value of the company's financial assets and liabilities and the level of financial charges, since some of the loans were agreed at floating rate. Specifically, at 31 December 2018, the Group is exposed, for a significant 89%, to fundings with variable interest rates (of which 71% refers to instruments making up the financial indebtedness). This percentage primarily refers to bond loans, to a revolving credit facility, to a factoring contract and bilateral lines of credit. It must be noted that the Group has not yet subscribed instruments for the hedging of variable interest rates, which are currently under evaluation.

The Group has set up procedures aimed at identifying, monitoring and managing these types of risk, which include (a) the monitoring, on a weekly basis, of the interest rates market curve, the debt of which is indexed, the performance of its listed securities and of the Country risk as well as other macroeconomic market indicators and (b) the periodical alignments with studies conducted by leading banks on the outlook for the financial market.

## **37.2 Risks relating to subsidiaries' activities**

### **Operational Risk**

The Group may incur liabilities and may suffer damages, also to its reputation, related to fraudulent digital payment transactions, fraudulent receivables claimed by merchants or other parties, or fraudulent sales of goods and services, including fraudulent sales by merchants of the Group in the line of business Cards & Digital Payments and Merchant Services & Solutions.

Examples of fraud may include the malicious use of a credit or debit card stolen or counterfeited, the use, by merchants or other parties, of the number of a payment card or of other credentials for recording a false sale or transaction, the sale of counterfeit goods, malicious failure to deliver goods or services sold within the scope of an otherwise valid transaction.

Failure to identify thefts, as well as ineffective risk management and fraud prevention, may increase the chargeback liability of the Group or cause the Group to incur other liabilities, including penalties and fines.

To address these risks, Nexi has used a specific framework for the identification, management and monitoring of risks, consisting of policies, organisational controls and instruments.

This framework transposes the requirements and the law provisions, both national and international, as well as the best practices of the sector for the development and update of methodologies and support instruments.

The Group uses sophisticated transaction control and detection systems as well as effective organisational controls for fraud prevention and risk management controls.

Given the high degree of technological innovation of the services provided by the Group, and the importance of the management of sensitive data concerning payments, specific policies and methods have been defined for the identification and management of information system risks (including cyber-security), and specific organisational controls with the scope of the Information Security Management System for line controls and controls over risk management, have been implemented.

Operational risks are also mitigated by targeted insurance coverage.

### **Reputational Risk**

Reputational risk is defined as the current or future risk for a loss, of a decline in the business volume or profits, or the fall in value of the company shares resulting from a negative perception of the image of the Group by its customers, counterparties, shareholders, investors and competent Supervisory Authorities; these events may also affect the capacity of Nexi to maintain, or create, new business relations and to continue to access funding resources also through the capital market or the banking channel.

The Group, considering the importance of the reputational risk and the negative effects that may result from it, has set up special controls aimed at preventing risk factors (operational and compliance) which may affect the reputation of the Group, including:

- anti-money laundering task force;
- privacy task force;



- IT risk monitoring and control task force;
- business continuity management task force;
- brand and communications management task force for "Nexi" brand payment card products;
- crisis management task force (to manage reputational risk);
- monitoring and second level control task force to manage compliance and operational risk.

In addition to the above, the Group undertakes, on a consistent basis, actions to prevent and monitor the effects on the reputation of the Group (with particular reference to the company Nexi Payments, owner of the brand "Nexi") including (i) the assessment of the reputational risk resulting from the periodical assessments of compliance and process operational risk; (ii) the assessment of the potential reputational risk during the planning stage for the design of new services/products; (iii) the assessment of the potential impacts on reputation, in the case of operational "accidents"; (iv) a dashboard for monitoring the reputational risk; and (v) a dashboard for monitoring conduct risk.

## Credit Risk

The Group is exposed to credit risk as specified below.

### Credit Risk in acquiring activities

The settlement between counterparties carried out as acquirer, implies that the merchant-customer receives the funds before the Group receives them:

- (i) from the Factor, for credits generated by cards issued by the Group under the Factoring Contract;
- (ii) from the Banks or card-holders, for all other receivables generated by credit cards issued by the Group and not subject to the Factoring Contract; and/or
- (iii) from the International Circuits of payment cards for the cards issued by other issuers.

Furthermore, in regard to the acquiring services provided under traditional, associate and referral licence agreements governed by the business line Merchant Services & Solutions, the Group, in its capacity as acquirer, is exposed to the counterparty risk arising from the amounts paid to merchants before the goods or services are provided to the consumer or contested by the cardholder. In this case, the amount of the transaction is normally charged back to the merchant and the purchase price is reimbursed by the Group, in its capacity as acquirer, to the cardholder.

The Group is also subject to credit risk for (a) the amount of fees of the International Circuits of payments cards and (b) its own fees due by the merchants. When the acquirer pays merchant customers the payment amount of the transaction, it does not always deduct the fees due, but in certain cases charges them later, on a monthly basis. If the merchant refuses or delays the payment of these amounts, the Group may suffer a loss.

### Credit Risk in issuing activities

The Group companies, in their capacity as issuers, grant credit to the cardholders to fund their purchases using payment cards managed by the Cards & Digital Payments business lines.

The collection times from cardholders depend on the type of card used. If the purchase is carried out with a debit card, no exposure is expected for the issuer; vice versa, with credit cards, the issuer is often exposed to an average range between 15 and 45 days.

If the cardholder is not able to pay the balance due to bankruptcy or insolvency, the partner bank arranges repayment of the amounts due from the cardholder. In the case of insolvency of a partner bank, the issuer can try to recover the amounts directly from the credit cardholder.

In this regard it should be noted that if the card of an insolvent cardholder is blocked, the partner bank remains responsible for any insolvency related to purchases made in the 5 following days. Once these 5 days have elapsed, if the issuer has not yet blocked the card, any additional amount (i.e. the purchases made from the sixth day forward) are under the responsibility of the issuer.

## Credit Risk in servicing activities

In the case of special agreements with banks concerning the servicing model related to the line of business Cards & Digital Payments, the Group is exposed to counterparty risk for the payment of the services provided to these parties and to the credit risk associated with the POS and ATM management services with merchants and with customer banks of these services.

## Credit risk monitoring

Credit Risk is monitored constantly, checking that the exposures are within the budget limits set at the beginning of each year. Nexi Payments also carefully rates each new merchant or cardholder in the case of directly issued cards before agreeing new contracts.

The Risk Management function constantly monitors credit risk trends and activates, if the limits are exceeded, triggers appropriate escalation measures.

The Group has specific maximum gross and net insolvency limits, and limits to the impact on cost, to control and measure risk. It monitors these limits constantly as well as expected losses compared to actual losses and the performance of losses incurred in relation to business performance.

This Credit Risk control consists of preliminary checks by the first level units, starting with the analysis of the credit application. It includes:

- internal controls;
- consistency controls;
- positive and negative information from the Credit Bureau;
- Credit Scoring algorithms.

Another process relevant for Credit Risk is the monitoring and recovery of receivables from cardholders and merchants, in order to contain the impact of risk events.

With respect to its servicing activities, the Group does not have risks related to receivables due directly from retail customers as its core business is Issuing servicing and Acquiring servicing activities. Therefore, the related credit risk falls on the Banks holding the Issuing and/or Acquiring licences.

As in the last few years, also this year no significant critical situations were identified concerning this type of risk based on the set limits.

## Breakdown of financial assets by portfolio and credit quality

(Carrying amounts)

Portfolios/Quality	Non-performing exposures	Probable default	Impaired past due exposures	Unimpaired past due exposures	Other unimpaired exposures	Total
1. Financial assets measured at amortized cost		942	7	323	1,668,452	1,669,723
2. Financial assets measured at fair value through OCI					100,114	100,114
3. Financial assets at fair value to profit and loss						-
4. Other financial assets mandatorily valued at fair value						-
5. Non current assets held for sale and discontinued operations					80,498	80,498
<b>Total 31.12.2018</b>	<b>-</b>	<b>942</b>	<b>7,00</b>	<b>323,00</b>	<b>1,849,064</b>	<b>1,850,337</b>

## Breakdown of financial assets by portfolio and credit quality

(Gross and net amounts)

Portfolios/ Quality	Impaired				Not Impaired			
	Gross exposure	Total value adjustments	Net exposure	Total Write-off *	Gross exposure	Total value adjustments	Net exposure	Total (net exposure)
1. Financial assets at amortized cost	5,922	4,973	949		1,670,482	1,707	1,668,775	1,669,723
2. Financial assets measured at fair value through OCI					100,114	-	100,114	100,114
3. Financial assets at fair value to profit and loss								
4. Other financial assets mandatorily valued at fair value								
5. Non current assets held for sale and discontinued operations					80,498		80,498	80,498
<b>Total 31.12.2018</b>	<b>5,922</b>	<b>4,973</b>	<b>949</b>	<b>-</b>	<b>1,851,094</b>	<b>1,707</b>	<b>1,849,387</b>	<b>1,850,335</b>

\* Value to be displayed for information purposes.

## Loans and receivables with banks and financial companies on and off-statement of financial position: gross and net values

Exposure categories/amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs*
	Impaired	Not impaired			
<b>A. Cash credit exposure</b>					
a) Non-performing exposure		X			
- of which: exposures subject to grant		X			
b) Probable defaults	7	X		7	
- of which: exposures subject to grant		X			
c) Impaired past due exposure		X			
- of which: exposures subject to grant		X			
d) Unimpaired past due exposures	X	13		13	
- of which: exposures subject to grant	X				
e) Other unimpaired exposure	X	1,107,223	50	1,107,173	
- of which: exposures subject to grant	X				
<b>Total A</b>	<b>7</b>	<b>1,107,236</b>	<b>50</b>	<b>1,107,243</b>	
<b>B. Off-statement credit exposure</b>					
a) Impaired		X			
b) Unimpaired	X				
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total (A+B)</b>	<b>7</b>	<b>1,107,236</b>	<b>50</b>	<b>1,107,243</b>	

\* Value to be displayed for information purposes.

## Loans and receivables with customers on and off-statement of financial position: gross and net values

Exposure categories/amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs*
	Impaired	Not impaired			
<b>A. Cash credit exposure</b>					
a) Non-performing exposure	2,184	X	2,183	1	
- of which: exposures subject to grant		X			
b) Probable defaults	3,730	X	2,790	940	
- of which: exposures subject to grant		X			
c) Impaired past due exposure		X			
- of which: exposures subject to grant		X			
d) Unimpaired past due exposures	X				
- of which: exposures subject to grant	X	311			
e) Other unimpaired exposure	X	561,925	1,657	560,268	
- of which: exposures subject to grant	X				
<b>Total A</b>	<b>5,914</b>	<b>562,236</b>	<b>6,630</b>	<b>561,209</b>	<b>-</b>
<b>B. Off-statement credit exposure</b>					
a) Impaired		X			
b) Unimpaired	X				
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B)</b>	<b>5,914</b>	<b>562,236</b>	<b>6,630</b>	<b>561,209</b>	<b>-</b>

\* Value to be displayed for information purposes.

## Interest Rate Risk

Given the unique nature of Nexi Payments business, the exposures are mostly concentrated in the “within one month” class and therefore with minimum exposure to risk, except for exposures related to revolving cards, which have an average residual life of 10 months. Exposure to this type of risk can be considered substantially immaterial. The other Group companies are not exposed to this type of risk.

## Currency Risk

The Group companies are marginally exposed to currency risk since payments and collections, respectively for amounts to pay or collect related to the Mastercard and Visa circuits, are carried out in Euro.

## Quantitative disclosure

### Breakdown of assets, liabilities and derivatives by currency

Captions	Currency					
	US Dollar	Pound Sterling	Yen	Canadian Dollar	Swiss Franc	Other currencies
<b>1. Financial assets</b>	<b>100,293</b>	<b>116</b>	<b>25</b>	<b>26</b>	<b>43</b>	<b>181,272</b>
1.1 Debt instruments						
1.2 Equity instruments	99,968					
1.3 Loans and receivables	324	116	25	26	43	181,272
1.4 Other financial assets						
<b>2. Other assets</b>						
<b>3. Financial liabilities</b>	<b>21</b>	<b>11</b>	<b>-</b>	<b>3</b>	<b>4</b>	<b>4,248</b>
3.1 Liabilities	21	11	-	3	4	4,248
3.2 Debt instruments						
3.3 Other financial liabilities						
<b>4. Other liabilities</b>						
<b>5. Derivatives</b>	<b>19,711</b>					
5.1 Long positions						
5.2 Short positions	19,711					
<b>Total assets</b>	<b>100,293</b>	<b>116</b>	<b>25</b>	<b>26</b>	<b>43</b>	<b>181,272</b>
<b>Total liabilities</b>	<b>19,732</b>	<b>11</b>	<b>-</b>	<b>3</b>	<b>4</b>	<b>4,248</b>
<b>Difference (+/-)</b>	<b>80,561</b>	<b>105</b>	<b>25</b>	<b>22</b>	<b>39</b>	<b>177,024</b>

## 38. Breakdown of comprehensive income

(Amount in Euro thousands)

Captions	2018
<b>10. Profit (loss) for the year</b>	<b>36,711</b>
Items that will not be reclassified subsequently to profit or loss	
20. Financial assets at fair value through OCI	
<i>a) fair value variances</i>	55,883
<i>b) transfers to other equity components</i>	
30. Financial liabilities designated at fair value through profit or loss (credit variances):	
<i>a) fair value variances</i>	-16,557
<i>b) transfers to other equity components</i>	
70. Defined benefit plans	780
100. Income taxes related to high income components without profit and loss reversal	-2,946
<b>Items that will be reclassified subsequently to profit or loss</b>	
130. Cash flow hedges:	
<i>a) fair value variances</i>	222
<i>b) income statement reversal</i>	
<i>c) other variances</i>	
180. Income taxes related to high income components with profit and loss reversal	-61
<b>190. Other comprehensive income (net of tax)</b>	<b>37,322</b>
<b>200. Total comprehensive income</b>	<b>74,033</b>
210. Comprehensive income attributable to the owners of the parent	1,209
<b>220. Comprehensive income attributable to non-controlling interest</b>	<b>72,824</b>

## 39. Related parties

(Amount in Euro thousands)

The aim of IAS 24 (Related Party Disclosures) is to ensure that an entity's financial statements include the additional disclosures necessary to understand whether its equity and financial position and performance may be altered by related party transactions and balances.

Based on this standard, applied to its organisational and governance structure, Nexi Group SpA identified the following related parties:

- a) the controlling company, Mercury UK;
- b) the parties that control Mercury UK, directly or indirectly, also through subsidiaries, trustees or through a third party, even jointly or hold an interest in Mercury UK which enables it to exercise significant influence;
- c) entities that are controlled or jointly controlled by the above indicated parties;
- d) entities that are controlled or jointly controlled or under the significant influence of Nexi SpA;
- e) key Managers of Nexi Group or its parent and entities in which they exercise direct control, joint control or significant influence;
- f) is a close relative of a natural person included in letters b) or e) above;
- g) is a collective or individual Italian or foreign supplementary pension fund established for the employees of Nexi SpA or of any other related entity.

The effects of transactions carried out with the related parties identified above are summarised in the following table.

Financial Statement caption	Total Financial Statement caption	Holding Company	Holding Company	Managers and members of supervisory body
Cash and cash equivalents	40,688		40,654	
Financial assets at amortised cost	1,668,452		244,054	
Non-current assets held for sale and disposal groups	80,498			
Other assets	405,705		15,712	
Non-current liabilities and liabilities associated with disposal groups	39,069			
Financial liabilities at amortised cost - due to banks	3,716,834		31	
Other liabilities	716,375		2,283	
Fee and commission income	906,948		9,942	
Fee and commission expenses	-328,118		-1,177	
Interest income (expense)	45,640	36,031		
Interest expenses	-79,741		-847	
Administrative expenses	-376,399		-5,098	-6,975
Other operating income and expense	-264		276	
Profit (loss) from continuing operations	7,341			-944

Centralised transactions with the Nexi Group companies are usually governed by specific agreements that, while aiming at optimising synergies, economies of scale and purpose and to use 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.

In particular, with reference to the relationships established during the year with DEPObank, the following should be noted:

- in the first half of 2018, a funding line was set up, under normal market conditions, and remained in operation until 1 July 2018. On this date, following the Reorganisation of the Mercury Group, this funding line was extinguished and replaced by new funding lines granted under factoring contracts, by third party financial institutions. Consequently, the interests highlighted above refer to the operations carried out in the first half of the year;
- therefore, following the Reorganisation of the Group, starting from 1 July 2018, some service agreements were executed. Specifically:
  - since the ICT management of DEPObank was transferred almost entirely to Nexi Payments, an outsourcing agreement was executed for the provision of the IT services. The consideration is commensurate to the actual use of internal and external resources;
  - an agreement for the provision of commercial services was executed. It defines the conditions and methods with which Nexi Payments offers to its customers the products and services of DEPObank through its sales network; the consideration, identified upon a verification conducted on market benchmarks, is related to the annual business volumes accrued by DEPObank due to the commercial activities of Nexi Payments.

As regards transactions with Mercury UK, it must be noted that, upon finalisation of the Reorganisation within the scope of the spin-off from DEPObank to Nexi, a loan of Euro 380 million, already in effect between Mercury and DEPObank against a lesser share of capital transferred to Nexi, was included. This loan was repaid concurrently with the reorganisation operation.

Following the completion of the Reorganisation, on 1 July 2018, Nexi granted a bridge loan to Mercury UK of Euro 2,018 million to give the latter an advance on the liquidity collected from the issuance of the loan bonds and to proceed with the extinction of the securities issued by Mercury BondCo; all of this pending the finalisation of the extraordinary distribution of dividends of 20 December 2018. Interest income for Euro 36,031 thousand were accrued on this loan, extinct concurrently with the payment of the dividends.

## 40. Business combinations

(Amount in Euro thousands)

### 40.1 Transactions carried out during the period

#### Acquisition of Carige business units

On 30/09/2018 Nexi Payments completed the acquisition of the business unit Carige. Substantially, Nexi Payments purchased relationships with merchants as direct customers, both in acquiring and in POS terminals servicing, earning the power to take relevant decisions, in terms of pricing and eventual closure of relationship.

As the transaction meets the definition of a business combination, it has been accounted for 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”, and provides for the consolidation of the assets, liabilities and contingent liabilities of the acquired company at their fair value at the acquisition date, including any identifiable intangible assets not recognised in the acquired company’s statement of financial position, and the assessment of goodwill as the difference between the aggregation cost and the fair value net of assets, liabilities and identified contingent liabilities. This Purchase Price allocation process has to be performed within one year from the date of acquisition.

At 31 December 2018, the price allocation process is still temporary and will be completed in the first half of 2019, especially because the price due is still being estimated. In addition, the completion of the process, should affect only the valuation of the agreements executed with the customers. It should also be noted that, starting from the acquisition date, no changes were made to the recognised amounts.

The goodwill arising from these business combinations amounts to Euro 22.5 million and is composed of the following:

<b>Carige acquiring book</b>	<b>Provisional fair value</b>
<b>Cash consideration paid</b>	<b>23,422</b>
<b>Contingent consideration</b>	<b>-</b>
<b>Portion of identifiable net assets attributable to minority interest</b>	<b>-262</b>
Intangible assets	-
Tax assets	-
Other assets	716
Due to banks	-
Financial liabilities	0
Other liabilities	-5
<b>Identifiable net assets</b>	<b>710</b>
<b>Goodwill on acquisition</b>	<b>22,449</b>
Cash consideration paid	23,422
Cash acquired	0
Net cash consideration	23,422



### **“Under common control” transactions related to the reorganisation of the Group**

On 1 July 2018, the process for the reorganisation of the Mercury Group was carried out aiming at the separation of the digital payments business from the banking business, authorised by the Bank of Italy on 11 April 2018, which significantly modified the structure of the Nexi Group.

In particular, the reorganisation process was carried out, as regards the Nexi Group, through the following extraordinary transactions:

- spin-off transaction of the equity investment held by DEPObank in the companies operating in the payment business (Nexi Payment, Oasi, Help Line, Basilichi and Consorzio Triveneto) to Nexi SpA. Due to this transaction, Nexi SpA acquired control of these companies.
- transfer, on 1 July 2018, of the “Payments and Corporate Centre” business unit concerning primarily the management of the money related to prepaid cards and digital payments, and of the “Corporate Centre” concerning primarily the centralised services, by DEPObank (former parent of the Company) to Nexi Payments; due to this transaction, the Company has increased the share capital by about 145 million following which DEPObank has transferred the aforementioned business units.

The reorganisation project was completed with the following merger transactions carried out in the second half of 2018:

- transfer, on 31 December 2018 of the “monitoring” business unit from Basilichi to Help Line;
- transfer, on 15 October, to the company Paycare (established by Basilichi on 29/5/2018) of the business units related to the “Contract Centre” activity of Basilichi and Consorzio Triveneto;
- merger by incorporation, on 31 December 2018, of the subsidiary “Sparkling” into Nexi Payments;
- merger by incorporation, on 31 December 2018, of the companies Basilichi and Triveneto into Nexi Payments, the control of which, at the merger date, was held by Nexi SpA;
- merger by incorporation of the company Nexi Capital into Nexi SpA, a company established on 16 April 2018.

Therefore described transactions fall under the definition of “transaction under common control” and consequently any difference from a derecognition/consolidation must be recognised based on the principle of continuity in value in respect of the financial statements of the parent company.

More specifically, the spin off transaction involving the transfer of the control of the companies Nexi Payments, Oasi, Help Line and Basilichi, Consorzio Triveneto from DEPObank to Nexi SpA has impacted the consolidated financial statements as follows:

- the differences in the consolidation of the companies indicated above were allocated to the goodwill based on all the goodwill recognised in the consolidated financial statements of DEPObank. Considering also all the goodwill recognised in the separate financial statements of Nexi Payments (concerning the book acquiring, purchased in 2017) the amount of the goodwill recognised following these transactions totalled Euro 1,392 million.
- The income statement of the acquired companies was reflected starting from 1 July 2018.

The transaction for the transfer of the Payments business unit, involved:

- the recognition of a goodwill in the amount of Euro 126 million, equal to the consolidated financial statements figure of DEPObank SpA and included in the transferred business unit;
- the income statement of the business unit was reflected in the consolidated financial statements, starting from 1 July 2018.

It should be noted that the merger transactions described above, carried out at the end of the year, did not affect the consolidated financial statements except for limited impacts on the minority interests which, as set forth in IFRS 3, were reflected exclusively in the net equity (i.e. without changing the value of the goodwill recognised in the consolidated financial statements at the time of the first business combination posted according to IFRS 3).

## 40.3 Retrospective adjustments

None in 2018.

### Other information

As required in IFRS 3, we report below, for the above described business combinations, pro-forma figures of revenue and costs as if the transactions had been carried out at the beginning of 2018:

Description	2018 Profit and loss	Business Payments and Corporate Center	Nexi Payments	Help Line	Basilichi	Consorzio Triveneto	Sparkling 18	Oasi Diagram	Paycare/ Moneynet/ Bassmart	Carige January - September	Pro forma
		I half 18	I half 18	I half 18	I half 18	I half 18	I half 18	I half 18	I half 18	2018	2018
Net operating revenue	538,994	20,192	297,048	3,635	41,628	3,007	123	-	-	1,857	907,985
Operating margin	63,686	-12,247	115,814	-10,778	-21,631	-13,430	-320	-	-	1,234	122,941
Pre-tax profit	84,403	-12,247	116,006	-10,778	-22,090	-13,389	-320	-	-	1,234	142,721
Profit/ loss from non-current assets held for sale and discontinued operations	-7,431	-	-	-	-	-	-	1,933	-632	-	-6,130
<b>Net Profit</b>	<b>36,711</b>	<b>-8,197</b>	<b>85,351</b>	<b>-10,785</b>	<b>-22,090</b>	<b>-13,246</b>	<b>-320</b>	<b>1,933</b>	<b>-632</b>	<b>826</b>	<b>69,551</b>

## 41. Funding of the Group transactions

### 41.1 Bond issue

In 2018, the Reorganisation Project was carried out involving, inter alia, a revision of the structure of the Group's funding. In particular, within the Reorganisation scope, the bonds held by the vehicle Mercury Bond.co, outside of the Mercury Group, issued primarily to finance the purchase by the "Sponsors" of Istituto Centrale delle Banche Popolari and Mercury Payments Services ("Existing bonds"), were refinanced. The refinancing operation of the bonds involved the "transfer" of the bonds within the Nexi Group through the vehicle Nexi Capital SpA, established on 16/04/2018 and merged into Nexi SpA at 31 December 2018. This operation was carried out through the issuance by Nexi Capital of new bonds with the following characteristics:

- Fixed rate bonds for Euro 825 million with maturity in 2023;
- Variable rate bonds for Euro 1,375 million with maturity in 2023;
- Variable rate bonds (private placement) for Euro 400 million with maturity in 2023.

The liquidity collected by Nexi Capital (now Nexi SpA) was used, following transfer through Mercury UK to Mercury BondCo, to extinguish the existing bonds.

The aforementioned bonds include repayment clauses which, based on the analyses carried out, did not require a separate recognition of options for early repayment. For the purpose of the calculation of the amortised cost, as set forth in IFRS 9, the expected residual life of the bonds was estimated and taking into consideration the uncertainty of the effects of a possible refinancing, it was assumed to be equal to the contractual duration.

The terms and conditions of the Bond Loans are governed by two contracts with similar contents, in compliance with the law of the State of New York, called "Indenture" and dated, respectively 18 May 2018, referring to the listed bond loan and 2 July 2018, referring to the bond loan with private placement (each of them, the "Indenture").

The Indentures limit the right of the Issuer and of its subsidiaries subject to restrictions to distribute dividends to the respective shareholders.

The dividends may, in fact, be distributed only in compliance with the provisions contained in the Indentures, as regards payments subject to restriction, or at the occurring of events, here qualified as permitted payments, without prejudice to the fact that, except for provisions stated in the Indentures, no additional consensual limitation or restriction to the payment of dividends (and to the transfer of goods and services) by the subsidiaries subject to restrictions, in favour of Nexi SpA, can be applied.

### 41.2 Factoring

Following the completion of the reorganisation, the subsidiary Nexi Payment had to redefine its model for the management of funding also subsequently to the related closure of the financing line historically provided by DEPObank. Therefore, within the new funding strategy, on 26 June 2018 and starting on 1 July 2018, Nexi Payments executed a factoring contract for the daily transfer of receivables deriving from the majority (about 92% in terms of circulation) of its own balance credit cards issued under agreement with the partner credit institutions.

The agreement sets out three lines of credit:

- a line of credit for the daily transfer, definite and without recourse, of credits generated by the use of the cards and guaranteed by a list of banks, predefined and identified by the Factor and based, inter alia, on the risk profile associated with each bank; this line of credit involves the derecognition of the credits in reference to which the entity has fully transferred to the Factor all risks and benefits. The difference between the book value of the credits and the net price of the transfer is recognised under the caption, of the income statement, "100b) Gain/loss from transfer or repurchase of financial assets designated at fair value with impact on the comprehensive income";
- a line of credit for an advance without recourse on credits resulting from the use of cards and guaranteed by banks other than those listed above. This line of credit, since it does not determine the derecognition of the credits underlying the transaction, involves the recognition in the financial statements of a debt that is measured at its amortised cost;

- a bridge line of credit to be used exclusively in the event of temporary deviations between the time when the transaction is debited on the cards issued by the Group and the time when the related credit toward the card holder is transferred to the Factor.

The above transaction has a revolving character and includes the transfer, pursuant to the laws on factoring (52/91 as amended) of all the credits, current and future, arising from the use of the balance credit cards issued pursuant to the special arrangements in effect with partner banks selected by the Factor.

In reference to the financial statements date, the transferred credits, for which the derecognition was posted, amounted to Euro 1,712 million, the payables Due to the factor for the line without recourse amounted to Euro 192.5 million and the final payable adjustment Due to the factor amounted to Euro 109 million.

## 42. Segment reporting

Segment reporting was drawn up in compliance with the IFRS 8 standard.

Segment reporting is consistent with the organisational and industrial structure with which the Nexi Group has operated during the year. In regard to the business combination transactions under common control carried out during the year, the reporting is based on an assumption of going concern with respect to the consolidated financial statements of the final parent company, as if said transactions were carried out at the beginning of the year. Therefore, the hereinafter income statement includes the economic results of the entire year including those of the companies subject to spin off (Nexi Payments, Help Line, Oasi, ex Bassilichi Group and Sparkling) and of the business unit Payments and Corporate Centre which, in the financial statements, contributed to the economic results starting from the date of the extraordinary transactions (i.e. from 1 July 2018).

The reporting by business segment provides for only one operating segment represented by electronic money and payment services, including the central structures. By contrast, net revenue from operations can be broken-down into four business lines, identifiable within the scope of the Nexi Group organisation, more specifically:

- Services and solutions for the Merchant sector (acquiring);
- Services for Cards (Issuing) and Digital Payments;
- Digital Banking solutions;
- Other services including outsourcing.

The following tables show a breakdown, by operating business line at the net revenue level, of the income statements only and do not require the current management structure of the specific allocations by line of service at equity level, in the three periods being considered (2018, 2017 and 2016). In paragraph 42.2 a reconciliation is shown between the income statement drawn up according to the segment reporting and the income statement drawn up in the Financial Statements which, besides including the effects of the different classifications, also show the impact resulting from the different contributions from the companies subject to spin-off and of the business unit Payments, as described above. A breakdown of net revenue by geographic distribution is not included since the activities here described are carried out by customers operating within the entire national territory which is therefore considered, from an operating point of view, as a whole.

## 42.1 Segment reporting: income statement at 31.12.2018

31.12.2018	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
<b>Net operating revenue</b>	<b>1,021,616</b>	<b>-79,146</b>	<b>942,471</b>
Personnel expenses	-158,137	94	-158,044
Administrative expenses	-442,328	79,843	-362,486
Adjustments and net operating provisions*	-2,093	-800	-2,893
<b>Operating costs net of amortisation and depreciation</b>	<b>-602,558</b>	<b>79,136</b>	<b>-523,422</b>
<b>NORMALISED GROSS OPERATING PROFIT</b>	<b>419,058</b>	<b>-10</b>	<b>419,048</b>
Amortisation, depreciation and impairment losses	-74,703	-	-74,703
<b>Normalised operating profit</b>	<b>344,355</b>	<b>-10</b>	<b>344,345</b>
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
<b>Pre-tax profit</b>			<b>141,585</b>
Income taxes			-66,730
Post-tax profit from discontinued operations			-6,130
<b>Profit for the year</b>			<b>68,725</b>
Loss for the year attributable to non-controlling interests			-1,499
<b>Profit attributable to the owners of the parent</b>			<b>67,226</b>

## 42.2 Segment reporting: reconciliation income statement segment reporting with carve out income statement at 31.12.2018

31.12.2018	Segment reporting	Reconciliation	Consolidated Financial Statements as at 31.12.2018
<b>Net operating revenue</b>	<b>942,471</b>	<b>-403,477</b>	<b>538,994</b>
Personnel expense	-158,044	52,600	-105,444
Administrative expenses	-362,486	91,531	-270,955
Adjustments and net operating provisions*	-2,893	-11,624	-14,517
<b>Operating costs net of amortisation and depreciation</b>	<b>-523,423</b>	<b>132,507</b>	<b>-390,916</b>
<b>NORMALISED GROSS OPERATING PROFIT</b>	<b>419,048</b>	<b>-270,970</b>	<b>148,078</b>
Amortisation, depreciation and impairment losses	-74,703	-9,689	-84,392
<b>Normalised operating profit</b>	<b>344,345</b>	<b>-280,659</b>	<b>63,686</b>
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	-	20,717	20,717
Other non-recurring items	-130,559	130,559	
<b>Pre-tax profit</b>	<b>141,585</b>	<b>-57,182</b>	<b>84,403</b>
Income taxes	-66,730	26,469	-40,261
Post-tax profit from discontinued operations	-6,130	-1,301	-7,431
<b>Profit for the year</b>	<b>68,725</b>	<b>-32,014</b>	<b>36,711</b>
Profit for the year attributable to non-controlling interests	-1,499	721	-778
<b>Profit attributable to the owners of the parent</b>	<b>67,226</b>	<b>-31,293</b>	<b>35,933</b>

## **44. Subsequent events at 31 December 2018**

No significant events have occurred between the closing date of the financial statements and the date of their approval; however, it is hereby confirmed that the transfer of the assets classified as held for disposal, are being completed based on figures that reflect those considered for the related estimates.







# 1.4

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AUDITING COMPANY REPORT





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(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010**

*To the shareholders of  
Nexi S.p.A.*

### **Report on the audit of the consolidated financial statements**

#### ***Opinion***

We have audited the consolidated financial statements of the Nexi Group (the "group"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Nexi Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of Nexi S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements***

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

### ***Auditors' responsibilities for the audit of the consolidated financial statements***

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

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;



- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Report on other legal and regulatory requirements**

### ***Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10***

The parent's directors are responsible for the preparation of the group's directors' report at 31 December 2018 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the group's consolidated financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the group's consolidated financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 25 February 2019

KPMG S.p.A.

(signed on the original)

Roberto Fabbri  
Director of Audit



# 2018 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT





# 2

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## 2018 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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# 2.1

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METHODOLOGICAL NOTE

# METHODOLOGICAL NOTE

## Reporting standards

The Environmental, Social and Governance Report of the Nexi Group (hereinafter also “ESG Report” and “Document”), contains information on environmental issues, social, personnel, respect for human rights and the fight against corruption, useful to provide stakeholders with accurate, comprehensive and transparent reporting of the Nexi Group’s activities (hereinafter also “Group” and “Nexi”), its performance, results achieved and impacts produced confirming the commitment of a Group able to create value while respecting the expectations of its stakeholders, thanks to the constant improvement in terms of economic, social and environmental sustainability.

This 2018 ESG Report, which will be published annually, is drafted according to the GRI Standards (core in accordance option). Published in 2016 by the Global Reporting Initiative, the GRI standards today are the most widespread and internationally recognised standard on non-financial reporting. In order to help the reader find information within the document, on pages 191-193, the GRI Content Index is shown.

The information included in the ESG Report reflects the principle of materiality or relevance, as provided for by the GRI Standards. The topics dealt with in the Document are those that, following the materiality analysis described on page 130 of this document, have been considered “relevant”, i.e. are able to reflect the social and environmental impacts of the Group’s activities or to influence the decisions of its stakeholders.

To request information, contact the Corporate & Regulatory Affairs Service of Nexi Payments: [corporateaffairs@nexi.it](mailto:corporateaffairs@nexi.it).

## Scope and reporting procedure

The qualitative and quantitative data and information contained in the ESG Report of the Nexi Group refer to the performance of the Nexi Group for the year ended 31 December 2018.

The scope of reporting is line with that of 2018, a year characterised by a major company restructuring. In fact, the Nexi Banking Group ceased to exist from 1 July 2018, the date of completion of the corporate restructuring project, which saw the incorporation of two different hubs headed up, respectively, by Mercury UK HoldCo and Equinova UK HoldCo. As a result of the restructuring, the payment services companies in the Nexi Banking Group were transferred to Latino Italy, while banking activities were separated from the other corporate entities through the transfer of the controlling interest in the bank to Equinova UK Holding.

Following the restructuring, the bank adopted the name DEPObank - Banca Depositaria Italiana (Italian Depository Bank), while Latino Italy was named Nexi.

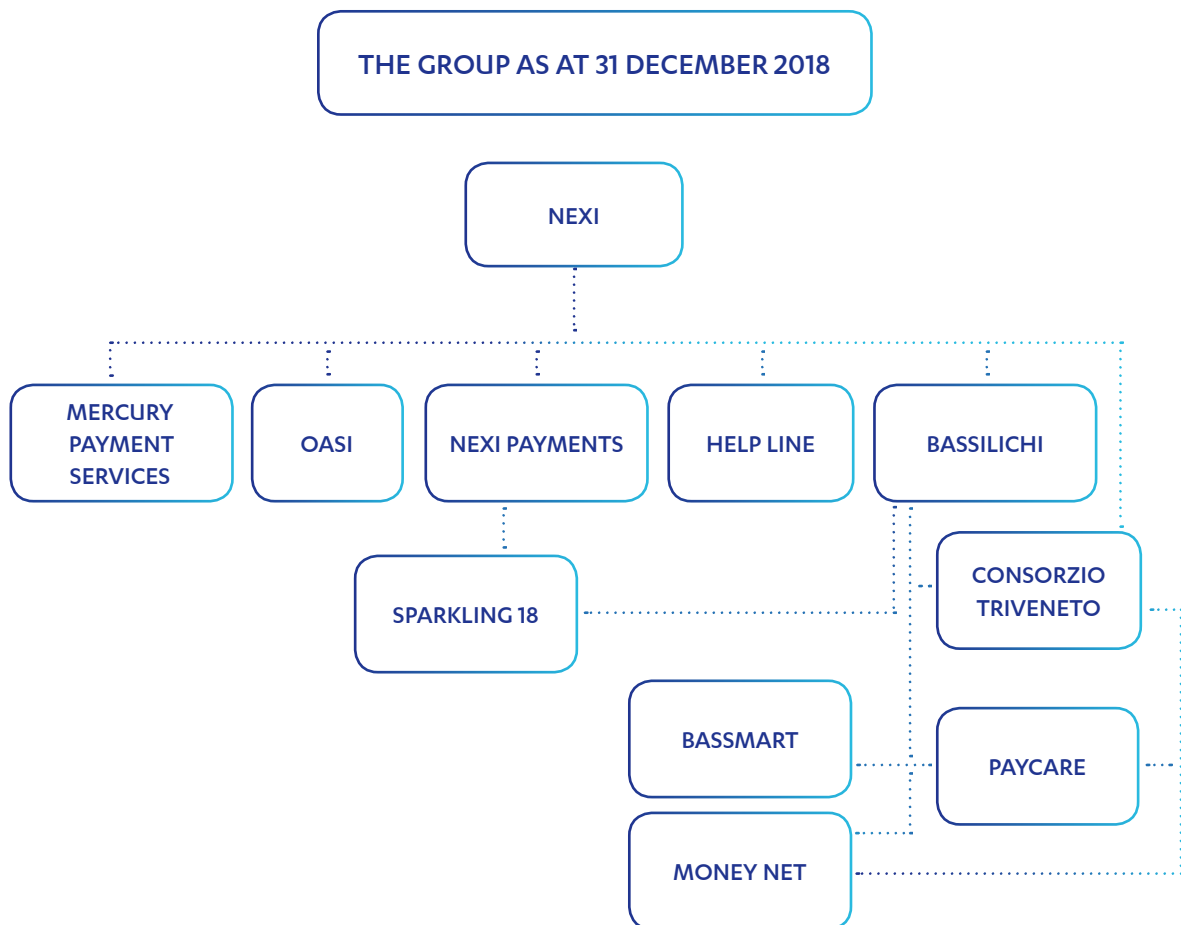
The main corporate transactions carried out by the Group in 2018 were:

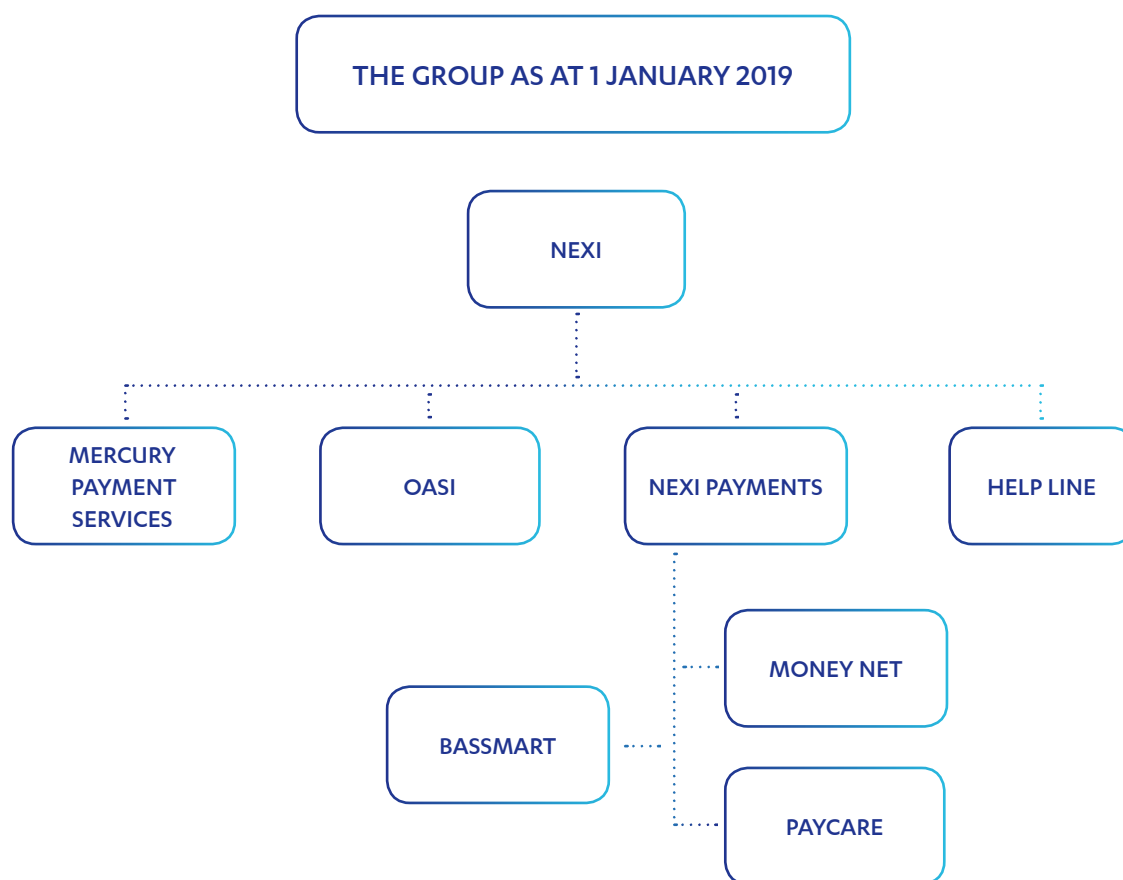
- April: acquisition of Sparkling 18 Srl by Nexi Payments SpA and incorporation of Nexi Capital SpA;
- May: incorporation of PayCare Srl;
- July: partial proportional split-off of DEPObank SpA in Nexi SpA;
- December: sale of ArsBlue D.o.o. Serbia, Basilichi C.E.E. D.o.o. Belgrado, Basilichi C.E.E. D.o.o. Podgorica, Basilichi C.E.E. D.o.o. Banja Luka, merger by incorporation of Basilichi SpA, Consorzio Triveneto SpA and Sparkling 18 Srl in Nexi Payments S.p.A and merger by incorporation of Nexi Capital SpA in Nexi SpA.

The sales of Oasi SpA, Moneynet SpA and PayCare Srl are in the process of being completed.

For this reason, the scope of reporting relating to 2018 concerns the Parent Company (Nexi SpA) and the following companies: Nexi Payments SpA (which controls Moneynet SpA, PayCare Srl and BassmArt Srl and includes the companies Basilichi SpA, Consorzio Triveneto SpA and Sparkling 18 Srl, which were merged by incorporation in Nexi Payments SpA on 31 December 2018), Mercury Payments SpA, Help Line SpA and Oasi SpA.

The Nexi Group's 2018 ESG Report, in its first edition, provides a summary and qualitative comparison with the previous years. Any limitations on said scope are indicated accordingly in the Document.





## Reporting process

The preparation of the ESG Report of the Nexi Group for 2018 was based on a structured reporting process that included:

- the involvement of all the company units/Departments responsible for the relevant areas and the related data and information forming the object of the Document. They have been asked to contribute to the identification and evaluation of the material issues, the most significant projects/initiatives to be described in the Document and the data collection, analysis and consolidation phase, with the role of verifying and validating all the information contained in the Document,

each for their own area of competence. In particular, the data and information included in this Document derive from a non-financial reporting system (data collection forms) specially implemented to meet the requirements of the GRI Standards. The data was processed by means of precise extractions and calculations and, where specifically indicated, by estimates;

- the presentation of the ESG Report to the Board of Directors, convened on 8 March 2019;
- the issue of an opinion of conformity on the Document by KPMG SpA in the form of a limited assurance;
- the publication of the Document on the corporate website, so as to make it available transparently to all stakeholders.

## REPORTING PRINCIPLES

**The information included in the Nexi Group ESG Report for 2018 was based on the following principles:**

<b>MATERIALITY</b>	The Document describes the main economic, social and environmental impacts directly related to Nexi's activities, which are of greater significance both for the Group and for internal and external stakeholders engaged in company activities.
<b>INCLUSIVENESS</b>	The Document takes into account the expectations and interests of all the subjects that in various ways contribute to or are influenced by the company activities. The Document provides a description of the Group's main stakeholders and the main documentary sources / channels of dialogue through which their interests and expectations are identified.
<b>SUSTAINABILITY CONTEXT</b>	The reporting of sustainability results was carried out taking into consideration the socio-economic context in which the Group operates and the issues of greatest importance for the relevant sector, also through the analysis of sustainability disclosures of national and international groups of the reference sector.
<b>COMPLETENESS</b>	The choices made regarding the issues reported and the scope of the Document allow the stakeholders to formulate a complete assessment of the Group's main economic, social and environmental impacts.
<b>BALANCE BETWEEN POSITIVE AND NEGATIVE ASPECTS</b>	The Document presents the Group's main sustainability performance reporting in a transparent manner both aspects in which Nexi shows positive results and trends, and areas in which margins of further improvement are noted.
<b>COMPARABILITY</b>	The indicators included in the Document are chosen and structured in such a way as to allow for the comparability of the Group's performances over time.
<b>ACCURACY</b>	To guarantee the accuracy and homogeneity of the information reported in the Document, data reporting was used through direct surveys, limiting the use of estimates as much as possible. If necessary, these are appropriately reported within the text and are based on the best calculation methods currently available.
<b>TIMELINESS</b>	The Document is prepared annually and made public during the same period of presentation of the Consolidated Financial Statements.
<b>RELIABILITY</b>	All data and information shown in the Document have been validated by the heads of the pertinent company functions and are prepared on the basis of documentary evidence able to prove its existence, completeness and accuracy.
<b>CLARITY</b>	The Document contains information presented in an understandable and accessible manner to all stakeholders.





# 2.2

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NEXI IDENTITY AND KEY ACTIVITIES

# NEXI IDENTITY AND KEY ACTIVITIES

## Corporate identity

The Nexi Group is a leader in Italy in many business sectors ranging from Cards to Merchant Services to Corporate Digital Banking.

The Group offers services and infrastructures for the best-in-class digital payment to support Banks, Financial and Insurance Institutions, Commercial Businesses, Companies and Public Administration. In particular, the Nexi offering plays an important role in cards, payment acceptance technologies, money transfers between Companies and Individuals, and the management of highly complex evolved services, such as those of Corporate Banking and Instant Payments.

Nexi works alongside its partner banks every day to create value together, helping them in developing their customer base with dedicated Customer Value Management initiatives, and offering an increasingly more complete, simple and secure payment experience, close to the customer and in step with the evolution of the market, to bring innovation but also to spread digital payments in Italy as much as possible, which is still below the European average. This commitment has helped to make the Group a key player also in application and administrative outsourcing services and legal advice.



## NEXI GROUP KPIs



## SERVICES PROVIDED

**Digital Cards & Payments**

Offers a complete range of payment products (debit, credit and prepaid cards), equipped with the most innovative technologies and the most advanced services, to offer Customers a broad choice, great flexibility, total security, ease of use. In addition, it carefully studies all aspects of the payment experience, to make it increasingly more digital and a simple click away: cards and smartphones, thanks to web access and Apps, allow customers to dynamically manage their payment instruments, adapting them to best fit their usage needs.

**Merchant Services & Solutions**

Proposes, through the partner Banks, a complete range of solutions and services to the commercial businesses, for the acceptance of every type of payment, with commercial proposals differentiated according to the target and different customer needs.

**Digital Banking Services**

Offers all types of payment services to Banks, payment institutions and ELMIs: from clearing and settlement services to the management of collections and payments with related back office activities, from real time IBAN based payments (Instant Payments) to intermediation and regulation services, up to the world of traditional payments and services for the digitisation of Public Administration.

**Application outsourcing and innovative services**

Provides the banking, insurance and financial market with application and administrative services and solutions, System Integration projects, advisory services and training on anti-money laundering, compliance and obligations to the Supervisory Authorities.

**Customer Care Services**

In synergy with Help line and PayCare, Group companies specialised in contact centre services, it guarantees Partner Banks and their Customers with a continuous assistance service 24/7, 365 days a year, through all contact channels: telephone, e-mail, social network, virtual assistant.

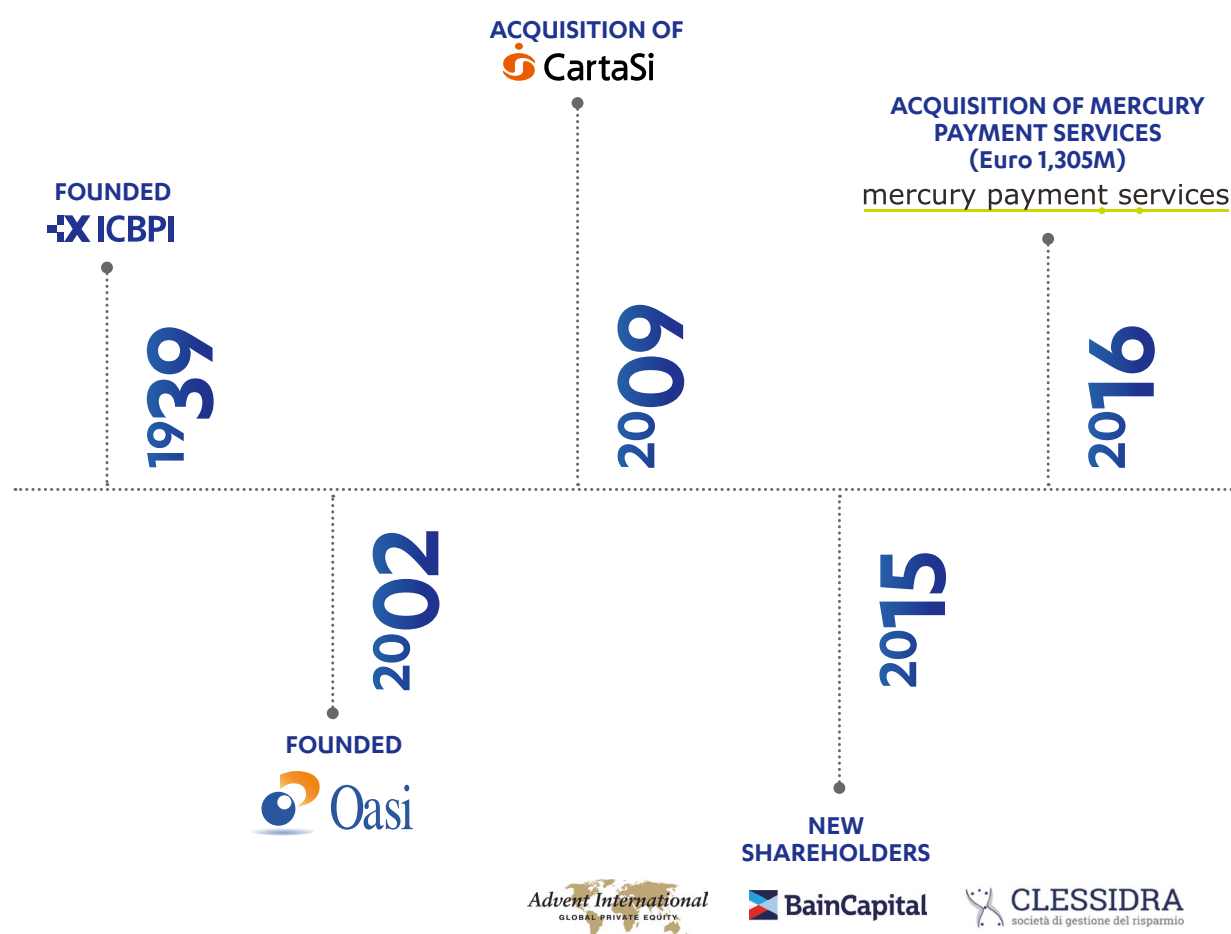
## The history of the Nexi Group

CartaSi and the ICBPI Group, that for over 70 years of history have supported its partner banks in promoting the development of payment systems, were the key players in an important organisational transformation and a radical change of identity in 2017, which led to the creation of the Nexi Group.

A change that aims to promote digital evolution and build the future of payments in Italy bringing simplicity, security and innovation for all.

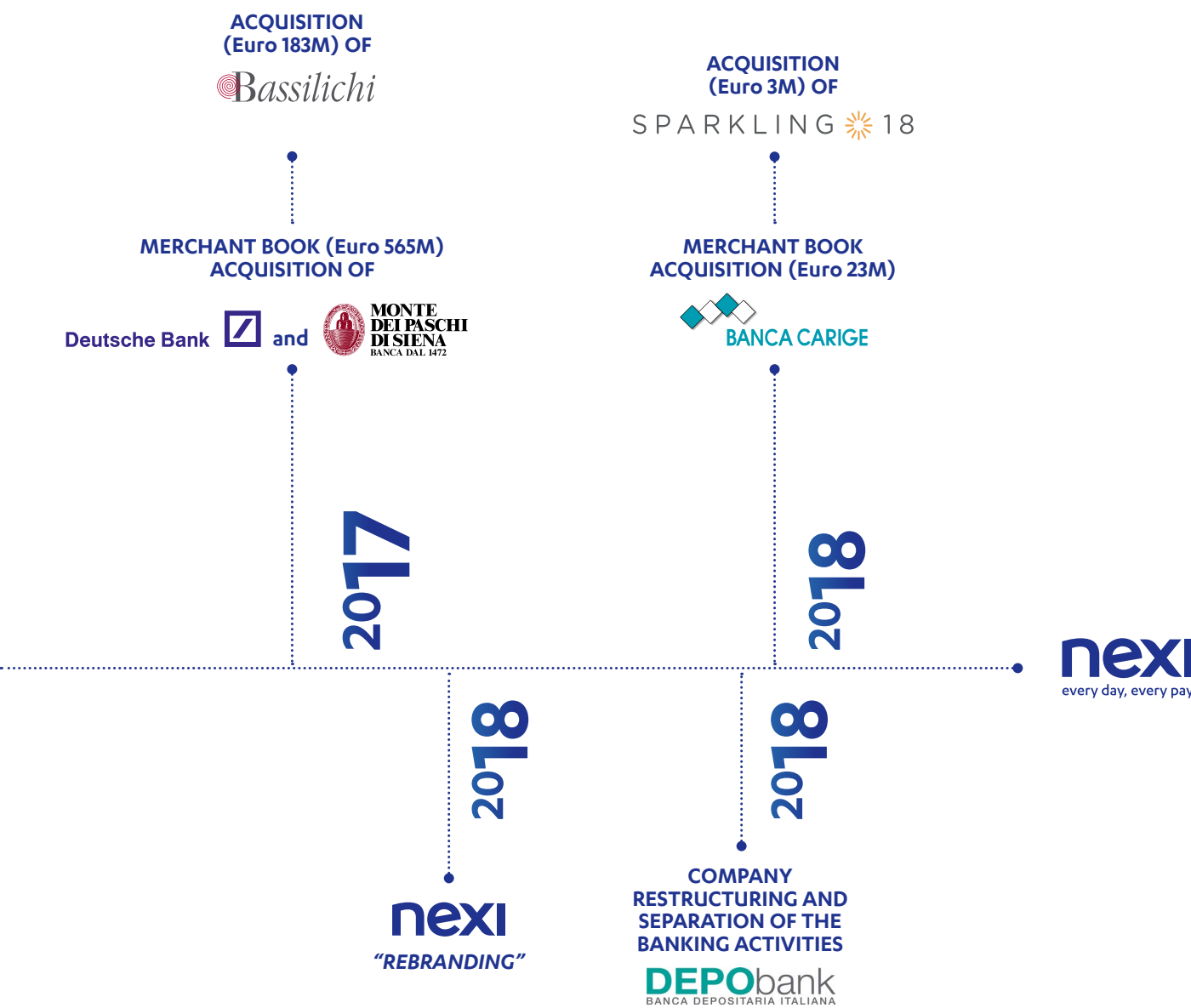
In 2018, in order to guarantee Partners with the best service, the right focus and all the necessary investments, a second phase of the Nexi Group restructuring was initiated, aimed at separating activities related to digital payments from strictly banking activities.

The new Group, with Chief Executive Officer Paolo Bertoluzzo at the helm, incorporates the following entities: Nexi Payments, Mercury Payment Services, Oasi, Help Line, PayCare, BassmArt and Moneynet.



The Nexi Group focuses more closely on its core business and on the Pay-Tech mission of banks, with the goal of developing the future of digital payments in Italy.

Banking activities were concentrated at DEPObank, the new Italian Depositary Bank created from the corporate separation and headed up by management and a Board of Directors completely separate and independent from that of the Nexi Group.



## Vision, Mission and Values

### Vision

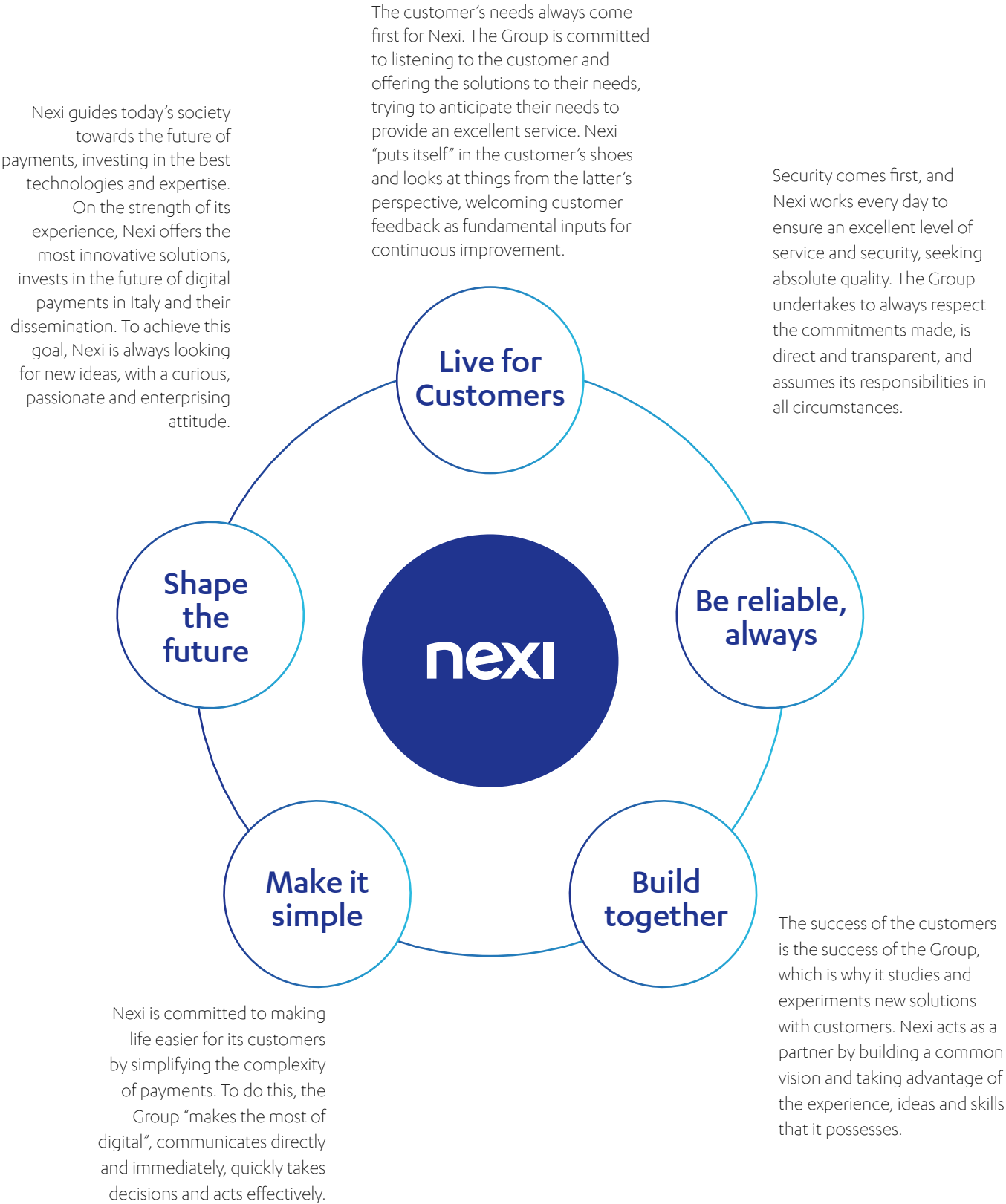
Nexi believes that cash has been outdated by technology and is convinced how people and businesses will pay and will collect only digitally, every day, for anything. All this because it is simpler, safer and more efficient, and above all because it brings growth and progress for everyone.

### Mission

Nexi aims to change the way people and companies pay and collect every day, to make all payments digital, so that they are simpler, faster and safer. Nexi wants to become a company of excellence, Italian but with an international profile, always oriented towards innovation and the customer, thanks to the commitment, skills and passion of its people.

### Values

In 2018, Nexi continued on its path of transformation, focusing on enhancing the perceived value of payments also in the daily experience, with the commitment to be a forward-looking company close to its customers. It is an important commitment on many fronts, which requires significant investments, expertise and specialisation, as explained in the new corporate values, with an important objective: being the Italian Pay-Tech company that supports Partner Banks, to help them grow together with the digital payments market and contribute to our country's development.







# 2.3

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GROUP RELATIONS SYSTEM AND IDENTIFICATION  
OF ISSUES RELEVANT TO THE NEXI BUSINESS

## GROUP RELATIONS SYSTEM AND IDENTIFICATION OF ISSUES RELEVANT TO THE NEXI BUSINESS

Stakeholder engagement represents an opportunity for Nexi to listen and communicate, essential to understand the level of satisfaction with their work. Through this process, Nexi identifies areas for improvement of the company's activities, in order to better develop relations with stakeholders.

The Group started a process for identifying stakeholders, also aimed at identifying the issues relevant to the preparation of the ESG Report, thanks to the involvement of the heads of the main corporate functions. In particular, the Group mapped its stakeholders, starting from those identified in the Code of Ethics, selecting



those that have significant interests, based on direct and indirect relationships, who are impacted by the Group's activities, or who directly affect or shape Nexi's activities. Nexi adopts diversified and flexible dialogue and involvement practices, in response to the different characteristics and needs of stakeholders. In addition, in its Code of Ethics, Nexi sets out the values and principles

on which its work is based, for example in relation to the local community and the environment, and which govern the relations with its stakeholders. In particular, in 2018, no particular critical issues emerged from each activity, but useful points for improving the innovation processes of products, services, operating and management models were highlighted.

### THE NEXI GROUP AND THE MAIN NATIONAL TRADE ASSOCIATIONS

**Within the relations system of the Nexi Group, membership of the national associations of the financial sector (including ABI, Conciliatore Bancario Finanziario, CTC, Assofin, Assbb, Assonebb) also plays an important role. For the Group, participating in trade associations is an opportunity for dialogue, discussion and collaboration in order to build relationships that can have positive repercussions on the country's economic and social system. The table below shows details of the main national trade associations of which the Nexi Group is a member:**

<b>ITALIAN BANKING ASSOCIATION</b>	Association that operates by promoting initiatives for the growth of the banking and financial system, in a competitive perspective consistent with national and the European Union legislation.
<b>BANKING/FINANCIAL OMBUDSMAN</b>	Association offering various ways to address and resolve issues that may arise between a customer and a bank or financial intermediary.
<b>CREDIT PROTECTION CONSORTIUM</b>	Non-profit consortium that manages a system of positive or negative type credit information (formerly known as the 'Centrale Rischio' - Central Credit Register) in order to reduce credit and operational risks for financial entities, banks and consumers.
<b>ITALIAN ASSOCIATION OF MORTGAGE AND CONSUMER CREDIT</b>	Association that brings together the main financial operators of the household credit segments and provides its members with a number of services involving coordination and representation and legal, fiscal and administrative information and advice on issues of common interest, through its internal committees and with the help of professionals and advisors.
<b>ASSOCIATION OF THE DEVELOPMENT OF BANK AND STOCK EXCHANGE STUDIES</b>	Association created in 1973 to stimulate interest of the academic and research world in economic, financial and, above all, banking studies, in order to increase the knowledge and professional development of operators in our country's banking and financial industry.
<b>NATIONAL ASSOCIATION FOR THE BANKING AND STOCK EXCHANGE ENCYCLOPEDIA</b>	Association for the development and dissemination of knowledge and banking and financial culture established in 2005 following the transformation of the Institute for the Encyclopedia of Banks and Borsa SpA, founded in 1972 by a Group of banks, including the Bank of Italy.

The Group carried out a materiality analysis in order to identify the sustainability priorities in line with the business strategy, and to define the contents of the ESG Report, in compliance with the reporting standards adopted, i.e. the GRI Sustainability Reporting Standards.

In terms of sustainability reporting, those aspects that have a significant impact on the economic, social and environmental performance of the Group and which could substantially influence the assessments and decisions of the stakeholders are considered material or significant. The materiality analysis process has made provision for a phase of identification of all the potential material aspects for the Nexi Group through the analysis of internal company documentation (in particular the Code of Ethics, internal procedures etc.), and external sources (such as analysis of the main trends in the sector), supported by a benchmark activity (based on the issues identified by the Sustainable Development Goals (SDGs) and research on the media and the web). At the end of this phase, a small group of issues were selected and then assessed by the first line company managers who assessed the individual issues both from the company point of view, as spokesperson for the Group's vision, and from the stakeholders' perspective.

Through this process, the following relevant topics have been identified:

- Management of employment drivers;
- Training and development of personnel;
- Staff appraisal and remuneration policies;
- Talent attraction and Employer branding;
- Promotion of health and safety at Group offices;
- Diversity and equal opportunities;
- Fight against corruption;
- Privacy and security of customer data;
- Continuous innovation;
- Access to services;
- Claims management;
- Marketing communications;
- Ethics, integrity and compliance.

The issues related to the environment and respect for human rights were not included among the material issues, in consideration of the territorial, regulatory and business context in which the Group operates. These issues are, nonetheless, addressed in the Document. As highlighted in the Code of Ethics, the Group:

- recognises the importance of respecting the environment for the benefit of future generations and, for this reason, is committed to implementing responsible practices in the management of its offices and sites;
- recognises the value of diversity and the promotion of equal opportunities in managing relationships with staff, customers and service providers. In particular, it undertakes not to tolerate any form of discrimination or violation of human rights.





# 2.4

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THE CORPORATE GOVERNANCE MODEL



# THE CORPORATE GOVERNANCE MODEL

The Corporate Governance model adopted by Nexi is based on the “traditional” organisational model, based on the presence of two bodies appointed by the shareholders: the administrative body (Board of Directors) and the Board of Statutory Auditors with administrative control functions. The external audit of the accounts is entrusted to a statutory auditing company, pursuant to the current relevant legislative and statutory provisions. In compliance with the regulations in force and the Company Articles of Association, the corporate bodies have been assigned the tasks and powers according to the most suitable structure to ensure the efficiency of the management and the effectiveness of controls.

## Board of Directors

The Board of Directors, currently made up of 12 members, elected by the Ordinary Shareholders’ Meeting, is the body responsible for managing the Group. The directors need not be shareholders, remain in office for a maximum of three financial years and their office expires on the date of the shareholders’ meeting called to approve the financial statements relating to their last year of office and can be re-elected.

The current Board of Directors of the Parent Company was appointed on 3 July 2018 according to the provisions of law and the Articles of Association.

As it is the body to which the strategic and management supervision functions are reserved, the Board is invested with full powers for the ordinary and extraordinary administration of the company, except for those reserved by law or by the Articles of Association to the Shareholders’ Meeting.

### CHAIRMAN OF THE BOARD OF DIRECTORS

The Chairman is elected from the members of the Board of Directors pursuant to art. 17 of the Articles of Association, if he/she has not already been appointed by the shareholders’ meeting. The Chairman convenes and chairs the BoD, establishing the agenda and ensuring that matters of strategic importance are prioritised. The Chairman does not have management powers and therefore does not have an operational role. Currently there is also a Deputy Chairman elected by the Board.

### CHIEF EXECUTIVE OFFICER

The management of Nexi is entrusted to the Chief Executive Officer (CEO), who coincides with the General Manager. The CEO, in line with the guidelines established by the Board of Directors, is responsible for directing and coordinating the various company components for the purposes of implementing the Group’s corporate business plan. The CEO guarantees the coordination and the unitary management of the companies registered in the Group’s scope.

Without prejudice to the legal limits, the Board of Directors is responsible for decisions relating to:

- mergers and split-offs;
- the opening or closing of secondary offices;
- the transfer of the company’s headquarters in the national territory;
- indication of which directors have the power of legal representation;
- reduction of capital following withdrawal;
- adjustment of the articles of association into line with the regulatory provisions.



The Board of Directors is also granted the exclusive responsibilities expressly provided for in the Articles of Association, including the determination of the unitary business plan of the Group and the determination and criteria for the coordination and management of the Group companies.

Nexi directors are appointed by the shareholders' meeting from those that meet the requirements set out in the applicable provisions and the company Articles of Association, based on which, it must guarantee, within the board, an adequate degree of diversification, also in terms of expertise, experience, age, gender and national and international protection, suited to the company's operations. By contrast, the members of the internal board committees are appointed by the Board on the basis of the respective regulations governing their composition, duties and functioning.

In general, the legal provisions and those of the articles of association are observed for the appointment, revocation and replacement of members of the corporate bodies.

In 2018, the Board of Directors in office, following the renewal of the corporate bodies in July (with subsequent additions and/or replacements), carried out evaluations for the purpose of finalising a process of assessment of all the necessary requirements as regards suitability for office. As regards the directors, the experience of the candidates was also examined in relation to the company's operational requirements.

The stated characteristics of the Directors were appropriately diversified and suitable also to ensure a properly balanced make-up of the internal board committees. In 2018, the Corporate Bodies took part in in-depth training sessions on the Business Plan, but no training was provided on anti-corruption and workplace health and safety, in which the majority of members of the Board of Directors had taken part in 2017. In addition, as a result of the restructuring of the Nexi Group, the Model 231 was updated, and on the approval of the new 2019 Model, refresher training sessions will be organised during the year.

In order to more effectively fulfil the regulatory obligations and support the decision-making processes of the Group, the Board of Directors has established the following joint bodies with their own regulations: Strategic Committee, Risk Committee (with supervision tasks for themes linked to Sustainability), Remuneration Committee and Related Parties Committee. The members of the internal board committees are appointed by the Board on the basis of the respective regulations governing their composition, duties and functioning.

## Board of Statutory Auditors

The Board of Statutory Auditors is the body with control functions. It is made up of three statutory auditors and two substitute auditors, elected by the Shareholders' Meeting in April 2018 among persons that meet the requirements of integrity, professionalism and independence.

The powers, duties and term of office are those established by law. The Board of Nexi also performs the role of Supervisory Body 231 of the Parent Company. The Board of Statutory Auditors also verifies the correct exercise of strategic and management control performed by the Parent Company on the Group companies and operates in close collaboration with the corresponding bodies of the subsidiaries.

In carrying out its duties, the Board of Statutory Auditors uses the information flows coming from internal control functions and structures, engaging in a continuous reciprocal exchange of information that is relevant for the performance of their respective duties. The Board is also informed of the activities carried out by the Risk Committee through the participation of the Chairman of the Board of Statutory Auditors or an auditor appointed by said Board in the Committee's meetings.

Given that, as per the regulatory provisions, the audit is assigned to an independent auditor, the Board of Statutory Auditors retains tasks connected with evaluating the adequacy and functionality of the accounting structure, including therein the associated information systems, in order to ensure that company events are correctly represented.

## COMPOSITION OF THE BOARD OF DIRECTORS AND THE INTERNAL BOARD COMMITTEES DURING 2018

Composition of the highest governance body and its committees	Board of Directors	Strategic Committee	Risk Committee	Remuneration Committee	Related Parties Committee
<b>Number of directors</b>	<b>12</b>	<b>8</b>	<b>3</b>	<b>4</b>	<b>3</b>
of which executive	1	1	-	-	-
of which non-executive	11	7	3	4	3
of which independent	-	-	-	-	-
of which women	1	-	1	1	1
of which men	11	8	2	3	2
of which <30	-	-	-	-	-
of which 30-50	7	5	3	3	1
of which >50	5	3	-	1	2



# 2.5

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INTERNAL CONTROL SYSTEM, COMPLIANCE AND  
RISK MANAGEMENT

# INTERNAL CONTROL SYSTEM, COMPLIANCE AND RISK MANAGEMENT

## The Internal Control System

The Internal Control System is a process targeted at direction and strategic, managerial and technical-operational control activities, aimed at providing reasonable assurance on the achievement of corporate and Group objectives. The system is composed of a set of rules, procedures, organisational structures and resources that aim to pursue the company strategies and meet the following objectives including the effectiveness and efficiency of company processes, protection of the value of assets and safeguarding against financial losses, the reliability and integrity of the accounting and management information and compliance with the laws and regulations in force, as well as with the internal policies, plans, regulations and provisions.

In order to ensure that the aforementioned objectives are pursued, all Group companies are required to:

- ensure the necessary separation between the operating and control functions, avoiding conflicts of interest in the assignment of responsibilities;
- identify, measure and adequately monitor all risks assumed or that may be assumed in the different operating segments;
- establish control activities at every operating level and identify tasks and responsibilities;
- ensure reliable information systems and suitable reporting procedures at the different management levels to which control functions are attributed;
- guarantee that the anomalies identified by the operating units, the internal audit function or other control supervisors are promptly brought to the

knowledge of the appropriate levels of the company and dealt with immediately;

- allow the registration of all management events and, in particular, all transactions with an adequate degree of detail, ensuring they are correctly attributed from a time point of view.

The model adopted by the Nexi Group requires the Parent Company Nexi SpA to carry out the management, coordination and control activities vis-à-vis Group companies also through the monitoring of an internal control system suited to controlling the set of risks to which said Group is exposed. In said domain, the Parent Company's Board of Directors is responsible for defining the guidelines of the Internal Control and Risk Management System, in compliance with the imperative regulations applicable to supervised companies and guarantee control of the Group's overall exposure to business risks. In addition, it is informed by the Internal Audit Function of the Parent Company - at the same time as the Boards of Directors and the Boards of Statutory Auditors of the subsidiaries - in relation to significant irregularities, or anomalous or problematic situations, that come to light as a result of the controls by the organisational units of the subsidiaries.

The competence and primary responsibility for supervising the functionality of the Internal Control and Risk Management System of each of the subsidiaries (design, management and monitoring) rest with the Boards of Directors and the management of the individual companies. In said context, the subsidiaries are responsible for implementing the risk strategies and management policies, they provide reports to the Parent Company function, defined from time to time on the basis of the Group's requirements, on

a periodic basis or on request, in order to ensure uniform management of risks at consolidated level and, lastly, they arrange for corrective measures to remove or mitigate the anomalies and problems identified, in line with any guidelines received from the Parent Company.

With particular reference to the Supervised Companies Nexi Payments, Mercury Payment Services and MoneyNet, the Internal Control System is structured into three different levels of control.

1. **Line controls (or first-level controls)**, aimed at ensuring the correct performance of the operations connected with the provision of payment services and the issue of electronic money. These are controls performed by the operating structures, in compliance with the risk management process, which identify, measure or monitor and manage the risks deriving from ordinary company activities.
2. **Controls on risk management and compliance with the regulations (or second-level controls)**, which define the company risk measurement methodologies, verify compliance with the limits assigned to the operational functions and ensure the consistency with the risk-return objectives, as well as compliance with the rules. These controls are entrusted to the Risk Management and Compliance function, which incorporates the Anti-Money Laundering function and the Data Protection Officer (DPO), which operate in relation to the regulatory areas within their competence.
3. **Internal audit (or third-level controls)** in order to evaluate the completeness, functionality and adequacy of the internal control system <sup>1</sup> envisaged periodically depending on the nature and intensity of the risks. The activity is conducted by the Audit Function, different and independent from the operating functions, also through on-site checks.

## The key players of the Internal Control System

The responsibility for the Internal Control System is entrusted to the **Board of Directors** of each Nexi Group company, which has the task of identifying the degree of risk propensity chosen and, in this framework, for defining and approving strategic guidelines and risk management policies. As well as the strategic role in defining the ob-

jectives, the Board of Directors of the Group companies verifies, at least once per year, the adequacy of the organisational structure and the clear allocation of internal responsibilities.

- The **Chief Executive Officer (CEO)** <sup>2</sup> is responsible for managing and implementing the risk policies approved by the Board of Directors. It also has a comprehensive overview of all business risks, including possible risks of malfunctioning of the internal measurement systems and clearly defines the tasks and responsibilities of the company functions to avoid conflicts of interest. The CEO ensures that the procedures are communicated to the personnel concerned and checks that the Corporate Bodies have been promptly informed.
- The **Board of Statutory Auditors** of each Group company is the body with the control function, which oversees compliance with the law, regulations and Articles of Association, compliance with the principles of correct administration and, in particular, the adequacy of the organisational and accounting structure adopted and its correct functioning. It also evaluates the adequacy and functionality of the Internal Control System and the main company organisational areas and performs the functions of the Supervisory Body pursuant to Legislative Decree 231/01.
- The **Risk Committee** is responsible for supporting the Parent Company Board of Directors on internal risks and controls, paying particular attention to all those instrumental and necessary activities so that the Board can correctly and effectively determine the risk governance policies. It expresses a prior opinion on the requirements, nominations, changes in remuneration of the Head of the Audit Function and a prior opinion on the appointment and, if necessary, on the revocation of the Heads of the "Audit", "Compliance", "Anti-Money Laundering" and "Risk Management" Functions. Together with the Internal Audit Function, it is a point of contact between the Parent Company and the subsidiaries to facilitate the management of relevant risks at consolidated level.

The structure of the Internal Control and Risk Management System has seen the creation, at the Parent Company, of an **Internal Audit** Function through the separation from Nexi Payments in order to coordinate and improve the functioning of the controls at Group level, without prejudice to the establishment of the same function also at the subsidiaries <sup>3</sup>. The Internal Audit Function is responsible for verifying the level of adequacy and effectiveness of the Internal Control System of the Group as a whole, including controls on the information system, and the effective compliance with the provisions of the law, Articles

<sup>1</sup> The internal audit also includes verification of the information system.

<sup>2</sup> At Mercury Payment Services, this role is fulfilled by the General Manager.

<sup>3</sup> At Mercury Payment Services, this role is fulfilled by the Internal Audit Function separate from Nexi Payments.

of Association and the supervisory, regulatory and internal provisions. It also evaluates the company's exposure to risks, carries out on-site and distance checks on the regularity of company business activities, including those outsourced, and draws up recommendations based on the results of the audits performed. It reports, where necessary, its activities to the Board of Directors, the Board of Statutory Auditors and the Risk Committee of the Parent Company and the subsidiaries and, lastly, verifies the compliance of the conduct of the individual companies with the Parent Company guidelines.

The **Compliance & AML** (Anti-Money Laundering) Function is present in each of the Group Supervised Companies and performs the function of compliance control. Its objective is to ensure compliance of corporate operations with the regulations, including those of self-regulation and supervision, by identifying and updating the applicable regulatory areas and reports directly to the Board of Directors.

The activities of the Compliance & AML Function are primarily centred on the ex-ante and continuous controls implemented, of compliance of operations with the legal, supervisory and self-regulation provisions. The ex-post checks performed are targeted at verifying the correct acknowledgement of the regulations in the processes adopted by the Nexi Group. In particular, it manages the risk of non-compliance by carrying out ex ante controls, ongoing and, if necessary, ex post, if it is necessary to verify the correct acknowledgement of the legislation and it oversees, according to a risk-based approach, the management of non-compliance risk with regard to all company activities.

The Function verifies that the internal procedures are suitable for preventing said risk as well as the effectiveness of the associated organisational adjustments. It also fulfils the functions of evaluation of compliance of the contractual clauses, communications to customers and to the Supervisory Bodies and innovative projects with the applicable regulations. In collaboration with the People Development Service, it trains personnel on the risk of non-compliance and provides assistance to the other Company Functions.

Within the Compliance Function, provision is also made for the **Anti-Money Laundering Function**, as the function tasked with preventing and counteracting money laundering and financing of terrorism. The Function adopts the relevant policies and supports the Corporate Bodies and top management in identifying the Internal Control System for guaranteeing adequate monitoring of risk.

The Head of the Compliance Function therefore also covers the roles of Head of Company Anti-Money Laundering and of Company Anti-Money Laundering Delegate responsible for reporting suspicious transactions pursuant to art. 42 of Legislative Decree 231.

Said Function also incorporates the figure of the **Data Protection Officer (DPO)**, entrusted with the task of supervising the observance of the General Data Protection Regulation (known as GDPR) of 2016, and any other applicable provision relating to the protection of physical persons with regard to the processing of personal data; the DPO, in particular, must be involved in all matters concerning the protection of personal data, provides advice on the obligations and on respect for the applicable legislation, must provide opinions regarding the data protection impact assessment and, lastly, acts as

## OPERATIONAL PHASES OF THE RISK OF NON-COMPLIANCE MANAGEMENT PROCESS



a contact point for the Italian Data Protection Authority and interested parties.

The operating phases of the compliance risk management process are reported in the figure on page 140.

Monitoring and control of Group risks are ensured by the **Risk Management** Function, which collaborates in the definition and implementation of risk governance and management policies, and ensures that the relevant Supervisory obligations are fulfilled in compliance with the provisions issued for the Group's Supervised Companies.

The Risk Management Service's activities are focused on the measurement, monitoring and reporting of the risks connected with activities and it also supports the governing bodies in determining the operating limits for the assumption of the various types of risk and for the definition of risk management and measurement policies, through the adoption of a Risk Policy. When necessary, it carries out an independent assessment of the updating of the Policy and presents it to the Corporate Bodies.

The Risk Management Function is focused on the measurement, monitoring and reporting of risks connected to business activities and verification of the adequacy of the control of the different types of risk, coordinating with the Compliance & AML Function for reputational risks.

Lastly, a fundamentally important role is played by the **Heads of the Organisational Units and Subject Matter Experts** as the last recipients of the execution and performance of the line controls to oversee the company risks, and which are key players in the system of information flows targeted at functioning of the Internal Control System.

## Main risks identified in the non-financial area

The Group risk management model includes the identification, evaluation and management of the risks generated and incurred by Nexi, described hereunder.

### Risks related to personnel management

The Nexi Group identifies and monitors both risks related to health and safety and those related to personnel management.

With reference to the first area, Nexi's commitment to the protection and promotion of health and safety in the workplace translates to careful risk management through a continuous analysis of the critical issues and the adoption of a preventive approach, which consists of investments for the safety of the offices and training programmes.

As regards the second area, the Group has identified the risk related to the definition of a common identity ("one nexi"). To this end, a human resources common management system (broadbanding) and a performance evaluation system based on the 5 Group values have been defined. In addition, with the same aim to build a common identity and allow an integration among the different individuals within the company, the Group has committed to invest on synergic and interdisciplinary employees' training and engagement programmes, developing a continuous process of sharing of experience between those who have been working for Nexi for many years and the new skills of newly hired staff.

### Risks related to reputation, conduct and IT risk

The Nexi Group places huge importance on the relationship of trust established with its customers, based on correctness and transparency. Nexi is aware that complete, clear and correct information is above all able to guarantee customer satisfaction and, at the same time, to prevent the risk of disputes with customers and loss of reputation, as well as the risk of findings and sanctions by the competent Supervisory Authorities. In this regard, it should be pointed out that the Bank of Italy issued Measure of 9 February 2011 on the transparency of banking and financial transactions and services, targeted at ensuring the correctness of the relations between intermediaries and customers and defining standards for the drafting of the information documents prepared for customers.

The Measure also introduces organisational and control obligations for respect for the regulations governing transparency and correctness in relations with customers.

The Nexi Group is guided by these principles of transparency and correctness of conduct in each phase of the relationship with its customers, from the publication of all constantly updated pre-contractual information documents on the company website, to the prevention of disputes through adequate organisational controls.

In this context of a correct and transparent relationship with customers, not only issues related to reputational risk should be considered, but also those regarding conduct risk and IT risk.

## Reputational risk

Reputational risk is defined by the Supervisory Authority as the current or prospective risk of a decrease in profits or capital deriving from a negative perception of the Company's image by customers, counterparties, shareholders, investors or Supervisory Authorities.

In relation to the activities carried out by the Nexi Group, this risk may arise when the reputation the Nexi Group enjoys is threatened or weakened due to hazardous conduct, choices and/or strategic initiatives, unclear management policies and any other factors that may be perceived negatively by various stakeholders, causing (directly or indirectly) a fall in profits and / or capital.

In reference to reputational risk, the role that the Nexi Group has historically taken on in relation to specific engagements in favour of the Banks and that the Supervised Companies perform vis-à-vis the Visa and Mastercard International Networks is particularly important, given the role of system leader in the management of payment cards on behalf of the participating Banks.

This risk materialises in the potential deterioration of the reputation perceived by the stakeholders relevant to the Nexi Group, represented by the customers (Institutional and Corporate), the Control Bodies (Supervisory Bodies, International Networks, Regulatory Bodies) and the Shareholders.

All actions aimed at ensuring, within the Internal Control System, the strict observance of the internal and external regulatory provisions of self-regulation (e.g. codes of conduct and code of ethics) address reputational risks, as well as adequate training of personnel to ensure the understanding and knowledge of the aforementioned requirements.

Therefore, the Nexi Group has developed an integrated framework for the assessment and control of Reputational Risk, which specifies the key principles for identification, monitoring and management of reputational risk, consistent with regulatory requirements. The reputational risk management system allows the Supervised Companies to generate useful indications regarding their exposure to the risk and, consequently, to identify any actions to be implemented to mitigate it.

## Conduct risk

Conduct risk is the current or prospective risk of losses resulting from cases of inappropriate offer of financial services, including cases of inadequate conduct (malice or negligence) on the part of the Supervised Companies. Conduct risk, as a sub-category of operational risks and as part of legal risk, can derive from many operational processes and from products.

The European Banking Authority (EBA) provided a list of risk cases, such as fraudulent sale of products, the presence of conflicts of interest in the conduct of operations, manipulation of reference interest rates, of exchange rates or other financial instruments or indexes to improve profits, pushed cross-selling of products to private customers, the presence of barriers on the possibility of exchanging a financial product during its life cycle or transferring financial services to other providers, automatic product renewals and wrong handling of customer complaints.

To monitor conduct risk, the Nexi Group has developed a special framework that is an integral part of the methodologies for the assessment and control of Operational Risks and which aims to avoid significant economic losses and reputational impacts for the Company, in terms of penalties, legal costs, impacts on market shares.

The effectiveness of the framework is guaranteed by the active involvement of management, the Business Units and the internal control functions, where present.

## IT risk

Given the intrinsic characteristics of its business, Nexi has identified one of the main risks that may have an impact on the customer, the IT risk associated with on-line payments. For said reason, the Group attaches huge importance to the company information system, monitoring it carefully, as a cornerstone of the main business processes and a key instrument in reaching the company objectives.

In particular, in relation to the specific characteristics of its transactions and the context in which it operates, the Nexi Group has defined suitable guidelines governing the security of web-based payments, acknowledging, in that regard, the provisions of PSD2 <sup>4</sup> legislation on payment services as well as the GDPR governing personal data protection.

<sup>4</sup> The Payment Services Directive, PSD2 is a European regulation on payment services that includes the strengthening of the customer authentication requirements for on-line payments.



In addition, the Nexi Group has developed an Information Security Management System (ISMS), whose objective is the protection of corporate information assets through the adoption of a series of technological, organisational and procedural measures, aimed at ensuring the confidentiality, integrity and availability of said information and commensurate to the criticality and value of the information.

The Information Security Management System, based on the ISO standards of series 27000, includes Policies, Regulations, Operating Instructions, Procedures and Technical Documentation, created and maintained by the organisational structures set up to oversee the relevant areas, which define the planning and implementation activities, define the roles and responsibilities, and establish the processes and conduct and controls for the automatic processing of information. The Information Security Management System is integrated with the IT risk analysis process, which represents the method by which the effectiveness and efficiency of the controls applied to ICT resources during the services life cycle is assessed. The results of the IT risk analysis process help to continuously improve the System, thanks to the adjustment of controls and the contribution to the overall evaluation of company risks.

## Corruption risk

Banks play an important role in preventing corruption, which is a significant phenomenon in Italy, despite the introduction of anti-corruption legislation in 2012 aimed at strengthening prevention policies. Corruption, in addition to being one of the main predicate offences to money laundering, represents a major obstacle to the sustainable development of companies and countries, as it slows down economic growth, hinders deserving individuals,

distorts competition between companies and can cause legal and reputational risks for companies.

The types of crimes related to corruption that may affect the Group are listed in the Penal Code and in Legislative Decree 231/2001 on the administrative responsibility of companies and include crimes committed in relations with the Public Administration (Article 25, Legislative Decree No. 231/01); Corruption in performing the function (Article 318 of the Italian Penal Code); Corruption due to an act contrary to official duties (Article 319 of the Penal Code); Corruption in judicial documents (Article 319-ter of the Penal Code); Instigation of corruption (Article 322 of the Penal Code); Extortion (Article 317 of the Penal Code); Illicit incitement to give or promise benefits (art. 319 quarter of the Penal Code); Corruption of a person in charge of a public service (Article 320 of the Penal Code); embezzlement, illegal abuse of position, corruption and instigation to corruption of members of the bodies of the European Communities and officials of the European Community and foreign States (Article 322-bis of the Penal Code); Corporate offences (Article 25-ter, Legislative Decree No. 231/01; Corruption between individuals (Article 2635, 3rd paragraph of the Italian Civil Code).

The Nexi Group ensures full cooperation with the competent Authorities in the fight against all crimes pertaining to its scope of activity, with particular reference to corruption, money laundering and terrorism financing. With regard to the crime of corruption, in implementation of the provisions of Legislative Decree 231/2001, a specific Organisational, Management and Control Model was adopted (Model 231/2001), which establishes rules and procedures to prevent the offences set forth in the Decree from being committed. The Supervisory Body was identified in the Board of Statutory Auditors, to guarantee the proper functioning and constant updating of the Model, and of reporting and sanction systems.



# 2.6

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RESPONSIBLE BUSINESS MANAGEMENT IN NEXI

## RESPONSIBLE BUSINESS MANAGEMENT IN NEXI

The Nexi Group Companies have developed and adopted the Code of Ethics in order to clearly and transparently define the set of values which provide the basis for carrying out its business activities. It contains references and guiding principles, complementary to legal and self-regulation obligations, which guide the conduct on a continuing basis and consistency with the Group's mission and its fundamental values. The Code promotes and guides the conduct of all its recipients: Directors, Statutory Auditors, employees, temporary workers, consultants and associates in any capacity, in addition to agents, prosecutors and any other subject that can act in the name and on behalf of the Group.

An update of the Code of Ethics was launched in 2018 at the same time as the update of Model 231, whose conclusion is expected in 2019, by an intercompany work group and with the full involvement of the Boards of Directors and the Supervisory Body, in order to make the update consistent and uniform at Group level.

The Code of Ethics guides all the aforementioned subjects according to the following main areas.

**Human resources:** in this context the Code of Ethics establishes the principles of protection and promotion of employees, such as the application, in compliance with criteria of objectivity, competence and professionalism, of the principle of equal opportunities without favouritism with the aim of ensuring the best existing skills on the labour market in the phase of search and selection of personnel; the promotion of corporate plans, adequate training and development programmes aimed at promoting the expansion of each person's skills and competences on the basis

of merit criteria; and the prevention of any form of harassment - psychological, physical and sexual - towards employees. Furthermore, the Group does not accept any discrimination based on age, state of health, gender, religion, place of origin, political and cultural opinions.

**Health, safety and the environment:** the Group undertakes to create and manage suitable environments and workplaces from the point of view of the health and safety of employees, in compliance with the relevant national and international directives. In particular, it promotes the creation of safe and healthy working environments and working conditions that are respectful of individual dignity as elements to promote the physical and moral integrity of employees and associates. The Group also favours the creation of a work environment in which personal traits and positions cannot give rise to discrimination and can promote the peace of mind of all employees and associates. Furthermore, in the Code of Ethics, the Group reaffirms its commitment to responsible use of resources and for sustainable development, respecting the environment and the rights of future generations.

**Conduct in business activities:** the Code also regulates the Group's relations with the various stakeholders, including shareholders, customers, service providers, the Public Administration, the competition and the community, which must be based on compliance with the applicable laws and regulations, including those of confidentiality and protection of personal data, anti-money laundering, anti-corruption, antitrust and management of privileged information. In regards to service providers, Nexi, in order to ensure compliance of the latter with its own values, requires each of them to sign the Code of Ethics.

## Business ethics and the fight against corruption

The Nexi Group, as stated in the Code of Ethics, condemns any form of corruption without any exception, active and passive, even if carried out against private individuals and promotes behaviour that is inspired by criteria of legality, transparency, common sense and personal ethics, in line with company values and procedures and with the awareness of not exposing the Group to regulatory and reputational risks. Therefore, it forbids any form of favouritism aimed at inducing a Public Official to improperly perform any function of public nature in a manner inconsistent or contrary to the duties as an official; improperly and unduly influence the work of a private counterparty; influence an official act (or an omission) by a Public Official or any decision in violation of an official duty and in any case, violate the applicable laws, in particular for the benefit or in the interest of the Company. In addition, the Group prohibits not only the payment and the promise of money, but also any offer of gifts, contributions in kind, such as sponsorships, jobs, disclosure of confidential information on financial instruments able to influence the market and other advantages or other benefits.

In particular, the companies of the Nexi Group have carefully and effectively managed the issue of prevention and fight against corruption and adopted an Organisational and Control Model pursuant to Legislative Decree 231/2001 (hereinafter also "Model 231").

A project for harmonisation between the various models is currently in progress, which also involved the main Group Companies. The Model 231 is based on an analysis of the company's operations, constantly updated, carried out with the aim of identifying the areas potentially affected by the types of crime, as defined by the regulations, which require a strengthening of the internal control system. The identification of the areas exposed to risk of crime is carried out through Self-Assessment assisted in order to:

- inform and make all the staff of the Companies of the Group aware that any illegal behaviour, even if aimed in good faith at improving company results, may result in criminal sanctions for the individual and pecuniary and prohibitive sanctions for the company;
- share and formalise the need for correct behaviour in the conduct of business by all the subjects that work for Group Companies and the full compliance with current legislation;
- introduce specific control, monitoring and sanction procedures and measures, effectively adequate to counter the offences pursuant to Legislative Decree 231/2001.

In the context of Self-Assessment aimed at identifying areas at risk of the crime of corruption, the macro activities exposed were identified and the adequacy of the control protocols to monitor the correct execution of the process concerned was verified.

Compliance with the Code of Ethics and Model 231 is monitored by the Supervisory Body, established at the individual Group Companies and identified in the Board of Statutory Auditors, to guarantee the proper functioning and constant updating of the Model. This Body carries out specific verification and in-depth analysis activities, also initiated on the basis of reports relating to conduct that does not comply with the principles of conduct established by Nexi. The results of the audits carried out can lead to sanctions which, depending on the seriousness identified, can lead to the termination of the professional relationship. The Supervisory Bodies of the individual Group Companies prepare and implement the annual programme of supervisory activities in this area through the Audit Department of the Parent Company.

The audit activities are based on processes registered at the company and their relevance in terms of risk.

The catalogue of company processes does not specifically identify a process relating to the risk of corruption, therefore, each audit activity may identify, where pertinent, anomalies connected to said risk. No anomalies were identified in 2018 in that regard. During 2018, there were no instances of corruption within the Group and no reports in this regard were brought to the attention of the Internal Audit Function.

In 2015, Model 231/2001 was updated in compliance with the new provisions regarding "self-money laundering", a case with characteristics similar or relating to that of the crime of corruption. In addition, during 2018, an update process of the 231 Organisational Model was launched (which will be concluded in 2019) in order to re-assess the risk of exposure to the crime pursuant to Legislative Decree 231/2001, and, if necessary, strengthen the control protocols provided for in company regulations. All activities and organisational structures are subject to audits related to the implementation of the 231/2001 Model, while the Supervisory Body reports to the Corporate Bodies on its adoption and effective implementation, supervision of its operation and management of its updating.

According to the limits of the amount provided for by the relevant Legal provisions, all transactions are subject to monitoring by dedicated IT applications, which support the identification of evidence potentially connected to money laundering or other illegal activities, including corruption. The situations flagged are subsequently subject to evaluation by the Organisational Units.

The reporting of particular situations that do not comply with the Code of Ethics, both by employees and external subjects, is considered by Nexi as a relevant issue. Any employee who, in good faith, reports abnormal behaviour, alleged or actual violations of the Code, is protected by the Group against any form of retaliation, discrimination or penalisation. However, they are without prejudice to the legal obligations and the safeguarding of the rights of the Company or of the persons wrongly accused and/or accused in bad faith.

In this regard, dedicated information channels are available for facilitating the flow of information and a whistleblowing system is active at Group level, with the aim of accurately managing and ascertaining any unlawful conduct - object of reporting - with respect to the rules, regulations and internal procedures, adopting the appropriate measures and, at the same time, ensuring the possibility of anonymity of the reporting entity. In particular, the Group activated a telephone line dedicated to reporting, available 24 hours a day, 365 days a year, equipped with a permanent answering machine that keeps track of the reports received.

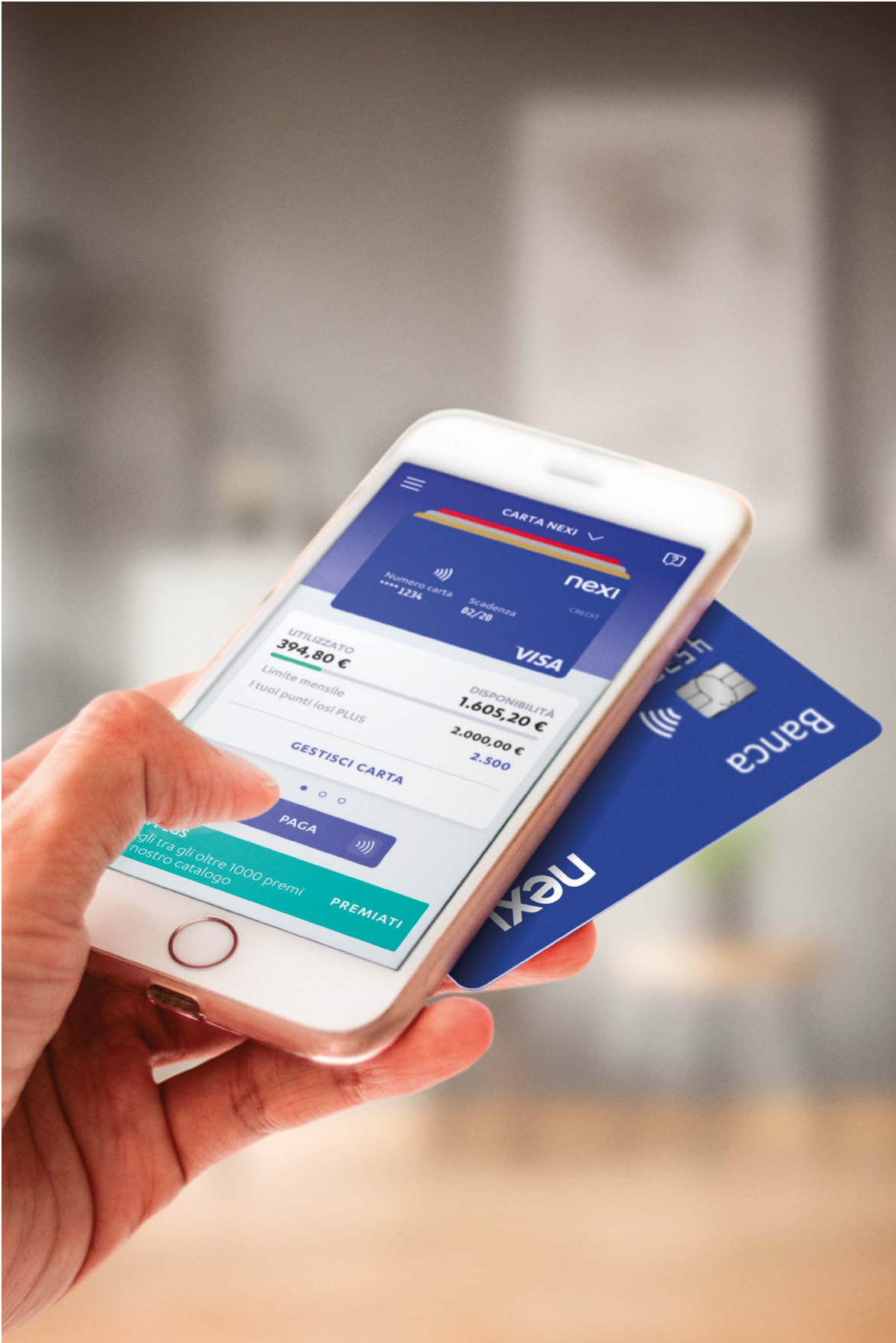
As an alternative channel, and only in case of impossibility to use the telephone system, it is possible to send the message by ordinary mail / internal mail. The temporary Head of the Compliance & AML Service was identified as the person responsible for the Internal System, targeted at reports from personnel and is responsible for ensuring the correct performance of reporting activities. Exclusively in the case in which the report concerns the temporary Manager of the Compliance Department,

this role is assumed by the temporary Manager of the Audit Department.

As regards whistleblowing, on the basis of the reports received, the System Manager periodically prepares a report on the correct functioning of the internal reporting system, containing the aggregate information on the results of the activities carried out during the year following the reports received. The report is approved by the Board of Directors and is published on the Group's intranet. An additional internal mechanism for monitoring compliance with the legislation was adopted by the Nexi Group for the reporting by personnel of acts or events which may constitute a violation of the Group's activity. No reports were received by the Compliance Department in 2018.

The Model 231 is brought to the attention of the recipients through specific communication and information activities. The documentation used and produced for the purposes of Model 231 is filed by the Supervisory Body through the Head of the Audit Department, which ensures immediate availability, in compliance with the legislation regarding the processing of personal data.

The communication and training activity, diversified according to the recipients to whom it is addressed, is, in any case, based on principles of completeness, clarity, accessibility and continuity in order to ensure the various recipients are fully aware of those company provisions that they are required to respect and the ethical rules that must guide their behaviour.







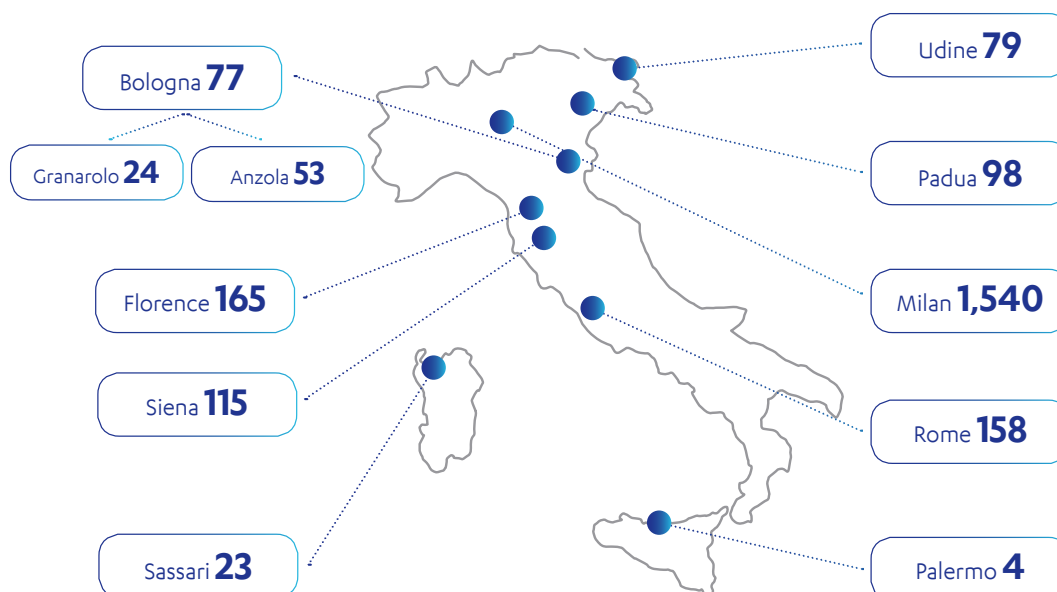
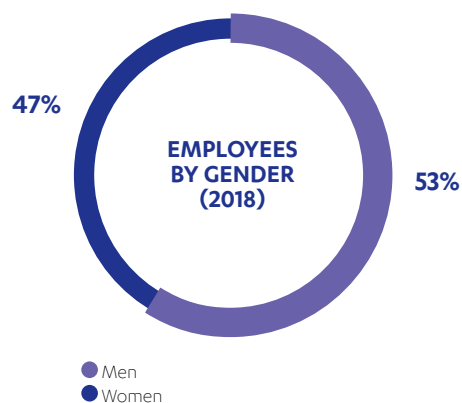
# 2.7

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HUMAN CAPITAL

# HUMAN CAPITAL

Nexi believes in enhancing technological development through human capital, fully aware that the centrality of human resources is fundamental for growth, and the evolution and sustainability of the business. Thus, it has grown in 70 years, expanding even beyond national borders, and has become part of a Group that looks to the future and that builds it with vision, awareness and responsibility. Today, the Group employs 2,259 people <sup>5</sup> (47% women and 53% men), almost all of them hired on permanent contracts, who work every day with commitment, competence and passion. The average age of Group employees was approximately 44.



<sup>5</sup> In addition to the employees to which reference is made, the total workforce as at 31 December 2018 was augmented by 9 associates and 24 employees seconded from DEPObank for a total of 2,292 employees.

At the base of the successes it achieves, with and for its customers, and the value it generates for its stakeholders, the Group boasts a dynamic team of people who are prepared for the challenges that the domestic and international market poses on a daily basis.

Alongside people with a solid experience in the payments market, it combines the skills of managers and specialists from excellent companies in the world of innovation, services and technology.

The Nexi Group is therefore constantly looking for highly specialised people in banking and financial services and, at the same time, young graduates, motivated to enrich their university preparation with a qualifying and constructive work experience.

Total workforce by gender (no.)	2018		
	Men	Women	Total
<b>Employees</b>	<b>1,208</b>	<b>1,051</b>	<b>2,259</b>
<b>Other associates:</b>	<b>14</b>	<b>19</b>	<b>33</b>
Para-subordinate workers	14	19	33
Partnership agreements	-	-	-
<b>Total</b>	<b>1,222</b>	<b>1,070</b>	<b>2,292</b>

Employees by type of contract (no.)	2018		
	Men	Women	Total
Full-time	1,170	667	1,837
Part-time	38	384	422
<b>Total</b>	<b>1,208</b>	<b>1,051</b>	<b>2,259</b>

Employees by type of contract and geographical area (no.) <sup>6</sup>	2018					
	Permanent		Temporary		Permanent	Temporary
	Men	Women	Men	Women	Total	Total
Bologna - Anzola	31	22	-	-	53	-
Bologna - Granarolo	17	7	-	-	24	-
Florence	88	77	-	-	165	-
Milan	829	678	20	13	1,507	33
Padua	42	56	-	-	98	-
Rome	100	58	-	-	158	-
Sassari	6	17	-	-	23	-
Siena - Monteriggioni	54	61	-	-	115	-
Palermo	4	-	-	-	4	-
Udine	17	62	-	-	79	-
<b>Total</b>	<b>1,188</b>	<b>1,038</b>	<b>20</b>	<b>13</b>	<b>2,226</b>	<b>33</b>

<sup>6</sup> The figures relating to employees by type of contract and geographical area do not include the data relating to the foreign offices of Serbia, Montenegro and Bosnia.

Over the last few years, the Group has been going through a phase of great transformation: investing in people with distinctive skills and diversified business experiences is one of the cornerstones of the change in progress. The company is also promoting development and networking

initiatives for the management levels (Senior Managers and Middle Managers), aimed at developing their talent. An example of this is the D Value project, the first association of large companies set up in Italy to support female leadership in companies.

Employees by professional category and gender (no.)	2018		
	Men	Women	Total
Senior Managers	82	18	100
Middle management	410	209	619
Other employees	716	824	1,540
<b>Total</b>	<b>1,208</b>	<b>1,051</b>	<b>2,259</b>

Employees by professional category and age (no.)	2018			Total
	<30	30-50	>50	
Senior Managers	-	62	38	100
Middle management	7	426	186	619
Other employees	64	1,202	274	1,540
<b>Total</b>	<b>71</b>	<b>1,690</b>	<b>498</b>	<b>2,259</b>

As at 31 December 2018, there were 69 disabled employees in the Group, while 7<sup>7</sup> belonged to other protected categories.

In line with the policy on “Human resources management” and the Code of Ethics, the Group’s interest in human capital development encompasses several fronts. Nexi is committed to providing employees with training and professional development opportunities appropriate to their individual skills, in promoting a motivating work environment in which their rights, diversity and ability to contribute to the growth of the Group are guaranteed and respected, in defining clear objectives, exercising effective leadership, ensuring competitive compensation which are recognition of the results achieved, in promoting the conditions for an optimal work-life balance, in a context of equality, transparency, fairness, loyalty and dialogue. It should be noted that, in 2018, no complaints related to personnel management were received and no reports of incidents of discrimination in 2018 were received by the Human Resources, Compliance and Internal Audit Offices were received.

## Selection and internal mobility

The Parent Company Human Resources Department is responsible for efficiently and effectively managing the selection and internal mobility of staff through various operating procedures, in collaboration with the Organisation Department and in line with the “Human Resources Management” policy.

In the search and selection of personnel, as set forth in the Code of Ethics, the Group adopts criteria of objectivity, competence and professionalism, applying the principle of equal opportunities without favouritism, with the aim of securing the best existing skills in the labour market. The objective of the staff mobility selection and management process is to achieve the best allocation of resources and the optimal coverage of the available positions, in line with the Group’s mission, the Business Plan and the annual Budgets of the individual Group companies.

The candidate selection process is inspired by the willingness to implement the process through a clear definition of the required profiles (activities, skills, experience,

<sup>7</sup> The figure includes refugees, orphans and widows and refers to Nexi Payments, Oasi, Help Line and Mercury Payment Services.

positioning), to enhance the internal applicants and to involve the persons responsible in evaluating candidates and in the final decision.

In the process of selection and management of human resources, in line with what is stated in the Code of Ethics, the Group scrupulously adheres to objective evaluation criteria and does not allow any discrimination based on age, health, gender, religion, race, political and cultural opinions and also encourages the creation of a work environment in which personal traits and positions cannot give rise to discrimination and can promote the peace of mind of all employees and associates.

In the selection process, the manager of the Department or Section must provide precise information about the activity, responsibilities, knowledge and key competences and, consequently, the evaluation and selection criteria must explicitly take into account the matching of the personal characteristics of the candidates with the defined requirements. In the search and selection of technical/IT staff, which is the object of an additional dedicated policy, criteria of objectivity, competence and professionalism are adopted in order to ensure the skills available on the labour market necessary to better monitor the IT activities of the Group. The selection process promotes, when possible, internal applications, supported, if necessary, by ad hoc training and education. If an internal search is not feasible or has not been successful, the Human Resources Department proceeds with selection from the external job market through the available channels.

As regards the recruitment of personnel in managerial positions, this is authorised by the Board of Directors of the individual Group Companies. For the top positions (Chief Executive Officer, General Manager, Deputy General Manager) of the Subsidiaries, the favourable opinion of the Board of Directors of the Parent Company must first be obtained.

In 2018, the selection activity played an important role, which involved both the business structures, corporate functions and, above all, the Technology and Operations hubs. The focus of the selection process was on digital transformation and the acquisition of key skills for the future (Big Data & Advanced Analytics).

Recruitment activity on the market was based on diversification of business experiences and cultures, with the aim of bringing managers and specialists on board at Nexi who best understood the company's values. The new hires are mainly from the world of Technology Services and Financial Services (almost 80%), as well as Banking, Gaming and Media. Almost 50% of new employees belong to the Millennials generation. In order to bring young talents closer together and encourage the inclusion of new graduates, in 2019, Nexi will launch a specific employer branding initiative, developing relationships with Universities, running special campaigns on social media networks and organising hackathons in the digital domain.

Incoming and outgoing employees by gender (no.) <sup>8</sup>	2018		
	Men	Women	Total
Incoming employees	124	46	170
Outgoing employees <sup>9</sup>	74	61	135

Incoming and outgoing employees by age (no.) <sup>8</sup>	2018			Total
	<30	30-50	>50	
Incoming employees	31	132	7	170
Outgoing employees <sup>9</sup>	8	60	67	135

<sup>8</sup> The data relating to hires and exits from the Group include the Companies Nexi Payments, Help Line, Oasi and Mercury Payment Services.

<sup>9</sup> The turnover figure does not include exits from the Group resulting from restructuring initiatives (Solidarity Fund and redundancy incentives).

Incoming and outgoing employees by geographical area (no.) <sup>8</sup>	2018	
	Incoming employees	Outgoing employees <sup>9</sup>
Bologna - Anzola	0	7
Milan	157	89
Padua	1	1
Rome	12	21
Udine	-	17
<b>Total</b>	<b>170</b>	<b>135</b>

Turnover rate by gender (%) <sup>8</sup>	2018		
	Men	Women	Total
Turnover rate (incoming)	13.9	5.9	10.2
Turnover rate (outgoing)	8.3	7.8	8.1

Turnover rate by age (%) <sup>8</sup>	2018			
	<30	30-50	>50	Total
Turnover rate (incoming)	58.5	10.4	2.0	10.2
Turnover rate (outgoing)	15.1	4.6	18.8	8.1

Turnover rate by geographical area (%) <sup>8</sup>	2018					
	Bologna - Anzola	Milan	Padua	Rome	Udine	Total
Turnover rate (incoming)	-	11.2	10	9	-	10.2
Turnover rate (outgoing)	13.2	6.4	10	15.8	21.5	8.1

## Training and development of personnel

Training is a strategic factor for the Group, which contributes to organisational changes and to the dissemination and understanding of business strategies. Nexi plays a key role in the process of professional growth of the staff employed, ensuring the improvement of the performance of individuals, through skills development programmes and the acquisition of new tools and methods of work and adjustment of skills with respect to the provisions of current legislation.

Training, as indicated in the "Personnel Training" policy, is a fundamental tool for increasing productivity and business efficiency, as well as integrating and pooling the collection of experiences and skills of the entire Group by directing the diversity of experiences towards "one Nexi".

Training at Nexi is designed as "learning", i.e. continuous education of adults geared towards acquiring new skills with a view to constant improvement in personal performances, an increased contribution to business results, self-effectiveness and motivation.

<sup>8</sup> The data relating to hires and exits from the Group include the Companies Nexi Payments, Help Line, Oasi and Mercury Payment Services.

<sup>9</sup> The turnover figure does not include exits from the Group resulting from restructuring initiatives (Solidarity Fund and redundancy incentives).

A number of different methods are applied to the various areas of “learning”, summarised into the following types:

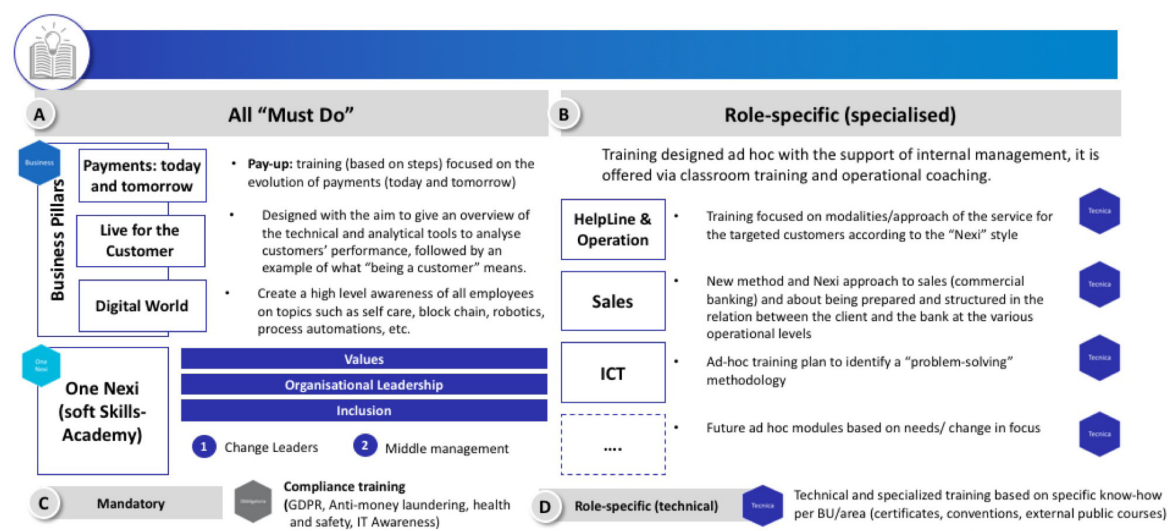
- **compulsory training:** includes activities aimed at acquiring knowledge that is suitable to comply with legal and industry regulations (for example: privacy, security, etc.).
- **specialist training:** includes activities aimed at acquiring, maintaining and developing specialist knowledge relating to one’s own professional family and business area. Specialist training courses were organised this year for the sales area, encompassing the entire family of sales jobs, and focusing them on the Nexi sales process. In addition, a dedicated course exclusively for call centre operators was organised, to ensure an approach geared towards customer satisfaction and customer centrality.
- **technical training:** provided through specialist courses at third party organisations and through the obtaining of certifications. It includes instruments, methods, know-how relating to one’s job and is targeted at operating improvement.
- **managerial training:** it includes activities aimed at the acquisition and improvement of personal abilities (proficiency), in particular, it includes training aimed at operating efficiency (Project management on the job, problem-solving, work smarter), personal effectiveness (empowerment, effective communication) and people management through Broadbanding and Performance Management - Workshop Leader, proficiency in the new organisational environment (Nexi Values workshop).
- **business training:** designed to disseminate knowledge of the reference market and relevant trends, the positioning, strategy, products and services of the new Nexi. The training aims to standardise the business language and categories to lay the common foundations of the Group’s work. For this purpose, the Pay UP process was launched relating to the payments of today and the future, which involved all of the Nexi Group’s employees and which will become onboarding training for all new employees.

The Training Plan is the tool through which the contents and the recipients of the training process are defined.

In 2018, this Plan concerned the employees of the companies Nexi Payments, Oasi and Help Line and, in 2019, will be extended to the other Group Companies. Following significant strategic and organisational changes, the Training Plan may be restructured during the year to allow adjustments to the changed business needs. This Plan, detailed in the “Personnel Training” policy, is prepared annually on the basis of the policies defined by the Parent Company General Management and the company top management of the Group companies, in line with the training needs highlighted in the performance assessment process, in relation to the information that came to light during the discussions with the heads of the Divisions, Departments and Business Units and taking account of the indications contained in the appraisal forms in the courses provided previously.

The training plan also meets the obligations established by current regulations (e.g. Anti-money laundering, MiFID, Market Abuse, Privacy, Legislative Decree 231/2001, Legislative Decree 81/2008, etc.). In particular, training relating to the law is approved by the competent services and bodies, as required by the legislation itself (e.g. Anti-Money Laundering training is approved by the Board of Directors, while training on Legislative Decree 231/2001 is approved by the Compliance Department).

The training plan defines the areas of action, the objectives of the individual actions (with the exception of specialist technical training whose contents can also be specified during the year), the guidelines and the training methodology. Owing to the close link to the Group’s development requirements, special importance has been attached in 2018 to training projects aimed at supporting the adoption of the new organisational model, with the aim of helping people to adjust into line with the new roles, offering targeted paths with programmes to develop both the specific skills of the relevant business or governance area, and soft transversal skills. The 2018 Training Plan also provided training courses aimed at providing the individual employee with the tools needed to understand Nexi’s mission and ambition and accelerate the integration of the Group.



In 2018, an average of approximately 16 training hours were provided to each employee<sup>10</sup>.

Training hours by professional category and gender <sup>10</sup>	2018		
	Men	Women	Total
Senior Managers	1,288	212	1,500
Middle management	6,837	3,457	10,294
Other employees	14,187	8,610	22,797
<b>Total</b>	<b>22,312</b>	<b>12,279</b>	<b>34,591</b>

Average training hours by professional category and gender <sup>10</sup>	2018		
	Men	Women	Total
Senior Managers	16	12	15
Middle management	17	17	17
Other employees	22	11	15
<b>Average training hours</b>	<b>19</b>	<b>12</b>	<b>16</b>

In 2019, the strategic training plan will be provided and completed, and will be focused on the advanced use of Learning Management systems to ensure all Nexi personnel receive the most effective and advanced training possible.

<sup>10</sup> The figures refer to the training provided according to the Training Plan of the companies Nexi Payments, Oasi and Help Line (average of approximately 18 training hours to each employee) and includes the training hours provided at Mercury Payment Services. This total also includes the hours of training on GDPR and IT Security Awareness of the companies Bassilichi, Consorzio Triveneto, PayCare, Sparkling 18 and BassmArt provided by the Nexi Group platform.



### TRAINING ACTIVITIES ON POLICIES AND PROCEDURES TO PREVENT AND COMBAT CORRUPTION

In 2018, all employees were provided with training<sup>11</sup>, in e-learning mode, on Legislative Decree 231/01 and Anti-money Laundering GDPR, IT Security Awareness and Payment Card Industry (PCI). The latter module was only provided for Nexi Payments and Help Line given relating to data security in the payment companies sector. Similar training was provided on Whistleblowing and, as regards data protection according to the GDPR, on-line training courses were provided for all employees, supplemented with specialist workshops for the most affected functions and roles.

The Organisational Model and Code of Ethics are brought to the knowledge of the Group companies through publication on the company intranet, preceded by an individual communication addressed to all employees. All new hires receive and acknowledge the Management Model and Code of Ethics of the relevant Company.

### Staff appraisal and remuneration policies

The Nexi Group designed and adopted the broadbanding system in 2017, with the aim of better supporting the company's growth and supporting the phase of in-depth development through human resource management policies consistent with the cultural change taking place. Broadbanding is a system that maps, evaluates and weighs all the roles in terms of responsibility and impact within the organisation and which permits continuous integration of the different people management and development processes: communication plan, performance management and reward. For example, a single Performance Management tool was launched for all Group companies, with the

aim of promoting performance as a driver for the development and recognition of talent and for the purpose of enhancing, through a transparent appraisal and based on explicit criteria, accountability and personal contribution to company results.

In 2018, 1,544 employees, corresponding to 92% of the company population, were involved in the Performance Management system, intended for all employees hired on permanent contracts who had been in the Group for at least three months.

The Performance Management system was introduced to support the Group's digital performance process, with the objective of placing central importance on people and their performances, through: clarity of individual and team performance objectives and metrics, personal behaviour based on company values, transparency in feedback and continuous discussions and focus on the future growth of people.

The system is composed of four phases:

1. **Objectives and priorities** - the Manager assigns "cascading" team and individual objectives to ensure alignment with strategic and organisational priorities and consistency between the different company areas;
2. **Self-assessment and Cross feedback** - the subject conducts a self-assessment and requests feedback from colleagues agreed with the manager;
3. **Appraisal of the Manager and the Senior Team** - based on the results achieved in the year and on the conduct engaged in. The manager expresses a summary judgment and the judgments are shared in a joint setting at calibration meetings in order to ensure the fairness and consistency of judgment and accelerate the development decisions on key personnel;
4. **Dialogue and individual development** - discussions between the manager and employee on the performance achieved in the year, the objectives and future aspirations and the development and training plan.

Performance Management is an ongoing process aimed at constructing a shared path, supported by recurring and structured meetings, including the Mid Year Check in which the manager and employee focus on the performance trend.

<sup>11</sup> The figure refers to the companies Nexi Payments, Help Line, Oasi and Mercury Payment Services. The personnel seconded by Bassilichi to the companies indicated took the same training courses, while the representatives of Bassilichi's Human resources departments are currently undergoing courses on GDPR and IT Security Awareness.

<sup>12</sup> The figure refers to the companies Nexi Payments, Help Line, Oasi and Mercury Payment Services.

Percentage of employees involved in the Performance Management system, by professional category and gender (%) <sup>12</sup>	2018		
	Men	Women	Total
Senior Managers	85%	50%	79%
Middle management	84%	94%	87%
Other employees	94%	98%	96%
<b>Total</b>	<b>89%</b>	<b>96%</b>	<b>92%</b>

The Nexi Group's remuneration policy is a fundamental element for the management of human resources, as it is a strategic tool for aligning the management of individual behaviour with company objectives. The policy is conceived and defined year by year by the People Development Function in collaboration with the General Management and is submitted to the Remuneration Committee,

the Board of Directors and the Shareholders' Meeting for approval, in line with the provisions of the Bank of Italy. The key principles of the Nexi Group's remuneration policy are rewarding performance in terms of results and behaviour and employees' contribution to the company's results, recognising merit and talent and having a consistent approach throughout the organisation.

	Ratio between average levels of pay of women and men (%) <sup>13</sup>	Ratio between average levels of remuneration of women and men (%) <sup>14</sup>
Senior Managers	78%	67%
Middle management	89%	87%
Other employees	88%	89%

In regards to the minimum pay of the Nexi Group for new recruits, those provided for by the sector CCNL (national collective labour agreement) for the various categories of personnel are always applied.

## Labour management relations

The Nexi Group recognises the importance of labour management relations, which are developed in an environment of collaboration, and in a context of rapid growth and innovation.

All the Group's employees are covered by the national collective labour agreement (CCNL - contratto collettivo nazionale di lavoro) <sup>15</sup>. As at 31 December 2018, 659 members were registered with the unions present in the Group, thus representing around 48% <sup>16</sup> of the company's workforce; this translates into an involvement of these organisations in the Group's activities and policies, and in the company's commitment to freedom of association and workers' rights.

The Nexi Group works to ensure fairness and correctness in the definition and management of contractual relationships with employees and in work relations and is committed to ensuring that the bonus system and company careers are based on the skills of employees and the results achieved by them. Furthermore, the Group ensures the privacy and physical and moral integrity of its employees and associates, thanks to working conditions that respect their personal dignity.

The year 2018 was an important one for the labour management relations of the Nexi Group. In December, at the end of the contractually agreed trade union consultation procedure, the agreement relating to the merger by incorporation of Bassilichi, Consorzio Triveneto and Sparkling 18 in Nexi Payments was signed, in line with the Group's Business Plan. The agreement managed the transfer to the CCNL for the credit sector, with some unique characteristics, of more than 300 employees, to which the Industry and Service Sector agreements previously applied. In addition, the agreement made it

<sup>12</sup> The figure refers to the companies Nexi Payments, Help Line, Oasi and Mercury Payment Services.

<sup>13</sup> The figures relate to the companies Nexi Payments, Oasi and Help Line.

<sup>14</sup> The remuneration includes the gross annual pay and the variable component adequately balanced based on the company's strategic objectives (theoretical MBO in 2018 and company bonus actually paid in 2018).

<sup>15</sup> Except for Mercury Payment Services, where 98% of employees are covered by collective agreements since the senior managers are covered by a different type of contract.

<sup>16</sup> The figure refers to the companies Nexi Payments, Oasi and Help Line.

possible to keep all existing work sites active and extend the same supplementary conditions to all personnel, including Company Bonus, healthcare assistance, other insurance policies and supplementary pension.

Labour relations were managed during the process of corporate restructuring according to the agreements stipulated with the trade union organisations for transactions concerning Bassilichi, Consorzio Triveneto, and PayCare. Downsizing of the workforce was managed through collective redundancy procedures, using the criterion of non-opposition, compatibly with the technical-organisational and productive requirements, with an increasing incentive based on age and company service.

In addition to what has been presented, as regards the minimum notice period for operational changes, it should be noted that the organisational changes that are necessary for the better management of the activities are implemented after informing the trade union representatives and in compliance with the consultation procedures provided for by the CCNL or by the rules of Law, which define the time-scales to be respected.

## Company welfare

The Nexi Group has developed a careful and rewarding company welfare policy, through a series of activities and projects, aimed at constantly improving the way in which the Group operates, increasing professionalism and spreading best practices and behaviour.

As a result of collaboration with Jointly®, Nexi Welfare was created in June 2018: an innovative services portal to improve the well-being of company personnel, targeted at all Group employees and their families.

The scope of the services, provided throughout the whole country via a network of more than 350 qualified suppliers, ranges from reimbursements of school fees to domestic services, travel to gym memberships, tax and legal assistance, parenting support and guidance and to assistance plans for relatives who are not self-sufficient. The services offered are augmented by a series of discounts and agreements with the best brands.

All employees can purchase services from the portal for themselves or for a relative at reduced prices. According to the provisions of the 2017 Budget Law, employees who met the criteria defined by the legislation (roughly 85%) were also offered the possibility to convert their company bonus - wholly or partly - to the purchase

of the services offered by the portal, in compliance with the provisions of articles 51 and 100 of the Consolidated Law on Income Tax and the trade union agreement of 25 May 2018.

In order to promote the conversion, the company made a contribution, increasing these amounts by additional percentages proportional to the percentage of the amount converted, up to a maximum of 10% for the total conversion, in observance of the regulatory restrictions. The results achieved in 2018 were satisfactory: more than 22% of employees signed up to the conversion, with an average percentage of 83% converting their performance-related pay to flexible benefits <sup>17</sup>.

In order to address and better manage welfare aspects related to the well-being of the employees, the Group also created a series of activities and projects. The wide range of initiatives proposed includes opportunities for dialogue with management and top management, including the CEO, on the business plan, strategies and other relevant internal events; punctual information on internal and external company news through press releases and the company intranet; and the possibility of using partial teleworking for the entire company workforce, which takes the form of working from home on specific days of the week, and which has been confirmed as an opportunity to more effectively reconcile work needs with personal needs.

To support employees in reconciling their private life and work, the Group has created opportunities for socialising and leisure, also open to family members and acquaintances: for example the Workers' Recreational Club (CRAL - Circolo Ricreativo Assistenziale Lavoratori), to which the entire company workforce and their families have access.

The benefits <sup>18</sup> offered by Nexi to its employees are not linked to the relevant professional category, nor to the type of contract (full time / part time).

Among the main benefits offered to its employees, Nexi guarantees supplementary pensions, healthcare assistance for all members of the employee's family; leave for medical examinations that provide 18 paid hours per year, to which 25 more are added in case of certified disabled family members; annual donations for every disabled family member, augmented by a further annual payment for training and instrumentation needs in support of the children of employees suffering from

<sup>17</sup> The figures refer to the companies Nexi Payments, Oasi and Help Line.

<sup>18</sup> Meal vouchers and leave for medical examinations in the case of certified disabled family members represent two types of benefits offered in proportion to the working hours.

## PARENTAL LEAVE

Nexi supports its employees in resolving aspects of reconciliation between private life and work. The Group guarantees all its employees the right to take parental leave in accordance with the regulations in force. In particular, in 2018, 15 employees took parental leave <sup>19</sup>.

In 2018, a total of 16 employees, of which 2 middle managers, are still employed one year after parental leave <sup>20</sup>.

learning difficulties (DSA); meal vouchers; insurance advice for the preparation of estimates also on-site, and recognition of a special discount for policies relating to homes and cars. From the transportation point of view, the Group offers discounts applied to the purchase of annual passes, a shuttle service to the Rome office, and parking spaces for the disabled in the Milan and Rome offices.

In May 2018, Nexi and the Trade Union Representatives signed an agreement which allowed employees to voluntarily allocate the value of the company bonus, increased by a company contribution, to the purchase of welfare services, through access to a dedicated platform.

Total number of employees that took parental leave (no.) <sup>20</sup>	2018		
	Men	Women	Total
Senior Managers	-	-	-
Middle management	-	1	1
Other employees	-	14	14
<b>Total</b>	<b>-</b>	<b>15</b>	<b>15</b>

Total number of employees that returned to work at the end of parental leave (no.) <sup>20</sup>	2018		
	Men	Women	Total
Senior Managers	-	-	-
Middle management	-	9	9
Other employees	-	12	12
<b>Total</b>	<b>-</b>	<b>21</b>	<b>21</b>

## Health & Safety

In line with what is stated in the Code of Ethics, the Nexi Group considers the creation and management of adequate environments and workplaces in terms of health and safety for all its employees, in compliance with national and international directives on the subject, to be of particular importance.

The mapping of the relevant risks present in the working environments, in addition to the general problems related to the structures, plants, equipment and safety regulations, revealed those connected to the management of emergencies, microclimate, lighting and use of video terminals.

The Companies of the Nexi Group draw up the Risk Assessment Document (DVR - Documento di Valutazione dei Rischi) and manage the periodic adaptation to the regulatory requirements and the corporate structure. The Group adopted a Health and Safety Management System (SGSL - Sistema di Gestione della Salute e Sicurezza) compliant with the UNI-INAIL Guidelines.

The SGSL consists of a company policy in the field of health and safety, a manual that is the backbone of the Management System and a set of documents consisting of Regulatory Dossiers and Operating Instructions specific to the individual regulatory areas subject to supervision (Communication and Consultation, Emergency Management, Health Surveillance, Information and

<sup>19</sup> The figure includes compulsory and early maternity (optional maternity is excluded). Parental leave is calculated in the year in which the event starts.

<sup>20</sup> The figures refer to the companies Nexi Payments, Oasi and Help Line.

Training, Technical Management of Real Estate, Qualification and Evaluation of Service Providers, Accident Management, Risk Assessment, Survey Management and Improvement).

During 2018, 20 accidents were reported in the Nexi Group, none of which was fatal, of which 6 at work and 14 while travelling, and a case of occupational illness, whose assessment by INAIL (National Institute for Insurance against Accidents at Work) and ATS of Bergamo is still in progress.

Accidents	2018		
	Men	Women	Total
<b>Total accidents</b>	<b>11</b>	<b>12</b>	<b>23</b>
<i>in the workplace</i>	4	4	8
Bologna - Anzola	-	-	-
Bologna - Granarolo	-	-	-
Florence	-	-	-
Milan	1	3	4
Padua	-	-	-
Rome	-	1	1
Sassari	-	-	-
Siena - Monteriggioni	1	-	1
Palermo	-	-	-
Udine - Cividale	-	-	-
<b>While travelling</b>	<b>7</b>	<b>8</b>	<b>15</b>
Bologna - Anzola	-	-	-
Bologna - Granarolo	-	-	-
Florence	-	1	1
Milan	5	6	11
Padua	1	-	1
Rome	1	1	2
Sassari	-	-	-
Siena - Monteriggioni	-	-	-
Palermo	-	-	-
Udine - Cividale	-	-	-

Accident indexes <sup>21</sup>	Men	Women	Total
Incidence index	2.9	16.4	9.5
Severity index	0.1	0.4	0.2
Frequency index	2.7	14.5	8.7
Occupational illness rate	0.3	-	0.1

Absenteeism rate <sup>22</sup>	Men	Women	Total
<b>Total <sup>23</sup></b>	<b>3%</b>	<b>7%</b>	<b>5%</b>

<sup>21</sup> Incidence Index: (number of accidents at work/total number of employees) x 1,000. Severity index: (number of lost days due to accidents/total number of hours worked) x 1,000. Frequency index: (number of accidents/total number of hours worked) \* 1,000,000. Occupational illness rate: (total number of cases of occupational illnesses/total hours worked) \* 200,000. The accident indexes refer to the following Companies: Nexi Payments, Oasi and Help Line.

<sup>22</sup> Absenteeism rate: Number of employee absences by type/total number of theoretical hours in the period. Employee "absences" by type are expressed in hours and include the following types: pregnancy, breast-feeding and post partum (includes early maternity, optional maternity, optional maternity on an hourly basis and breast-feeding); family and personal reasons (includes hours of indisposition); other (includes leave, unpaid leave and trade union leave).

<sup>23</sup> The data refer to the following companies: Nexi Payments, Oasi and Help Line.



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CUSTOMERS

# CUSTOMERS

In 2018, the Nexi Group was actively committed to promoting a wide range of innovative and digital products capable of satisfying all needs, a simple and immediate customer experience and additional services targeted at making daily payments more simple, convenient and secure. In order to obtain

these results, Nexi carefully studies the global trends and painstakingly analyses the behaviour and needs of different customers, constantly investing in technology and expertise in order to be able to offer the most innovative payment solutions, in response to daily needs.

## THE GROUP'S CUSTOMERS ARE DIVIDED INTO:

### PRIVATE

The Nexi Group, together with the Partner Banks, offers the best payment solution, to pay everything in a simple and secure way.

Nexi carefully studies all aspects of the payment experience, to make it increasingly more digital and a simple click away: cards and smartphones, thanks to web access and Apps, allow Customers to dynamically manage their payment instruments, adapting them to best fit their usage needs.

### MERCHANTS

Nexi offers merchants simple, quick and secure solutions and complete services for accepting any type of payment. New technologies are applied to commercial business each day, from e-commerce to mobile payments, to business analytics.

### COMPANIES

Digital Payments solutions, Corporate Banking, credit and debit cards allow Companies to manage all payments and business transactions simply, quickly and securely.

### BANKS

Nexi supports Banks in managing the commercial offer of Cards, Mobile Payments, POS and Acceptance Systems, helping them to develop their customer base with dedicated Customer Value Management initiatives. Furthermore, Nexi supports banks with the comprehensive management of collections and payments, on all transactional systems, of ATMs, Digital Corporate Banking and clearing & settlement.

### PUBLIC ADMINISTRATION

The Nexi Group has developed solutions suited to supporting the Public Administration in the complete management of collections and payments.



As regards the most significant activities and initiatives in 2018, in Digital Payments & Cards there was the development of Mobile Payments, including Google Pay, Apple Pay and Samsung Pay, and as regards Merchant Services we had the launch of SmartPOS, for which Nexi received the recognition "Digital Payments Innovation Award" and a mention of merit and Nomination at the "Italian Financial Innovation Awards 2018". Lastly, as regards the Payments Service, as a result of the partnership with Consorzio CBI, CBI Globe was created, the Open

Banking platform which facilitates the interconnection between banks and third parties through the application programming interface (API) in compliance with the legislation on PSD2 payment systems and the development of the ATM channel, thanks to a complete offer of self-banking services and the evolution of agency models and the customer offering.

The main innovative products and services of the Group are shown below.

### DIGITAL PAYMENTS & CARDS PAYMENT CARDS AND SOLUTIONS

#### NEXI DEBIT

An advanced debit card for accessing your current account at any time, withdrawing cash and making purchases worldwide, thanks to the Visa and Mastercard international circuits, completely securely, including on-line. Nexi Debit allows all forms of digital payment, developed by the bank or other operators, such as contactless payments directly from smartphones.

#### MOBILE PAYMENTS

The best agreements with the various industry operators, for example Apple, Samsung and Google, are available to Partner Banks, to allow the most advanced payments on iOS and Android devices.

#### EASY SHOPPING

Easy Shopping was created to meet a new requirement of the payments market, payment by instalments on demand: it is an easy-to-use and immediate functionality. The initiative is revolutionary as it also allows just one purchase to be paid in instalments and can be done fully independently by configuring the plan based on your needs.

#### NEXI BLACK

Nexi Black is the most prized card of the Premium Nexi range and is only available on invitation for the Bank's Private Customers, used to having a "7-star" service. Nexi Black is the first metal contactless credit card in Europe. The exclusive services include: *Concierge 24 hours a day 7 days a week* with dedicated personal planner, *Priority Pass* which allows access to more than 850 VIP rooms in MASTERCARD WORLD ELITE airports worldwide.

#### SPENDING CONTROL

Allows customers to customise, full independently, from the Nexi Pay App or from the personal area of the Nexi.it site, the spending limit of their card (even for a single day, as well as per week), the shopping category, the "authorised" geographical areas and the preferences on the spending channels (physical, on-line, cash withdrawal).

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#### **NEXI PAY**

App to manage the card and to shop on-line and in store. It allows customers to manage all the features of their card, monitor spending in real time and access all the advantages of the Nexi world. Nexi Pay also makes it possible to pay by smartphone at all stores equipped with a contactless POS terminal, using HCE technology on Android devices and, through Apple Pay on all iPhones.

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#### **#IOSI**

It is a collection of additional free services which are automatically active on Nexi credit cards. #iosi offers a programme which places the central focus on customers' needs: new services, more offers and more opportunities to reward every purchase. The services are structured into: ioSPECIALE, to receive discounts and promotions, ioPRO-TETTO offers insurance cover which augments the policy already included in the cards, ioCONTROLLO for performing a weekly check on total spending on the card, ioVINCO, the competition that rewards every purchase made via card or smartphone.

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#### **ENGAGEMENT**

Nexi supports Partner Banks in conceiving and implementing Customer Engagement and Customer Value Management initiatives by designing and creating ad hoc marketing campaigns, caring activities and special promotions for customers.

## MERCHANT SERVICES PRODUCTS AND SERVICES FOR MERCHANTS

### NEXI SMARTPOS®

Nexi SmartPOS® is the latest generation advanced POS which enables the merchant to manage all payments, customer services and many daily activities with a single device. Nexi SmartPOS® is the solution that also incorporates the cash register and many sales activity management services in a single tool, thanks to Nexi App Store.

### NEW MOBILE POS

To turn smartphones into a POS, thanks to the agreement with Ingenico, a global leader in the design and development of POS terminals, Nexi has changed the paradigm of mobile collections. The new Mobile POS, turn smartphones into a POS, with an application and keyboard for the PIN directly available on the phone, to which a small device is connected.

### NEXI BUSINESS

An App allows merchants to keep sales and the business performance always under control and from anywhere, by accurately monitoring transactions, obtaining a breakdown of results and comparing the sales performance with the competition. The app also makes it possible to easily access all accounting documents and manage refunds directly from your smartphone.

### XPAY

The e-commerce payment gateway that can be acquired directly on-line and activated in 24 hours. It is a “turnkey” and multi-channel service that integrates a number of payment methods through specific functions for mobile commerce. XPay integrates quickly into the merchant’s customer journey through its APIs and has components for rapid integration with leading e-commerce platforms. Finally, XPay is the first Italian gateway designed and already tested for integration with chatbots and social commerce features.

### MICRO-PAYMENTS

The Micro-payments promotion, created in collaboration with Partner Banks, provides for the repayment to the merchant of fees for all payments of up to Euro 10 made at your sales point using Visa, Mastercard and PagoBANCOMAT® cards.

The promotion was activated directly on POS terminals, with no technical intervention required and at zero cost for merchants.

### PROTECTION PLUS

Protection Plus is the programme in support of merchants for obtaining certification according to the Payment Card Industry Data Security Standard (PCI-DSS), rendered mandatory by the international circuits for the protection of payment data and the correct management of the data of payment cards and of their owners.

## DIGITAL BANKING SOLUTIONS SOLUTIONS FOR BANKS

### NEXI INSTANT PAYMENTS

Platform for instant transfers, which allows the management of transfers and money transfers in less than 10 seconds, making any payment based on the current account immediate, both for private customers and for companies. Thanks to solutions designed ad-hoc, banks can offer their customers instant payments in a short time, reducing IT development time and costs.

### NEXI DIGITAL BANKING

New digital corporate banking offer designed for banks and business customers, completely renewed and enriched with over 60 new features, in line with international best practices. It is divided into two solutions - Business and Corporate - designed to meet the needs of large companies and SMEs respectively.

### NEXI OPEN BANKING SOLUTIONS

As a result of the partnership with Consorzio CBI, CBI Globe was created, the Open Banking platform which facilitates the interconnection between Banks and Third Parties through the application programming interface (API) in compliance with the PSD2 legislation. CBI Globe is a single access point that allows banks to play a new role in the financial services market (e.g. like AISP), by developing competitive services with lower costs and a quicker time-to-market. Thanks to CBI Globe, Banks can fully satisfy the regulatory requirements and guarantee continuous adjustment in order to acknowledge the regulatory developments introduced.

### ATM AND SELF-BANKING

Nexi proposes 3 categories of latest generation ATMs that cover all the possible needs of Customer Banks. The offer is characterised by advanced machines, capable of automating many teller activities, thus guaranteeing the digitisation of 80% of branch operations. In addition, Nexi's ATMs have innovative services such as remote assistance via video. For partner Banks, Nexi offers advanced services such as preventive maintenance based on predictive algorithms, and turnkey branch design services to optimise branch space.

### DIGITAL AUTHENTICATION

As regards the most recent and innovative Certification Authority services, Nexi offers a solution for signing contracts in paperless mode, an application that allows company customers to digitally sign contracts in just a few simple steps thanks to the digital signing certificate and subject recognition, also through video-conference.

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#### **FAST DIGITAL INVOICING**

Nexi has created an e-billing platform targeted at business-to-business (B2B), business-to-government (B2G) and business-to-consumer (B2C) called “Invoice Collaborative Business Platform”, which is suited to both large companies and SMEs, thanks to the flexibility of its components, represented by modules that can be integrated and customised based on the competitive requirements of each Customer. The solution is prepared for the integration with the company ERP (Enterprise Resource Planning) solutions thanks to an “ANY IN ANY OUT” approach, guaranteeing the accuracy and integrity of the Customer data and reducing the possibility of errors and exceptions.

The main functionalities offered by the platform are:

- i) management of Customers/suppliers, counterparty database and B2B/B2G shipping/receipt channels,
- ii) management of the sales and distribution cycle and purchasing cycle of the invoice: processing, digital signing, multi-channel issue, presentation and approval of the document,
- iii) digital storage: archiving, pursuant to the regulations, of commercial and tax documents (invoices, orders, transport documents, accounting books, evaluation sheets, price lists, etc.) with digital signature and time stamp.

### **OTHER SERVICES**

#### **ANTI-MONEY LAUNDERING AND COMPLIANCE**

Consultancy and training for the prevention of compliance risks, design of organisational systems, periodic verification of obligations and assistance to Customers with the support of dedicated applications, such as GIANOS®: a software program that generates anomaly indicators for suspicious transactions which manages the risk of money laundering and supports customer due diligence and knowledge.

#### **SUPERVISORY REPORTING, CENTRAL CREDIT REGISTER, FINANCIAL STATEMENTS AND RISK MANAGEMENT**

Proprietary solutions for regulatory reporting and compliance for entities supervised by the Bank of Italy and other European authorities (ECB, EBA, SRB) to guarantee compliance with the regulatory provisions, consultancy, training, back office and user support. Risk Management, data collection and management reporting solutions.

#### **CUSTOMER CARE SERVICES**

Pre-and post-sales assistance and information services, customer care services and management of promotional initiatives thanks to inbound and outbound call centre services, web interaction. Offer of advanced Customer Relationship Management (CRM) tools dedicated to operators, through a web interface compliant with usability standards defined by standard ISO 9241.

## Privacy and data security

Nexi has developed an Information Security Management System (SGSI - Sistema di Gestione per la Sicurezza delle Informazioni), whose objective is the protection of corporate information assets, in line with the IT risk propensity defined at company level. This protection is obtained through the adoption of a series of measures of a technological, organisational and procedural nature, commensurate with the criticality and the value of the information itself, designed to guarantee:

- confidentiality: the information is accessible, in the manner established, only to expressly authorised parties;
- integrity: the information can be modified, according to the methods established, only by those who are expressly authorised to do so; the requirement is to safeguard the completeness, accuracy and compliance of information during acquisition, storage, processing and presentation;
- availability: the information is accessible and usable, according to the established procedures, only to authorised processes and users and only when the actual need is verified.

The Information Security Management System of the Nexi Group is based on the ISO standards and takes into account the Bank of Italy regulations, privacy legislation and business rules (e.g. the obligation of the certification according to the standard Payment Card Industry - Data Security Standard - PCI-DSS). It includes Policies, Organisational Structures, Regulatory Dossiers, Operating Instructions, Procedures and technical documentation, which regulate planning, design and implementation activities, roles and responsibilities, processes and resources, personnel behaviour and controls that pertain to the automated processing of information. This doc-

umentation is created and maintained by the organisational structures set up to oversee the various areas of relevance of the SGSI. The System is integrated with the IT risk analysis process which, performed by the Risk Management Department, represents the method by which the effectiveness and efficiency of the controls applied to ICT resources is assessed.

Payment security is a priority for the Nexi Group, and this commitment is reflected in the offer and distribution of more innovative, simple and secure payment solutions in Italy. One example is the Instant Payments platform, created and released to the partner banks in 2017, with which Nexi made the first instant bank transfer in Italy. The system, created for the management of IBAN-based real-time payments, guarantees maximum security, traceability of payments and easy integration with the systems of the Banks and offers various advantages for the end Customers (Private and Businesses) in terms of availability of the amount on the beneficiary's account in less than 10 seconds. The service is available anywhere 24 hours a day, 7 days a week, 365 days a year, and is multi-channel. To date, 34 SEPA European countries are reachable with Instant Payments.

In addition, the Group has a team of specialists dedicated to the prevention of fraud, which, thanks to the most advanced technologies, supports the Group in intercepting fraudulent phenomena in advance and cooperates in avoiding, in most cases, the involvement of customers. At the same time, thanks to the use of advanced tools for analysing card spending behaviour, spending anomalies are detected and reported. In February 2018, Nexi signed an agreement with the State Police for preventing and counteracting cyber-crime.

The agreement focuses on IT systems and services which are of special significance for the country, which also incorporate Nexi's technological platforms.

### NEXI SERVICES FOR THE BUSINESS AND THE SECURITY OF ITS CUSTOMERS:

#### ACCOUNT STATEMENT

The monthly Account Statement allows a precise control of spending and provides useful summary and detailed information for monitoring spending and use of the card. By activating the online account statement free of charge from the App or the Nexi website, it is easy to consult it and download it directly in pdf format to create an electronic file of statements on your computer. An alert e-mail is sent for each new publication.

#### NEXI SMS ALERT

By activating the Nexi Alert SMS service from the Reserved Area, each individual payment made by Card can be checked. Every time a payment is made with Nexi, a text message is received. In the case of refunds for unlawful debits, in the case of cash withdrawals made with the Card and the PIN code, an ad hoc procedure is defined subject to the contractual provisions on the custody of the Card and PIN.

#### SMS SERVICES

The SMS Services makes it possible to request information via SMS on the latest transactions, Card balance, remaining funds available on the Card, #iosi balance and much more. In this way, all the information is at your fingertips. In addition, thanks to the SMS transmission service ioCONTROLLO, the customer can check total spending on the card every week.

#### NEXI PAY APP

A special notification service is available from the Nexi Pay App that alerts the customer every time the credit card is used for expenses and purchases of more than Euro 2.

#### E-MAIL ALERT

The E-mail alert service, which can be activated from the Reserved Area of the Nexi website, allows customers to receive information on the available funds of their credit card and on the latest transactions via e-mail and according to the desired frequency.

#### 3D SECURE

3D Secure is the Verified by Visa and Mastercard® SecureCode™ fraud protection system which guarantees protection for on-line purchases. An SMS is received for each purchase containing a unique security code to be entered at the time of payment to confirm the purchase.

#### CV2 CODE

The CV2 code (CVV2 for Visa, CVC2 for Mastercard) consists of the last three digits on the back of the credit card that is requested for security during on-line purchases.

*continued*

*continued***EMERGENCY SERVICES**

Nexi allows purchases to be made with complete peace of mind, including abroad. Thanks to the emergency services provided by Nexi, in case of theft, loss or deterioration of the credit card, there is no risk of being uncovered or without cash. At the time of blocking of the Card, information can be requested from Nexi Customer Service on how to activate the following services: emergency cash (i.e. a cash advance payable in Italy and abroad on blocked credit cards); replacement credit card (which provides, as a result of a block, the ability to immediately receive an emergency replacement card, generally valid for 2 months); credit increase (a free service that must be requested through the Bank); and sufficient funds (another free service that can be requested through the Bank, which makes it possible to increase the limit of a single card for a time period defined at the time of the request).

**PHISHING**

Nexi makes use of anti-phishing services that proactively help to identify and block phishing campaigns.

The theme of privacy is managed by the Group in observance of the applicable Italian and European legislation <sup>24</sup>. To this end, Nexi Payments has appointed a Data Protection Officer (DPO), who works in accordance with the privacy regulation known as "Personal Data Protection and Processing" and oversees the compliance with the GDPR and the company policies governing personal data protection, informs and provides advice to the Board of Directors. The regulation also governs the methods of complaints handling and privacy requests from customers, which is expected to be issued by January 2019.

Complaints regarding privacy-related aspects are handled by the respective departments of the Group Companies. In 2018, Nexi Payments' Compliance Department received 59 complaints on the violation of privacy, 6 of which were accepted. The complaints were received from credit card owners, while no complaints were received about Merchant services or from Banks. During the year, the Complaints Department of Mercury Payments Services received 3 complaints, one of which accepted related to organisational aspects. In 2018, no complaints were received from regulatory bodies regarding cases of privacy violations, nor complaints for identified losses and thefts of customer data <sup>25</sup>.

<sup>24</sup> Regulation EU 679/2016 (GDPR) and Legislative Decree 196/2003, amended by Legislative Decree 101/2018.

<sup>25</sup> The figure refers to the Companies Nexi Payments, Bassilichi, Moneynet and Mercury Payment Services.



## QUALITY MANAGEMENT - CERTIFICATIONS

In 2018, the following Companies obtained certification schemes for management systems:

**Nexi Payments** is equipped with a quality management system which is ISO 9001 certified in relation to the “Conception, development and management of digital payment solutions dedicated to private customers, merchants, small and medium companies and banks, in collaboration with partner banks. Design, creation and management of software solutions and IT services, and technology and application outsourcing and related assistance, dedicated in particular to the Payment Systems sector for the Financial Institutions, Public Administration and Businesses market, such as, for example, ACH services, e-banking solutions and services, (Web and mobile), Interbank Corporate Banking and E-Billing solutions and services.”

**Bassilichi** obtained certifications of its Quality System according to the ISO 9001 standard and of the Workplace Health & Safety Management System according to standard OHSAS 18001 in order to qualify its information solutions and systems analysis, design and creation activities; information management services; call centre, internal assistance and on-site services; document management and archiving.

The **Triveneto Consortium** also obtained the certifications of the Quality System according to standard ISO9001 and of the Workplace Health & Safety Management System according to standard OHSAS 18001 for the “design, development and provision of payment and complementary services, in particular in relation to e-money and corporate banking, and other customer support services, based on the ICT systems acquired from the market or created internally”. In addition, the information security management system of the Triveneto Consortium is certified according to ISO27001.

In addition, **Bassilichi**, **Triveneto Consortium** and **Sparkling 18** are PCI (Payment Card Industry - Data Security Standard) certified as Service Providers. The PCI DSS is the security standard on the protection of information relating to credit cards issued by the PCI Security Standard Council, an organisation founded by American Express, Discover Financial Services, JCB International, MasterCard Worldwide, and Visa. The PCI DSS certification is acquired through the appropriate compliance assessment performed by a third party accredited as a QSA (Qualified Security Assessor) by the PCI Council.

**Mercury Payment Services** obtained the following certifications: ISO9001 for the financial services involving collection with payment cards through the use of POS, development of dedicated software applications, customer telephone assistance services, issuing services regarding the personalisation of payment cards (2018 extension of the certification). As well as for the general standard PCI DSS, the company is also certified for the specific requirements of the security standards PCI 3DS, PCI PIN, PCI CPP/CPL.

**Oasi** is ISO 9001 certified for the following services: “design, creation and management of software products, IT services and technology and application outsourcing. Specific consultancy mainly centred on internal audit, Legislative Decree 231/01, data and system security, anti-money laundering. Design and provision of corporate training services”.

The ISO 9001 certification of **Help Line** is for the “design and provision of Customer Care services, in particular regarding e-money”. Help Line is also certified according to standard UNI 15838, which specifies the requirements of “customer contact centres (contact centre) and aims to provide the “best practices” focused on meeting customer expectations.

**Bassmart** is also ISO9001 certified for its IT Systems Management, communication and commercial activities for art, culture and leisure time.

In August 2018, **PayCare** was ISO9001 certified (certified spin-off of Triveneto Consortium and Bassilichi) for the provision and direct and indirect management of contact centre services through telephone and electronic channels, and received the ISO27001 certification (certified spin-off of Triveneto Consortium) for the same activities as ISO9001, in accordance with the Declaration of Applicability, version 1 of 11 July 2018.

## Involvement and listening to customers

The Nexi Group is committed to guaranteeing its customers high levels of service, constantly improving its processes in the main points of contact with Customers, always striving for excellence and meeting the needs of all customers in a timely manner, every day of the year. The Customer is always at the centre of the Group's ideas and daily work; for this reason, customer needs are gauged through customer satisfaction surveys, complaints management and the analysis of store feedback on digital applications. The Group also organises events dedicated to the different customer segments.

In 2018, a Customer Satisfaction survey was conducted that involved cardholders and merchants, aimed at gauging the level of satisfaction of Nexi customers and the customers of the competitors. The survey is conducted on a quarterly basis for Nexi customers and those of the chief competitors and on a half-yearly basis for minor competitors. As regards Nexi and its competitors, the assessments are aimed at analysing the core and image aspects of the brand, while the surveys relating to individual processes (new subscriptions and agreements, disputes, blocks, call centres, promotions, loyalty programmes, web portals and apps) primarily concern Nexi, with some targeted in-depth analyses of certain competitors. In 2018, 4 quarterly surveys were conducted and about 920 quarterly telephone interviews were carried out with cardholders and 880 with the merchants.

A slight drop in satisfaction was registered for both cardholders and merchants in the first part of the year, which stabilised in the next two surveys.

In particular, for cardholders, the individual experiences encompass increases on new issues in relation to a perceived improvement in delivery times, card blocks for response and delivery times and on Nexi Pay as regards perceived security and the variety of available services.

For Merchants, advantages were recorded with respect to competitors regarding, in particular, transaction accuracy and speed, credit times, POS reliability and assistance. In addition, the launch of Nexi Business represented a strong area, with higher than average levels of satisfaction, thanks to closeness to the customer, the range of services, and their promptness, flexibility and degree of innovation expressed in the latest survey.

In 2018, Customer listening was further reinforced with the launch of the Customer Centricity programme, which aims to record the customer's opinion in the main points of Customer contact with Nexi and define continuous im-

provement initiatives, targeted at reaching levels of excellence. The Customer's opinion was recorded through the Net Promoter Score (NPS) indicator associated to the specific point of Customer contact with Nexi and through suggestions indicated directly by Customers, whose analysis has already led to the identification and prioritisation of practical initiatives in 2018 and the first results. Monthly and weekly surveys were conducted in 2018, involving cardholders and merchants.

In addition to the survey and the identification of improvement actions, the programme also has the objective of spreading a Customer culture throughout the company, regardless of the role and company department, a key factor in enabling continuous improvement at each point of contact and reaching levels of excellence. To this end, dedicated Change Management initiatives were launched, which will be reinforced in 2019.

## EVENTS AND INITIATIVES FOR CUSTOMERS IN SUPPORT OF THE COUNTRY'S GROWTH

**The events organised by the Group or in which Nexi actively participates in are an opportunity for meeting and comparing the various customer segments.**

In November 2018, Nexi took part in the second edition of **"The Payments Exhibition - 'The future starts here'"**, An event organised by ABIServizi designed to explore issues related to the future of payments, disseminate new solutions and promote the culture of innovation in this area. The event was an opportunity for dialogue for ban-

king and non-banking companies, institutions and citizens, on emerging trends in payment systems, new technologies and security.

At the 2018 Payments Exhibition, Nexi presented the new range of products and services made available to banks and illustrated the future of the spread of digital payments and the related growth opportunities for them, thanks to a number of presentations in the various sessions and the setting up of an exhibition area where it displayed the main latest products.

In April, at FintechStage, Nexi launched StartupItalia! the call for ideas “**Nexi POS Revolution**” for the search for innovative applications for also strengthening the culture of the cashless society in Italy. The Apps sought after were those that offer not only solutions for payers but for those accepting payments. The objective is to guarantee merchants a speedy, convenient and secure collection experience and, at the same time, provide them with a series of services linked to digital payments. More than 40 Italian start-ups took part in the event.

The winning start-up was chosen for the possibility of facilitating the entry of a medium-small merchant to the omni-channel domain and competing with the big players in on-line commerce. In fact, the App will allow small merchants to open and manage a store directly on-line from the SmartPOS in just a few minutes, in an extremely simple way (e.g. without registering the entire inventory) and also use innovative sales methods like live chat.

The best applications were included in the Nexi SmartPOS store and gradually made available, so they can be used in many of the almost 900 thousand authorised Nexi merchants throughout the country.

Nexi was also one of the main partners of **Milan Digital Week 2018**, as a main reference of digital payments in our country. Over the course of the initiative, Nexi presented its

digital payments offering, illustrating how the spread of innovative payment instruments is an extraordinary opportunity for modernising our whole country. In addition, on 17 and 18 March, **Nexi organised the *Cashless Milan Hack, the hackathon*** in collaboration with Cariplo Factory and Co-demotion, created to come up with practical proposals that can help make **Milan an increasingly more cashless city**, in which digital payments become the norm for any type of spending and for all amounts.

The main initiatives, which made a significant contribution to promoting a cultural change as regards digital payments in Italy, to bring it up to European standards, included:

#### **IoVINCO**

Nexi's instant win competition, an integral part of #iosì, the new suite of free services for Nexi payment cards, which put more than 1,000 prizes per day up for grabs for a total value of more than Euro 1 million.

The initiative allowed customers subscribed to #iosì, who had spent more than Euro 2 using Nexi cards or through Nexi Pay, to receive a surprise box directly on the Nexi Pay App. The competition was designed to be easy to use, immediate, and effective in order to incentivise digital payments, rewarding them, so they become a daily action for all Italians.

#### **Micro-payments**

With the objective making “digital cash” payments easier in small enterprises by promoting the use of cards also for small spends, Nexi came up with the ‘Micropagamenti’ (Micro-payments) project for authorised merchants, which makes provision for the reimbursement of fees applied to all digital payments of under Euro 10. Nexi invested more than Euro 1.5 million in the initiative.

## Nexi communication in 2018



**12** events in collaboration  
with Partner Banks



More than **650,000**  
informational material distributed  
in the bank branches



**9,780** online  
articles published



**110** days in the  
bank branches



**3** hackathons and  
high-visibility events



More than **1,000**  
monthly interactions on social media



**6** merchant events and with  
trade associations



**2** cashless shopping  
events

## Claims management

Nexi pays constant attention to the needs of customers and, in this regard, the management of complaints is an important element of detection of critical areas in which to intervene, to strengthen the relationship of trust with Customers. Complaint means any act by which a clearly identifiable Customer, disputes the intermediary behaviour, or even omission, in writing (e.g. letter, fax, e-mail). The complaint containing the details of the complainant, the reasons for the complaint, the signature or similar element that allows the Customer to be identified with certainty is considered valid. Nexi provides a response to the complaint within 30 days of receipt, indicating, in the event of acceptance, the expected time to resolve the problem.

The Companies of the Nexi Group have adopted internal regulations for the management of customer complaints. In particular, the relationships with customers of these Companies are based on the principles of transparency and clarity, assistance and quality. To this end, the companies have adopted an internal procedure which contains the activities, responsibilities and operating procedures with which complaints from customers must be managed and monitored, in compliance with the rules set by self-regulation initiatives or the legal/supervisory regulations. Each individual Company centralises the handling of complaints in a specific Office.

With specific reference to Nexi Payments SpA, the Complaints Office, located within the Claims Management Office, under the Operational Planning & Change Management of the Operations Office, deals with any requests for clarification formulated by the Supervisory Bodies on the subject of banking and financial transactions and services, and periodically provides the information flows required to these Bodies as well as to the top management Bodies.

Nexi Payments provides a response to the complaint within 15 days of receipt, indicating, in the event of acceptance, the expected time to resolve the problem. In the case in which Nexi Payments cannot respond to a complaint within the times indicated above, it may present the Customer with an open answer, detailing the reasons why it could not reply within 15 (fifteen) business days. The circumstances that lead to a situation whereby the company cannot reply within 15 (fifteen) business days must not, in any case, be due to the intention or negli-

gence of the Issuer. In the case of an open response, the Issuer must, nonetheless, provide a definitive response to the complaint within 35 (thirty-five) business days.

The table below reports the outcome of the complaints in 2018 and the main reasons <sup>26</sup>.

Result <sup>27</sup>	% of total
Accepted	16%
Not accepted	84%
<b>Total</b>	<b>100%</b>

Reason <sup>27</sup>	% of total
#ios	2%
Dispute settled	65%
Conditions	11%
Repricing	3%
Comprehensiveness/Accuracy of Info.	1%
Telephone number 892	1%
Portals	1%
Operating procedures	1%
Authorisation process	1%
Security measures	1%
Assistance management	1%
Card-related services	5%
Privacy	1%
Central credit register reporting	0%
3D Secure	0%
Telephone accessibility	0%
Transparency	0%
POS activation/configuration	1%
Other	4%
<b>Total</b>	<b>100%</b>

<sup>26</sup> The figures are calculated on the basis of cases received as at 31 December 2018, which are in the process of being verified and, therefore, roughly 0.2% of open cases could be subject to changes. The data include information relating to prepaid cards pertaining to Nexi Payments from July 2018.

<sup>27</sup> The figures refer to the Company Nexi Payments.



# 2.9

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SUPPLY CHAIN

## SUPPLY CHAIN

In choosing suppliers for the assignment of works, supplies and services, Nexi Group Companies adhere to the principles established in the procurement procedure which governs the purchase of all goods and services, accurately describing and regulating the entire purchase cycle.

In choosing suppliers for the assignment of works, supplies and services, the Group adopts the maximum transparency and efficiency of the purchasing process and guarantees impartiality at every stage of the procedure. The Group guarantees all suppliers equal conditions for participation in the selection process, based on objective evaluations, according to principles of fairness, cost-effectiveness, quality, innovation, continuity and ethics.

From the phase of selection of each supplier, a confirmation of the necessary requirements is sought to guarantee the adequacy and ability to satisfy the needs of the Group and of Customers. In particular, in order to ensure the integrity and independence in relations with suppliers, the Group has defined internal regulations to regulate the purchasing process, with which personnel are required to strictly comply and which respects the principles contained in the respective Codes of Ethics.

All suppliers that provide goods or services to the Group are enrolled in the Register of Suppliers of the Company to which they provide them. Registration on the Register of Suppliers and the selection criteria for the assignment of contracts are subject to objective and transparent assessments of the quality, price, methods of carrying out the service and delivery, as

well as the availability of organisational resources and structures, in accordance with the company procedures in force.

The Supplier Portal makes it possible to guide the entire process of procurement management, from the initial qualification phase to performance assessment. In fact, the Portal also allows foreign suppliers to be managed and to submit a questionnaire to them which is useful for all product categories, allowing each service provider, at the end of the qualification, to be entered correctly in the Register of Suppliers.

The Supplier Portal provides for an initial registration phase in which candidates are required to read the Code of Ethics. The internal Group regulations also require all suppliers to comply with the Code of Ethics 231/01 and to sign the relevant certification. To this end, the Code of Ethics 231/01 must be attached to the purchase order and any contract, or it must be indicated that the Code of Ethics is available on the Company website. This is augmented by the usual checks including control of the documentation certifying the technical suitability of the companies (registration in the Chamber of Commerce, Crafts, and Agriculture, presentation of the Chamber of Commerce certificate and Certificate of Social Security Compliance) and of the economic-financial solidity of suppliers.

During the procurement relationship, suppliers are subjected to additional further checks and evaluations. All suppliers are monitored by the Spending Managers in order to be able to assess the quality of the service or product supplied and compliance with contractual commitments (SLAs). Following



this evaluation, the Supply Chain Management Department records the degree of satisfaction of the existing relationship. The evaluation process is carried out at least once a year, normally at the start of the year, and makes it possible to identify any improvement actions and to reconsider the relationship with the supplier at a strategic level.

According to the product category, the Group requires specific certifications from suppliers, for example, for the purchase of POS, the Consorzio Bancomat certification is required, while for Cards and Chip, the Visa and Mastercard Certificates are required. In addition, every supplier, regardless of the product category, is invited to enter the ISO 9001 certification in the Supplier Portal.





# 2.10

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ENVIRONMENT

# ENVIRONMENT

The Nexi Group is fully aware of the need for responsible use of environmental resources and the commitment to these themes is based on the principles included in the Code of Ethics, which refers to respect for the environment and the rights of future generations. Nexi's Model 231/01 includes crimes against the environment and the main areas on which the Group's commitment to reduce its environmental impact is focused are as follows: waste management and disposal, energy and water consumption, consumption of materials and mobility.

As a result of the corporate restructuring which took place in 2018, the scope of property management was extended and this had an impact on the management of environmental issues and on the projects initially planned for 2018.

Nexi is committed to using energy in a rational manner, using renewable or low carbon content sources, which led to a renegotiation of the contracts expiring at the end of December 2018. Therefore, a tender was called at Group level, geared towards greater efficiency in terms of a reduction in costs and quality, by choosing, for all Group offices,

to use renewable energy, with the objective of encouraging a lower environmental impact in terms of pollution. In particular, 100% of electricity supplied to the Bassilichi Group and Mercury Payment Services in 2018 came from renewable sources with certification of origin.

An Energy Management service was also contracted to an external supplier, which is to be extended to all Group properties in 2019.

Energy and emissions <sup>28</sup>	2018
Total direct consumption (Gj)	12,051
Total indirect consumption (Gj)	38,325
- of which from renewable sources (Gj) <sup>29</sup>	21,694
Direct emissions - Scope 1 (Tonnes of CO <sub>2</sub> e)	615,9
Indirect emissions - Scope 2 (Tonnes of CO <sub>2</sub> e)	1,619

As regards water consumption, in 2018, the Nexi Group made withdrawals from the public water system for consumption of 40,604 m<sup>3</sup> <sup>30</sup>.

<sup>28</sup> The data includes the offices in Bologna (Anzola and Granarolo), Milan, Florence, Padua, Sassari, Siena (Monteriggioni) and Udine (Civiale) and the offices of Moneynet and Mercury Payment Services. As regards the data relating to some months for which the final figures are still to be reported, the consumption relating to the same month in 2017 was used. The factors used to calculate the emissions were published: by DEFRA (Department for Environment, Food & Rural Affairs) in 2015 and by the Department for Business, Energy & Industrial Strategy (BEIS) in 2018.

<sup>29</sup> For the calculation of total consumption of indirect energy from renewable sources, the percentage of primary energy sources declared by service providers for 2016 was utilised.

<sup>30</sup> The data includes the offices in Bologna (Anzola and Granarolo), Milan, Florence, Siena (Monteriggioni) and Udine. As regards the data relating to some months for which the final figures are still to be reported, the consumption relating to the same month in 2017 was used.

Therefore, for 2018 the Nexi Group attempted to improve its environmental performance thanks to a series of projects targeted at reducing energy consumption and its greenhouse gas emissions (GHG).

The valuation of the energy and environmental transformation of the Milan headquarters was launched in 2017 and is at the finalisation phase. As regards the issues addressed in the due diligence, a feasibility study was launched regarding the decommissioning of the old thermal freezing power plants and the installation of a new integrated hot/cold system of heat pumps fed with groundwater with the support of geothermal wells.

This project, approved at the end of 2018, will commence in 2019, and will lead to the elimination of methane, polluting emissions of evaporation towers, and an increase in energy efficiency estimated today at 16%, and an estimated annual economic saving of between 15% and 18%.

Another project is planned for 2019 at the Milan office, which involves the replacement of 4 elevators with a type of machine with integrated call management which will have a positive impact on the management of flows, bringing an additional energy saving.







# 2.11

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ANNEX

# ANNEX

## RECONCILIATION STATEMENT BETWEEN MATERIAL TOPICS AND ASPECTS OF THE GRI STANDARDS

Material topics identified by the Nexi Group	Topic-specific disclosures	Scope of impacts		
		Internal impact	External impact	Limitations
Management of employment drivers	<b>Employment:</b> 401-1, 401-2 <b>Labor/Management relations:</b> 402-1	•		
Training and development of personnel	<b>Training and Education:</b> 404-1, 404-3	•		
Staff appraisal and remuneration policies	<b>Diversity and Equal Opportunity:</b> 405-2 <b>Training and Education:</b> 404-3	•		
Talent attraction and Employer branding	<b>Employment:</b> 401-1	•		
Promotion of health and safety at Group offices	<b>Occupational Health and Safety:</b> 403-2	•	Contractors	Reporting partially extended to contractors
Diversity and equal opportunities	<b>Diversity and Equal Opportunity:</b> 405-1, 405-2	•		
Fight against corruption	<b>Anti-corruption:</b> 205-2, 205-3	•	Suppliers	Reporting partially extended to suppliers
Privacy and security of customer data	<b>Customer Privacy:</b> 418-1	•	Customers	
Continuous innovation	(*)	•	Customers	
Access to services	(*)	•	Customers	
Claims management	<b>Customer Privacy:</b> 418-1	•	Customers	
Marketing communications	<b>Marketing and Labeling:</b> 417-3	•	Customers	
Ethics, integrity and compliance	(*)	•		

(\*) As regards the theme in question (not directly related to an aspect envisaged by the GRI-Standards), the Nexi Group reports the management approach adopted and the relevant indicators in the Document.



## GRI CONTENT INDEX

### Gri content index

Disclosure	Description of the indicator	Page number/Notes	Omissions
<b>Gri 102: general disclosures 2017</b>			
<b>Organizational profile</b>			
102-1	Name of the organisation	Page 114	
102-2	Activities, main brands, products and/or services	Page 120-121, 167-171	
102-3	Place where the company headquarters are located	C.so Sempione 55, 20149, Milan	
102-4	Number of countries where the organisation operates	Page 120, 152	
102-5	Ownership structure and legal form	Page 114-116	
102-6	Markets served	Page 120, 166-178	
102-7	Organisation size	Page 121, 152-156	
102-8	Employees by type of contract, gender, origin, age, members of the protected categories	Page 152-154	
102-9	Description of the supply chain	Page 182-183	
102-10	Significant changes during the reporting period regarding the size of the Group, the structure, the ownership or the chain of suppliers	Page 114-116, 122-123	
102-11	Application procedure of the principle or prudential approach	Page 138-143	
102-12	Adoption of external codes and principles in the economic, social and environmental areas	The Group does not adhere to codes or principles outside the organisation.	
102-13	Membership of associations and organisations of national or international support	Page 129	
<b>Strategy</b>			
102-14	Statement by the Chairman and the Chief Executive Officer	Page 2-4	
<b>Ethics and integrity</b>			
102-16	Values, principles, standards and rules of conduct within the company	Page 120-125, 146-148	
<b>Governance</b>			
102-18	Corporate governance structure	Page 134-135	
<b>Stakeholder engagement</b>			
102-40	List of stakeholders engaged	Page 128-130	
102-41	Percentage of employees covered by collective labour agreements	Page 160-161	
102-42	Identification process and selection of stakeholders to be engaged	Page 128-130	
102-43	Approach to stakeholder engagement	Page 128-130, 176-178	
102-44	Key aspects and critiques emerged from stakeholder engagement and related actions	Page 128-130	

Disclosure	Description of the indicator	Page number/Notes	Omissions
<b>Reporting practice</b>			
102-45	List of companies included in the consolidated financial statements and indication of the companies not included in the report	Page 114-116	
102-46	Process of defining the contents of the report and the perimeter of each aspect	Page 114-116, 190	
102-47	List of aspects identified as materials	Page 128-130	
102-48	Explanation of the effects of any modification of information included in previous financial statements and reasons for these changes	This is the first ESG Report.	
102-49	Significant changes compared to the previous reporting period	This is the first ESG Report.	
102-50	Reporting period	Page 114-116	
102-51	Date of publication of the most recent financial statements	This is the first ESG Report.	
102-52	Reporting frequency	Page 114	
102-53	Contacts and useful addresses to request information on the financial statements and their contents	Page 114	
102-54 / 102-55	GRI content index and choice of the "in accordance" option	Page 114, 191-193 (Methodological note and GRI Content Index)	
102-56	External certification	Page 196-198	
<b>Economic performance: topic specific standards</b>			
<b>Gri 205: anti-corruption 2016</b>			
GRI 103	2016 Management approach	Page 140-143, 146-148	
205-2	Communication activities and training on policies and procedures to prevent and combat corruption	Page 146-148, 156-159	
205-3	Any incidents of corruption identified, and remedial activities implemented	Page 147-148	
<b>Social performance: topic specific standards</b>			
<b>Gri 401: employment 2016</b>			
GRI 103	2016 Management approach	Page 152-156, 161-162	
401-1	Total number and rate of staff hiring and turnover	Page 155-156	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Page 161-162	
<b>Gri 402: labor/management relations</b>			
GRI 103	2016 Management approach	Page 160-161	
402-1	Minimum notice period for operational changes, including if this notice period is specified in the collective labour agreements	Page 161	
<b>Gri 403: occupational health and safety 2016</b>			
GRI 103	2016 Management approach	Page 162-163	
403-2	Type of accidents, accident rate, occupational illnesses, days of work lost and absenteeism and number of fatal accidents related to work divided by region and gender	Page 163	The number of accidents for 2018 includes the data relating to contractors
<b>Gri 404: training and education 2016</b>			
GRI 103	2016 Management approach	Page 156-160	
404-1	Average annual training hours per employee, by gender and by category	Page 158	
404-3	Percentage of employees who receive regular reports on the results and career development, by gender and employee category	Page 160	

Disclosure	Description of the indicator	Page number/Notes	Omissions
<b>Gri 405: diversity and equal opportunity 2016</b>			
GRI 103	2016 Management approach	Page 135, 152-155	
405-1	Composition of the governing bodies and division of employees by category with respect to gender, age, members of protected categories and other indicators of diversity	Page 135,152-154	
405-2	Ratio between male and female basic salary by category and by operational qualification	Page 160	
<b>Gri 417: marketing and labeling 2016</b>			
GRI 103	2016 Management approach	Page 138-139	
417-3	Total number of cases of non-compliance with regulations or voluntary codes related to marketing activities including advertising, promotion and sponsorship	In 2018, no incidents were reported regarding non-compliance with regulations or voluntary codes in relation to marketing activities that include advertising, promotion and sponsorship.	
<b>Gri 418: customer privacy 2016</b>			
GRI 103	2016 Management approach	Page 172-174	
418-1	Number of documented complaints regarding breaches of privacy and loss of consumer data	Page 174	



# 2.12

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AUDITING COMPANY REPORT





KPMG S.p.A.  
Revisione e organizzazione contabile  
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(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report on the Environmental, Social and Governance report**

*To the board of directors of  
Nexi S.p.A.*

We have been engaged to perform a limited assurance engagement on the 2018 Environmental, Social and Governance Report (the "Report") of the Nexi Group (the "Group").

### ***Directors' responsibility for the Environmental, Social and Governance report***

The parent's directors are responsible for the preparation of the report in accordance with the "Global Reporting Initiative Sustainability Reporting Standards" issued in 2016 by GRI - Global Reporting Initiative (the "GRI Standards").

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of a report that is free from material misstatement, whether due to fraud or error.

They are also responsible for defining the group's objectives regarding its sustainability performance, the reporting of the achieved results and the identification of the stakeholders and the significant aspects to report.

### ***Auditors' independence and quality control***

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.



### **Independent auditors' responsibilities**

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the report with the requirements of the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (Revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the report is free from material misstatement.

A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 Revised and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the report are based on our professional judgement and include inquiries, primarily of the company's personnel responsible for the preparation of the information presented in the Report, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

- holding interviews aimed at analysing the governance system and the process for managing the sustainable development issues relating to the group's strategy and activities;
- analysing the reporting of significant aspects process, specifically how these aspects are identified and prioritised for each stakeholder category and how the process outcome is validated internally;
- understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the report.

Specifically, we held interviews and discussions with the parent's management personnel and personnel of Nexi Payments S.p.A., Mercury Payments S.p.A. and Moneynet S.p.A.. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit data and information to the office that prepares the Report.

Furthermore, with respect to significant information, considering the Group's business and characteristics:

- at group level
  - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the report for consistency with available evidence;
  - b) we carried out analytical and limited procedures to check the correct aggregation of data in the quantitative information on a sample basis;





**Nexi Group**

*Independent auditors' report on the environmental, social and governance report  
31 December 2018*

- we visited Nexi S.p.A. and Nexi Payments S.p.A., which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.
- analysing the compliance and overall consistency of the qualitative information included in the report with the guidelines referred to herein in the "Directors' responsibility for the sustainability report" paragraph hereof.

**Conclusion**

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2018 report of the Nexi Group has not been prepared, in all material respects, in accordance with the requirements of the GRI Standards, as described in the "Methodology" section of the report.

Milan, 8 March 2019

KPMG S.p.A.

(signed on the original)

Roberto Fabbri  
Director of Audit

# 2018 PARENT COMPANY REPORT AND FINANCIAL STATEMENTS



# 3

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## 2018 PARENT COMPANY REPORT AND FINANCIAL STATEMENTS

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# 3.1

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BOARD OF DIRECTORS' REPORT ON OPERATIONS FOR 2018

# BOARD OF DIRECTORS' REPORT ON OPERATIONS FOR 2018

*Dear Shareholders,*

2018 closed with a loss for the year of Euro 50.9 million compared to profit in 2017 of Euro 132.4 million. Equity amounted to Euro 418.6 million, including the loss for the year of Euro 50.9 million, compared to Euro 1,178.6 million, including profit of Euro 132.4 million, at 31 December 2017.

The result of financial management and operations totalled Euro -30.7 million compared to Euro 129.9 million at 31 December 2017. These values were affected by the business restructuring project completed on 1 July 2018.

## Relations with other Group companies

Pursuant to article 2497 et seq. of the Italian Civil Code, the Company carries out Management and Coordination activities of Help Line SpA, Nexi Payments SpA and Mercury Payment Services SpA.

Relations with Group Companies, as better described in the explanatory notes, are characterised by a strong collaborative climate and, in compliance with current regulations on transactions with related parties, the related contractual and economic terms are all regulated in a manner consistent with best practices and at market values for similar services.

## Regulatory compliance

Refer to the similar section of the Group Report on Operations.

## Human resources

The Company's headcount totalled 4 resources at 31 December 2018.

	Latino (1)		Nexi	
	2017		2018	
Role	HC	FTE	HC	FTE
Managers	-	-	4	4
Middle managers	-	-	-	-
White collar staff	-	-	-	-
Other (2)	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>4</b>
TI	-	-	4	4
TD	-	-	-	-

(1) From 2018 Nexi.

(2) Parasubordinate workers.

## Information on personnel and the environment

Refer to the similar section of the Group Report on Operations.

## Operating performance

The 2018 results were affected by the business restructuring project completed on 1 July 2018. Refer to the relevant section of the Consolidated Financial Statements for details of the Company's performance and services provided.

Dear Shareholders,

The Statement of Financial Position and Income Statement figures are highlighted below.

## Financial Statement highlights

### Statement of financial position

At 31 December 2018, "total assets" came to Euro 3,003,916 thousand, compared to Euro 1,192,042 thousand at 31 December 2017. The asset items reflect the spin-off completed on 1 July as part of the business restructuring project.

#### ASSETS (Amount in Euro mln)

	31.12.2018	31.12.2017
Cash and cash equivalents	40,654	134,384
Account receivables from Banks	-	45,281
Equity investments	2,893,206	1,005,717
Non-current assets held for sale and discontinued operations	42,294	-
Other assets	27,762	6,659
<b>Total assets</b>	<b>3,003,916</b>	<b>1,192,042</b>

#### LIABILITIES (Amount in Euro mln)

	31.12.2018	31.12.2017
Financial liability measured at amortised cost	2,569,689	-
Other liabilities	11,636	13,483
Provisions for risks and charges	4,017	-
Equity	469,467	1,046,122
Profit for the period	-50,893	132,437
<b>Total liabilities and equity</b>	<b>3,003,916</b>	<b>1,192,042</b>

A glance at the various asset captions shows that:

- "cash and cash equivalents" refer to cash held in bank current accounts of Nexi SpA, mainly with DEPObank SpA;
- "loans and receivables with customers" in 2017 included the loan to Mercury Payment Services SpA, repaid in 2018;
- "equity investments" totalled Euro 2,893,206 thousand, compared to Euro 1,005,717 thousand at 31 December 2017. The increase refers to recognition of the equity investments in Nexi Payments, Bassilichi, Consorzio Triveneto and Help Line with effect from 1 July 2018 resulting from the spin-off;
- "non-current assets and disposal groups" for Euro 42,294 thousand refer to the carrying amount of the equity investment in Oasi Diagram SpA;
- "other assets" amounted to Euro 27,762 thousand, compared to Euro 6,659 thousand for the previous

period. These mainly refer to tax consolidation receivables and current tax assets for Euro 21,222 thousand, and to prepaid expenses for Euro 6,494 thousand.

With respect to liabilities:

- "financial liabilities measured at amortised cost" for Euro 2,569,689 thousand are represented by bonds issued by Nexi Capital (now merged into Nexi SpA);
- "other liabilities" totalled Euro 11,636 thousand, compared to Euro 13,483 thousand at 31 December 2017, and refer to trade payables and invoices to be received for Euro 5,612 thousand, tax liabilities for Euro 1,199 thousand and other payables for Euro 4,825 thousand;
- "provisions for risks and charges" amounted to Euro 4,017 thousand and refer to contingent tax liabilities;
- "equity" stands at Euro 469,467 thousand, compared to Euro 1,046,122 thousand at 31 December 2017.



The change refers mainly to: (i) distribution of an ordinary dividend, as partial allocation of 2017 profit, for Euro 56 million; (ii) undistributable profit of Euro 76.4 million allocated to Profit reserves; (iii) the spin-off that contributed to increasing Reserves by around Euro 1,549 million; (iv) distribution of an extraordinary dividend of Euro 2,205 million, drawn from the "Share premium" for around Euro 600 million, Profit reserves for Euro 53 million and Other reserves for Euro 1,549 million. This distribution was carried out after allocation to the legal reserve of Euro 3 million from other profit reserves.

## Income Statement

The income statement at 31 December 2018 is illustrated below, with comparison figures from the previous year. These values were affected by the business restructuring project completed on 1 July 2018 and therefore the 2017 figures are not comparable.

At 31 December 2018, the Company recorded a loss for the year of Euro 50,893 thousand, compared to profit of Euro 132,437 thousand for the previous year.

### INCOME STATEMENT (Amount in Euro thousands)

Income statement	31.12.2018	31.12.2017
Interest and similar income	36,031	281
Interest and similar expense	-66,765	-359
<b>Net interest income</b>	<b>-30,734</b>	<b>-78</b>
Profit / loss on trading activity / hedging on financial assets and liabilities designated at fair value through profit or loss	3	0
Dividends and profit / loss from investments and sale of assets at fair value through OCI (ex AFS)	-	129,988
<b>Financial and operative income</b>	<b>-30,731</b>	<b>129,910</b>
Administrative expenses	-29,668	-4,790
Net accruals to provisions for risks and charges	-4,017	0
<b>Operating margin</b>	<b>-64,416</b>	<b>125,120</b>
Share of profits (losses) of investees and net gains (losses) on sales of investments	-	7,000
<b>Pre-tax profit from continuing operations</b>	<b>-64,416</b>	<b>132,120</b>
Income taxes	13,523	317
<b>Profit for the period</b>	<b>-50,893</b>	<b>132,437</b>
Profit for the period attributable to the owners of the parent	-50,893	132,437

With respect to the loss for the year:

- interest and similar income amounted to Euro 36,031 thousand and relate to interest income accrued on the intercompany loan to Mercury UK;
- interest and similar expense totalled Euro 66,765 thousand and mainly relate to interest on securities issued by Nexi Capital SpA (now Nexi SpA);

- administrative expenses of Euro 29,668 thousand, mainly referring to strategic consultancy associated with the Group restructuring projects for Euro 25,454 thousand.

These items, net of positive income taxes for Euro 13,523 thousand, led to the loss for the year of Euro 50,893 thousand.



## Joint Bank of Italy/Consob/ISVAP Documents No. 4 of 3 March 2010 and No. 2 of 6 February 2009

Information is provided below on the Company as a going concern, financial risks and uncertainties in the use of estimates.

### Going concern

The Directors confirm the reasonable expectation that the Company will continue to operate in the foreseeable future and that, as a result, the financial statements for 2018 have been drafted from a going concern perspective. They emphasise, therefore, that no symptoms have been found in the assets and financial structure and in operating performance that could constitute cause for uncertainty regarding the business as a going concern.

### Information on risks

Information on the nature and extent of Nexi exposure to financial risks is provided below.

#### Price risk

Refer to the relevant section of the Consolidated Financial Statements for details of the Company's exposure to this risk.

#### Credit risk

Refer to the relevant section of the Consolidated Financial Statements for details of the Company's exposure to this risk.

#### Liquidity risk

Refer to the relevant section of the Consolidated Financial Statements for details of the Company's exposure to this risk.

#### Interest rate risk

Refer to the relevant section of the Consolidated Financial Statements for details of the Company's exposure to this risk.

## Significant events after the end of the year

Significant events after 2018 year-end have been reported in the relevant section of the Report on Operations in the Consolidated Financial Statements.

### Other information

Note that Nexi is not subject to management and coordination by another company or body, in accordance with the provisions of articles 2497-sexies and 2497-septies of the Italian Civil Code.

In 2018, Nexi did not undertake any research and development activities.

In the respective sections of its website ([www.nexi.it](http://www.nexi.it)), with the 2018 Financial Statements, Nexi has published the "Country by country reporting".

### Treasury shares

Note that the Company does not hold treasury shares, whether directly, indirectly, through third parties or through trusts.

## Allocation of profit/(loss) for the year

Dear Shareholders,

The financial statements presented for your examination and approval show a loss for the year of Euro 50,893,180.

We propose carrying forward the loss for the year.

**Milan, 13 February 2019**  
THE BOARD OF DIRECTORS



# 3.2

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FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

# FINANCIAL STATEMENTS

## AS AT 31 DECEMBER 2018

### BALANCE SHEET

(Amount in Euro thousands)

ASSETS		31.12.2018	31.12.2017
Cash and cash equivalents	3	40,654,028	134,383,990
Financial asset measured at amortised cost	6	-	45,281,293
b) loans and receivables with customers		-	45,281,293
Equity investments	7	2,893,205,921	1,005,716,803
Tax assets	11	14,675,745	6,659,490
a) current		14,675,745	6,659,490
Non-current assets held for sale and discontinued operations	12	42,294,264	
Other assets	13	13,086,168	
<b>Total assets</b>		<b>3,003,916,126</b>	<b>1,192,041,576</b>
LIABILITIES		31.12.2018	31.12.2017
Financial liability measured at amortised cost	14	2,569,689,078	-
c) securities issued		2,569,689,078	-
Tax liabilities	11	-	3,182,040
a) current		-	3,182,040
Other liabilities	17	11,636,437	10,300,834
Provisions for risks and charges	19	4,017,107	-
Share capital	20	50,000,000	50,000,000
Share premium	20	389,274,753	989,672,471
Reserves	20	30,191,931	6,449,042
Profit for the period (+/-)	20	-50,893,180	132,437,189
<b>Total liabilities and equity</b>		<b>3,003,916,126</b>	<b>1,192,041,576</b>

## INCOME STATEMENT

(Amount in Euro thousands)

		2018	2017
Interest and similar income	23	36,031,397	281,293
Interest and similar expense	24	-66,765,335	-359,397
<b>Net interest income</b>		<b>-30,733,938</b>	<b>-78,104</b>
Profit / loss on trading activity / hedging on financial assets and liabilities designated at fair value through profit or loss	25	2,516	
Dividends and profit / loss from investments and sale of assets at fair value through OCI (ex AFS)	26	-	129,988,000
<b>Financial and operative income</b>		<b>-30,731,422</b>	<b>129,909,896</b>
Personnel expense	27.1	-73,776	
Other administrative expenses	27.2	-29,593,922	-4,790,045
<b>Total administrative expenses</b>		<b>-29,667,698</b>	<b>-4,790,045</b>
Net accruals to provisions for risks and charges	30	-4,017,107	
<b>Operating margin</b>		<b>-64,416,227</b>	<b>125,119,851</b>
Share of profits (losses) of investees and net gains (losses) on sales of investments	32	-	7,000,000
<b>Pre-tax profit from continuing operations</b>		<b>-64,416,227</b>	<b>132,119,851</b>
Income taxes	33	13,523,047	317,338
<b>Profit for the period</b>		<b>-50,893,180</b>	<b>132,437,189</b>
<b>Profit for the period attributable to the owners of the parent</b>		<b>-50,893,180</b>	<b>132,437,189</b>

## STATEMENT OF COMPREHENSIVE INCOME

(Amount in Euro thousands)

CAPTIONS	2018	2017
<b>Profit (loss) for the year</b>	<b>-50,893,180</b>	<b>132,437,189</b>
<b>Other comprehensive income (net of tax)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>-50,893,180</b>	<b>132,437,189</b>

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amount in Euro thousands)

	Equity at 31.12.2016	Change opening balances	Existences at 01.01.2017	Allocation of prior year profit		Changes in the period							Group shareholders equity at 31.12.2017
				Reserves	Dividends and other allocations	Changes in reserves	Transactions on shareholders' equity					Comprehen- sive income at 31.12.2017	
							Issue of new shares	Purchase of new shares	Extraordinary distribution of dividends	Changes in equity instruments	Other changes		
Share capital	50,000		50,000										50,000
Share premium	989,672		989,672										989,672
Reserves:													
a) income- related	-		-	6,449									6,449
b) other	-		-										-
Valuation reserves	-		-										-
Equity instruments	-		-										-
Treasury shares	-		-										-
Profit for the period	6,449		6,449	-6,449								132,437	132,437
Equity	1,046,122	-	1,046,122	-	-	-	-	-	-	-	-	132,437	1,178,559

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amount in Euro thousands)

	Equity at 31.12.2017	Change opening balances	Existences at 01.01.2018	Allocation of prior year profit		Changes in the period						Comprehen- sive income at 31.12.2018	Group shareholders equity at 31.12.2018
				Reserves	Dividends and other allocations	Transactions on shareholders' equity							
						Changes in reserves	Issue of new shares	Purchase of new shares	Extraordinary distribution of dividends	Changes in equity instruments	Other changes		
Share capital	50,000		50,000										50,000
Share premium	989,672		989,672						-600,398				389,275
Reserves:										-			-
a) income- related	6,449		6,449	76,437					-52,694				30,192
b) other			-			1,549,658			-1,549,658				-
Valuation reserves			-								-	-	-
Equity instruments	-		-										-
Treasury shares	-		-										-
Profit for the period	132,437		132,437	-76,437	-56,000							-50,893	-50,893
Equity	1,178,559	-	1,178,560	-	-56,000	1,549,658	-	-	-2,202,750	-	-	-50,893	418,574

**STATEMENT OF CASH FLOW**

(Amount in Euro thousands)

	2018	2017
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Operations</b>		
<b>profit for the year (+/-)</b>	<b>-50,893</b>	<b>132,437</b>
Net gains on financial assets held for trading and financial assets/liabilities at fair value through profit or loss and gains / losses on hedging activities (- / +)	-	-
Net accruals to provisions for risks and charges and other costs/revenue (+/-)	-	-
Net impairment losses on property, equipment and investment property and intangible assets (+/-)	-	-
Unpaid taxes, duties and tax assets (+/-)	-	317
Other adjustments (+/-)	-	-136,988
	<b>-50,893</b>	<b>-4,233</b>
<b>2. Cash flows generated by financial asset</b>	<b>-</b>	<b>-</b>
Financial assets at fair value through oci	-	-
Available-for-sale financial assets	-	-
Loans and receivables with banks	-	-
Loans and receivables with customers	45,281	-45,281
Attività in via di dismissione	-	-
Other assets	-21,102	-6,218
	<b>24,179</b>	<b>-51,499</b>
<b>3. Cash flows used by financial liabilities</b>	<b>-</b>	<b>-</b>
Due to banks	2,569,689	-41,013
Due to customers	-	-10,000
Financial liabilities held for trading	-	-
Hedging derivatives	-	-
Liabilities associated with non-current assets held for sale and discontinued operations	-	-
Other liabilities	2,171	-11,262
	<b>2,571,860</b>	<b>-62,274</b>
<b>Net cash flows generated by operating activities</b>	<b>2,545,145</b>	<b>-118,007</b>
<b>B. INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>1. Cash flows generated by</b>	<b>-</b>	<b>-</b>
Dividends from equity investments	-	129,988
Purchase of tangible assets	-	-
Sales of tangible assets	-	-
Purchase of intangible assets	-	-
Sale/purchase of investment in subsidiaries or business units	-	114,000
<b>Net cash flows used in investing activities</b>	<b>-</b>	<b>243,988</b>
<b>C. FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>
Issuing/purchasing of financial instruments	-380,000	-
Dividend and other distributions	-2,258,875	-
Sale/purchase of non controlling interest	-	-
<b>Net cash flows used in financing activities</b>	<b>-2,638,875</b>	<b>-</b>
<b>NET CASH FLOWS FOR THE YEAR</b>	<b>-93,730</b>	<b>125,981</b>
Net Cash flow for the year	-93,730	125,981
Opening cash and cash equivalents	134,384	8,403
<b>Closing cash and cash equivalents</b>	<b>40,654</b>	<b>134,384</b>





# 3.3

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NOTES TO THE FINANCIAL STATEMENTS

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting policies

### GENERAL PART

#### Statement of compliance

Pursuant to Regulation (EC) no. 1606 of 19 July 2002, the Company, has prepared this Report at 31 December 2018 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. They were introduced into Italian law with Legislative Decree no. 38/2005.

In the preparation of the Financial Statements for the year, the IAS/IFRS standards in effect at 31 December 2018 were applied.

It did not make any departures from the IFRS.

#### Basis of presentation

The financial statements at 31 December 2018 comprise a Statement of Financial Position, an Income Statement, a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows and the Explanatory Notes which include the criteria adopted for their preparation. They are accompanied by a directors' report which comments on the business performance, the results of its operations and its equity and financial position.

The presentation currency of the financial statements at 31 December 2018 is the Euro and the amounts shown in the Explanatory Notes are in thousands of Euros.

The financial statements at 31 December 2018 were prepared according to the recognition and measurement criteria established by the IFRS, endorsed by the European Commission and with the general assumptions set forth the Framework issued by the IASB that was used for the preparation and presentation of the financial statements.

The measurement criteria were applied on the basis of 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 separate financial statements, in addition to the amounts referring to the pertinent period, show also comparative data at 31 December 2017 for the statement of financial position, the income statement and the comprehensive income statement.

The 2017 data are shown together with the published data in order to guarantee a correct comparison. These changes did not produce any impact on either the economic results or on the equity.

The accounting principles adopted for these Financial Statements at 31 December 2018 have changed compared with those adopted for the Financial Statements at 31 December 2017 as regards classification, recognition, measurement and derecognition of financial liabilities as well as the method used for the recognition of income.

These changes derive essentially from the mandatory application, starting from 1 January 2018, of the following international standards adopted for all financial reporting:

- IFRS 9 "Financial Instruments", issued by IASB in July 2014 and endorsed by the European Commission with Regulation 2067/2016, which has partially replaced IAS 39 in regard to the rules for the classification and measurement of financial instruments as well as the related impairment process;
- IFRS 15 "Revenue from Contracts with Customers" ratified by the European Commission with Regulation 1905/2016, which has entailed the cancellation and replacement of IAS 18 "Revenue" and IAS 11 "Construction Contracts".

Given the above, these financial statements at 31 December 2018 provide detailed information on the new accounting policies of the company and an analysis of the new financial statement items.

The company decided to use the option offered by the accounting standards that do not require comparative data. Consequently, the transition date to the new accounting standards is 1 January 2018 and the impact, at the transition date, was determined on a cumulative basis. The impact from the application of IFRS 15 was determined in reference only to contracts that were not concluded as at the transition date.

The analysis conducted on the above-indicated new accounting standards did not show any significant impact on the financial statements of the company.

The following table shows the new standards or amendments with the related regulations and approval requirements. Their application is mandatory as from 1 January 2019 (for the companies adopting the calendar year) or from a later date.

Approval date		Standard/Interpretation	Year of application
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

The following table shows the new standards or amendments which are required to be applied as from 1 January 2018.

Approval date	Documents
07/02/2018	Annual Improvements to IFRS Standards 2014-2016 Cycle
26/02/2018	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions.
14/03/2018	Amendments to IAS 40: Transfers of Investment Property
28/03/2018	IFRIC 22: Foreign Currency Transactions and Advance Consideration

The above listed standards did not have any significant impact on the Financial Statements of Nexi SpA.

As for IFRS 16, approved in 2016 and to be mandatorily applied as from 1 January 2019, in 2018 a project for the transition to this standard was carried out and did not show any impact for Nexi SpA.

The following table shows the standards for which some amendments were issued but are not yet subject to approval by the European Union.

IASB Document	IASB publication dates
IFRS 17: Insurance contract	18/05/2017
Amendments allo IAS 28: Long term Interests in Associates and Joint Ventures	12/10/2017
Annual improvements to IFRS: 2015-2017 Cycle	12/12/2017
Amendments allo IAS 19: Plan Amendment, Curtailment of Settlement	07/02/2018
Amendments to References to the 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

Since none of them have been approved by the European Commission, they have not impacted the preparation of the Financial Statements.

## Basis of presentation of the separate financial statements

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

They comprise captions, sub-captions and additional information. In the income statement revenue is shown without a plus sign while costs are shown with a minus sign.

### Statement of changes in equity

This statement shows changes in equity during the reporting year.

### Statement of cash flows

The statement of cash flows for the year of reference of the financial statements and for the previous year has been prepared using the indirect method, whereby cash flows from operations are the profit for the year adjusted by the effects of non-monetary transactions.

Cash flows are split between those from operating, investing and financing activities.

Considering both Cash and Cash Equivalents, the changes during the year consist of financial changes only.

Cash flows generated during the reporting period are indicated without a sign while those used during the same period are shown with a minus sign.

## Basis of presentation of the explanatory notes

The explanatory notes include the information required by the international accounting standards.

The accounting criteria described below have been adopted to determine all the information contained in these financial statements.

The Financial Statements are subject to auditing by KPMG SpA.

## Events after the reporting period

No events took place after the reporting date that would have had a significant effect on the financial position, results of operations or cash flows or that would have required adjustments to the financial statements figures.

## Other aspects

No other information that needs to be disclosed.

## KEY FINANCIAL STATEMENTS CAPTIONS AT 31 DECEMBER 2018

### Financial assets measured at amortised cost

#### Classification criteria

This category consists of the non-derivative financial assets included in the business model Held to Collect, the contractual terms of which generate cash flows which are exclusively payments of principal and interest on the working capital (SPPI criterion).

According to the general rules set forth in IFRS 9 on the reclassifications of financial assets, these are not permitted toward other categories of financial assets unless the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, the financial assets may be reclassified from the category measured at amortised cost to one of the other two categories set forth in IFRS 9 (Financial assets designated at fair value with impact on the comprehensive income or Financial assets designated at fair value with impact on the income statement). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification are applied prospectively starting from the reclassification date. The profits and losses resulting from the difference between the amortised cost of the financial asset and the related fair value are recognised in the income statement in the case of a reclassification under the Financial assets designated at fair value with impact on the income statement, and under equity, in the appropriate valuation reserve, in the case of a reclassification under Financial assets designated at fair value with impact on the comprehensive income.

#### Recognition criteria

Financial assets valued at the amortised cost are initially recognised at the execution date of the agreement, which normally is the disbursement date, at the fair value of the financial instrument, which normally corresponds to the amount disbursed including any direct costs of the transaction.

#### Measurement criteria

After initial recognition, the financial assets measured at amortised cost use the effective interest method. The financial assets valued at amortised cost are subject to impairment test at each reporting date. In particular, the impairment provisions described below are also applied to the financial assets classified under "Other assets", to the commitments to disburse loans and to the financial collateral agreements issued. For these financial instruments, the impairment loss is determined on the basis of an expected loss. The application of the impairment model requires the classification of the financial instruments in three stages according to whether a significant increase of the credit risk has occurred, compared with the initial recording. For each stage, a different level of recognition is applied. Specifically:

- Stage 1: includes performing financial instruments which have not recorded a significant increase in the credit risk compared with the initial recording or financial instruments that show a low credit risk at the reference date. For these instruments, the impairment is measured based on the expected losses over the following 12 months;
- Stage 2: includes performing financial instruments that have shown a significant increase in credit risk compared with the initial recording. For these instruments, the impairment is measured on the basis of the expected losses over their entire residual life;
- Stage 3: includes impaired financial instruments. For these instruments, the impairment is measured based on the expected losses over the entire residual life. The impaired assets include financial assets classified with a non-performing status, unlikely to pay or past due beyond ninety days according to the provisions issued by the Bank of Italy, in line with IAS/IFRS.

In estimating the expected losses described above, the Company incorporates, in addition to the historical statistical information, all the information available at the reporting date, including forecast information on the potential worsening of the recorded historical losses.

Impairment losses are recognised under the net value adjustments of the income statement.

Written-down debt instruments are restored to their original value in the next periods if the reasons for the impairment loss have ceased to exist, provided that this assessment refers objectively to an event that has occurred after the recognition of the impairment loss. Value restorations are recognised in the income statement and may not exceed the value that would have been attributed to the amortised cost if the impairment loss had not been recognised.

### **Derecognition criteria**

Financial assets or parts of the financial assets are derecognised when the contractual rights on the cash flows expire or are transferred together with all related risks and benefits.

More specifically, transferred financial assets are derecognised when the entity retains the contractual rights to receive the cash flows of the assets, but undertakes concurrently an obligation to pay these and only these cash flows, with no significant delays, to third parties.

### **Equity investments**

Equity investments in subsidiaries, associates and companies subject to joint control are recognised at cost which coincides with the fair value of the price paid, including all transaction direct costs, net of any accrued impairment losses.

### **Current and deferred taxes**

The allocations to income taxes are based on the expected current and deferred tax liabilities, considering the domestic "tax consolidation scheme".

Current taxes, calculated considering the domestic "tax consolidation scheme", not yet paid in whole or in part at the reporting date are recognised as tax liabilities in the statement of financial position. If payments on account in the current or previous reporting period exceed the related tax expense, the difference is recognised as a tax asset of the statement of financial position, i.e. "Tax assets - a) current".

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

The provision for income tax expense is calculated on the basis of an estimate of the current and deferred tax assets and liabilities. 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 bank recognises deferred tax assets (in caption 100.b) for deductible temporary differences and carry forward 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 asset.

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 bank 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.

Deferred tax assets and liabilities are re-measured regularly to reflect any changes in the tax laws or rates or any subjective situations of the Company.

## **Non-current assets or groups of assets/liabilities held for disposal**

“Non-current assets or groups of assets held for disposal” are classified under assets and “Liabilities associated with assets held for disposal”, non-current assets or groups of assets/liabilities for which their disposal was decided upon and their sale is deemed as highly likely, are classified under liabilities.

These assets/liabilities are valued at the lowest between the carrying amount and their fair value net of disposal costs. Income and expenses (before taxes), generated by groups of assets held for disposal or recognised as such during the period, are separately posted in the income statement.

## **Other assets**

Other assets include essentially figures not recognisable under other captions of the financial statements, including receivables from the supply of non-financial goods and services, tax captions other than those recognised separately (e.g. related to substitute tax assets), accrued income other than income capitalised under the related financial assets, and prepaid expenses.

## **Financial liabilities measured at amortised cost**

### **Classification criteria**

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

### **Recognition criteria**

Amounts due are recognised at the contract agreement date, which is usually when the bank 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 criteria**

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Interest is recognised under caption “Interest and similar expense” of the income statement.

### **Derecognition criteria**

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

## **Other liabilities**

### **Classification criteria**

This category includes:

- intercompany liabilities such as financial liabilities other than those held for trading;
- other liabilities related primarily to payables to suppliers.

### **Recognition criteria**

Intercompany liabilities are recognised at the contract execution date, which normally coincides with the collection of the amounts due, and initially designated at fair value, which normally coincide with the amount received or with the issue price, plus the directly related costs/income. Internal administrative costs are excluded.

Other liabilities are recognised at the value corresponding to the monetary disbursement from the obligation.

### **Measurement criteria**

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Interest is recognised in caption "Interest and similar expense" of the income statement.

The other liabilities are measured at cost.

### **Derecognition criteria**

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

They are also derecognised when the issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in the income statement.

## **Provisions for risks and charges**

The provisions for risks and charges include accruals from past events for which it is probable that an outflow of resources will be required if a reliable estimate can be made of the amount.

At each reporting date, the provisions are periodically checked and released in whole or in part to the income statement when incurring possible charges is no longer likely.

When the effect of the time value of money is significant, the provision is discounted using the current market rates at the closing date. The accrual is recognised in the income statement.

## **Other information**

### **Income statement**

#### **Interest income and expense**

Interest income and expense are recognised in the income statement on all instruments measured at amortised cost, using the effective interest method, and including in the calculation the fees and direct costs of the transaction.



**Dividends**

Dividends are recognised in the income statement at the time when the distribution is resolved on.

Costs are recognised in the Income Statement on an accrual basis; the costs for obtaining and performing contracts with customers are recognised in the income statement for the periods when the related revenue is posted.

**Use of estimates and assumptions during the preparation of the Financial Statements**

The separate financial statements are measured using the standards set out above.

The application of these standards sometimes involves the adoption of estimates and assumptions that may have a significant effect on the figures of the statement of financial position and income statement.

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

- financial liabilities measured at amortised cost;
- quantification of the allocations for the provision for risks and charges;
- quantification of deferred tax 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 the income statement of the period of the change and, if the change affects future periods, also in future periods.

No significant changes were made to the estimate criteria already applied to the Financial Statements at 31 December 2017.

## 2. Statement of Financial Position

(Amount in Euro thousands)

### ASSETS

#### 3. Cash and cash equivalents

	31.12.2018	31.12.2017
a) Cash in hand	-	
b) Deposits and current accounts	40,654	134,384
<b>Total</b>	<b>40,654</b>	<b>134,384</b>

The caption "Deposits and current accounts" refers to the cash available in the current bank account of Nexi SpA, primarily at DEPObank SpA, where its outstanding balance is deposited and that includes the effects deriving from:

- liquidity from capital contributions carried out in 2016 by the subsidiary in order to complete the acquisition of Mercury Payment Services (formerly Setefi);
- the liquidity from the transfer in 2017 of Mercury Processing D.o.o.;
- the liquidity used to pay ordinary dividends and current expenses.

#### 6. Financial assets measured at amortised cost

##### 6.2 RECEIVABLES WITH CUSTOMERS: COMPOSITION BY PRODUCT

31.12.2018	Carrying amount			Fair Value		
	Performing	Non-performing		L1	L2	L3
		Purchased	Other			
Ordinary Credit Cards					-	
Receivables with member international circuits and member merchant with said companies					-	
Revolving Credit Cards					-	
Personal Loans					-	
Other assets					-	
<b>Total</b>	-	-	-	-	-	-

31.12.2017	Carrying amount			Fair Value		
	Performing	Non-performing		L1	L2	L3
		Purchased	Other			
Ordinary Credit Cards					-	
Receivables with member international circuits and member merchant with said companies					-	
Revolving Credit Cards					-	
Personal Loans					-	
Other assets	45,281			45,281	-	
<b>Total</b>	<b>45,281</b>	-	-	<b>45,281</b>	-	-

## 7. Equity investments

### 7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENT RELATIONSHIPS

Company	Registered office	Operating office	Investment %	Voting rights%	Carrying amount	Fair Value
A. Wholly-controlled subsidiaries						
1. Mercury Payment Services SpA	Milano	Milano	100,00	100,00	1,005,717	X
2. Nexi Payment SpA	Milano	Milano/Roma	98,92	98,92	1,882,182	X
3. Help Line SpA	Cividale del Friuli	Cividale del Friuli/Milano	69,24	69,24	5,307	X
B. Jointly-controlled entities						X
C. Associates						X

It should be noted that the impairment test carried out on the financial statements also supports full recoverability of the carrying amounts, in the separate financial statements, of the most significant equity investments. In fact, as detailed in the explanatory notes of the consolidated financial statements, the test was carried out in reference to the legal entities Nexi Payments and Mercury Payment SpA and the calculated values in use also exceed the carrying amounts posted in the separate financial statements.

### 7.2 EQUITY INVESTMENTS: ANNUAL CHANGES

	31.12.2018	31.12.2017
<b>A. Opening balance</b>	<b>1,005,717</b>	<b>1,005,717</b>
<b>B. Increases</b>		
B.1 Purchases		
B.2 Reversals of impairment losses		
B.3 Fair value gains		
B.4 Other increases	1,929,783	
<b>C. Decreases</b>		
C.1 Sales		
C.2 Impairment losses		
C.3 Other decreases	42,294	
<b>D. Closing balance</b>	<b>2,893,206</b>	<b>1,005,717</b>
<b>E. Total fair value gains</b>		
<b>F. Total impairment losses</b>		

The caption "Increases - Other changes" refers to the spin-off transaction of the "equity investments" business unit, carried out by DEPObank, which represents the equity investment in the companies operating in the payment business (Nexi Payment, Oasi, Help Line, Bassilichi and Consorzio Triveneto) to Nexi SpA. Due to this transaction, Nexi SpA acquired control of these companies. The value of the acquired equity investment is equal to the carrying amount recognised in the DEPObank financial statements.

The caption "Decreases - Other changes", referring to the equity investment in the company Oasi Diagram SpA, also a part of the "equity investments" business unit, was classified at 31 December 2018 under "Non-current assets and groups of assets being disposed" following the start in 2018 of the investment disposal process.

**11. Tax assets and liabilities****11.1 CURRENT TAX ASSETS**

	31.12.2018	31.12.2017
<b>Current tax assets:</b>		
IRES	13,320	6,465
IRAP	1,356	194
<b>Total</b>	<b>14,676</b>	<b>6,660</b>

At 31 December 2018, the financial statements showed Euro 14,676 million in current tax assets.

**11.2 CURRENT TAX LIABILITIES**

	31.12.2018	31.12.2017
<b>Current tax liabilities:</b>		
IRAP		3,182
<b>Total</b>	<b>-</b>	<b>3,182</b>

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

This caption, for Euro 42,294 thousand, refers to the carrying amount of the equity investment in Oasi Diagram SpA.

**13. Other assets**

	31.12.2018	31.12.2017
Taxes and revenue stamps	-	
Guarantee deposits	-	
Deferred costs	6,494	
Sundry services	-	
Other assets	6,592	
<b>Total</b>	<b>13,086</b>	<b>-</b>

The caption Deferred costs refers to deferrals on insurance and arrangement fees; the other assets refer only to the receivables related to the domestic tax consolidation with the company Mercury Payments.

## LIABILITIES

### 14. Financial liabilities measured at amortised cost

#### 14.3 SECURITIES ISSUED (BREAKDOWN BY PRODUCT)

This caption includes the securities issued in 2018 by Nexi Capital SpA (now Nexi SpA) within the scope of the debt refinancing operation. For details, see Note 41 Bond Issuance.

31.12.2018	Fair Value			
	Carrying Amount	L1	L2	L3
1. Financing	816,198		819,357	
2. Other liabilities	1,753,491		1,762,928	
<b>Total</b>	<b>2,569,689</b>	<b>-</b>	<b>2,582,285</b>	<b>-</b>

31.12.2017	Fair Value			
	Carrying Amount	L1	L2	L3
1. Financing				
2. Other liabilities				
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The issued securities refer to the bonds issued by Nexi Capital SpA, in connection with the reorganisation and refinancing project described in paragraph 41. The recognised value includes transaction direct costs for Euro 43,040 thousand and the effects of the recognition of payables at amortised cost.

### 17. Other liabilities

	31.12.2018	31.12.2017
Suppliers	5,612	5,683
Tax authorities	1,199	
Other liabilities	4,825	4,618
<b>Total</b>	<b>11,636</b>	<b>10,301</b>

Other liabilities are represented by the payables for VISA earnout to Intesa.  
Tax liabilities include VAT payables and the IRPEF withholdings to be paid.

**19. Provisions for risks and charges****19.1 PROVISIONS FOR RISKS AND CHARGES: BREAKDOWN**

	31.12.2018	31.12.2017
2. Other provisions for risks and charges		
2.3 Other	4,017	
<b>Total</b>	<b>4,017</b>	<b>-</b>

The allocation carried out in 2018 refers to potential tax liabilities.

**19.2 PROVISIONS FOR RISKS AND CHARGES: CHANGES**

	Funds on other commitments and other guarantees issued	Pension plans	Other provisions	Total
A. Opening balance				-
B. Increases			4,017	4,017
C. Decreases				-
D. Closing balance	-	-	4,017	4,017

**20. Equity**

Equity at 31/12/2018 was impacted by the following operations:

- distribution of ordinary dividends, as a partial allocation of the 2017 profit, for Euro 56 million; the non-distributed profit, for Euro 76.4 million, was allocated to Profit reserves;
- spin-off operation which contributed to an increase in the Reserves by about Euro 1,549 million;
- distribution of an extraordinary dividend for Euro 2,205 million drawing on "Share premium" for about Euro 600 million, Profit reserve for Euro 53 million and Other reserves for Euro 1,549 million. This distribution was carried out after allocation to the legal reserve of Euro 3 million from other profit reserves.

Both transactions were carried out in order to complete the reorganisation of the Group and the refinancing of the debt (see notes 41 and 42).

**20.1 SHARE CAPITAL: BREAKDOWN**

	31.12.2018	31.12.2017
<b>1. Share capital</b>		
1.1 Ordinary shares	50,000	50,000
1.2 Other shares	-	-

**20.3 SHARE PREMIUM: BREAKDOWN**

	31.12.2018	31.12.2017
Share premium reserves	389.275	989.672

**20.4 RESERVES: BREAKDOWN AND CHANGES**

Possible use (*)	Legal	Other - Extraordinary Reserve	Other	Total
	B	A, B, C	A, B, C	
<b>A. Opening Balance</b>	<b>1,290</b>	<b>5,159</b>	<b>-</b>	<b>6,449</b>
<b>B. Increases</b>				
B.1 Allocation of profit for the year		76,437		76,437
B.2 Other Increases	3,056		1,549,658	1,552,714
<b>C. Decreases</b>				
C.1 Utilisation		52,694		52,694
C.2 Other Decreases		3,056	1,549,658	1,552,714
<b>D. Closing Balance</b>	<b>4,346</b>	<b>25,846</b>	<b>-</b>	<b>30,192</b>

(\*) A: capital increase; B: to cover losses; C: dividend distribution

**Other information**

None.

## 21. Income Statement

(Amount in Euro thousands)

### 23. Interest and similar income

	31.12.2018	31.12.2017
Loans and receivables with banks and financial institutions	-	
Loans and receivables with customers	36,031	281
Other Assets	-	
<b>Total</b>	<b>36,031</b>	<b>281</b>

Interest income accrued with customers refers primarily to intercompany receivables put in place, temporarily, in view of the debt refinancing operation, as described in paragraph 41.

### 24. Interest and similar expense

	31.12.2018	31.12.2017
Due to banks and financial institutions	66,765	359
Other Liabilities and provisions	-	-
<b>Total</b>	<b>66,765</b>	<b>359</b>

Interest expense refers primarily to the Securities issued by Nexi Capital SpA (now Nexi SpA) in 2018 within the scope of the debt refinancing operation (see note 41.)

### 25. Profit/loss from trading and hedging activities carried out on financial assets and liabilities designated at fair value with impact on the income statement

	31.12.2018	31.12.2017
Net trading income on financial assets	3	
Net hedging income on financial assets	-	
<b>Total</b>	<b>3</b>	<b>-</b>

This caption, amounting to Euro 3 thousand, includes primarily non-recurring charges related to currency gains and losses.



## 26. Dividends and profit/loss from investments and disposal of assets designated at fair value with impact on the comprehensive income

	31.12.2018	31.12.2017
Dividends	-	129,988
Profit/Loss from disposal of financial assets at fair value through OCI	-	-
<b>Net Result</b>	<b>-</b>	<b>129,988</b>

The 2017 dividends referred to the amounts collected by the subsidiary Mercury Payment SpA.

## 27. Administrative expenses

### 27.1 PERSONNEL EXPENSE: BREAKDOWN

This caption for Euro 74 thousand refers to the expense for seconded personnel.

### 27.2 OTHER ADMINISTRATIVE EXPENSES: BREAKDOWN

	31.12.2018	31.12.2017
1. Third party services	150	-
3. Insurance companies	86	-
10. Other taxes	3,141	-
11. Legal, notary and consultancy services	25,454	4,776
16. Other general expenses	763	14
<b>Total</b>	<b>29,594</b>	<b>4,790</b>

This caption includes primarily extraordinary expenses arising from the corporate Reorganisation project (Euro 28.6 million) in addition to the non-deductible VAT and other indirect taxes.

## 30. Net accruals to provisions for risks and charges

	31.12.2018	31.12.2017
Net provisions for risk and charges	4,017	-
Net provisions for Nexi Payments frauds	-	-
<b>Total</b>	<b>4,017</b>	<b>-</b>

The "Provisions for risks and charges" amounted to Euro 4,017 thousand and refer to non-recurring charges related to potential tax liabilities.

**32. Profit/loss from equity investments and disposal of investments**

	31.12.2018	31.12.2017
<b>Profit/gain</b>		
Profit from investments	-	-
Gain on sale of investments	-	7,000
<b>Loss</b>		
Loss from investments	-	-
Loss on sale of investments	-	-
<b>Net Result</b>	<b>-</b>	<b>7,000</b>

The profit from the transfer in 2017 referred to the capital gain for the transfer of the equity investment in Mercury Processing.

**33. Current income taxes**

	31.12.2018	31.12.2017
Current taxes	13,523	641
Change in current taxes from previous period	-	-
Change in deferred tax assets	-	-324
Change in deferred tax liabilities	-	-
<b>Tax expense for the year</b>	<b>13,523</b>	<b>317</b>

Current income taxes refer to the taxes on tax losses of the company, already entirely recovered through the domestic tax consolidation with the subsidiary Mercury Payment SpA.

## 37. Information on risks and related hedging policies

Refer to the relevant section of the Consolidated Financial Statements for details.

## 38. Transactions with related parties

### 1. Fees of key management personnel

The fees paid by Nexi SpA to its directors and key management personnel, as defined in part 2, are set out below.

(Amount in Euro thousands)

Directors	416
Board of Statutory Auditors	321
<b>Total</b>	<b>738</b>

### 2. Information on transactions with related parties

The aim of IAS 24 (Related Party Disclosures) is to ensure that an entity's financial statements include the additional disclosures necessary to understand whether its equity and financial position and performance may be altered by related party transactions and balances.

Based on these indications, applied to the organisational and governance structure of Nexi SpA, related parties are:

- a) the controlling company, Mercury UK;
- b) the parties that control Mercury UK, directly or indirectly, also through subsidiaries, trustees or through a third party, even jointly or hold an interest in Mercury UK which enables it to exercise significant influence;
- c) entities that are controlled or jointly controlled by the above indicated parties;
- d) entities that are controlled or jointly controlled or under the significant influence of Nexi SpA;
- e) key managers of the Nexi Group or its parent and entities controlled thereby, under joint control or significant influence;
- f) is a close relative of a natural person included in letters b) or e) above;
- g) is a collective or individual Italian or foreign supplementary pension fund established for the employees of Nexi SpA or of any other related entity.

The effects of transactions carried out with the related parties identified above are summarised in the following table.

<b>Caption</b>	<b>Total Financial Statements Caption</b>	<b>Shareolder with significant influence</b>	<b>Other Subsidiaries</b>	<b>Other related parties</b>	<b>Director managers and members of supervisory board</b>
Cash and cash equivalents	40,654			40,654	
Financial liability measured at amortised cost	2,569,689			31	
Other Liabilities	11,636		224		
Interest and similar income	36,031	36,031			
Administrative expenses	(29,668)		(224)		(660)

Centralised transactions with the Nexi Group companies are usually governed by specific agreements that, while aiming at optimising synergies, economies of scale and purpose and to use 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.

## 41. Group's funding operations

### Bond issuance

In 2018, the Reorganisation Project was carried out involving, inter alia, a revision of the structure of the Group's funding. In particular, within the Reorganisation scope, the bonds held by the vehicle Mercury BondCo, outside of the Mercury Group, issued primarily to finance the purchase by the "Sponsors" of Istituto Centrale delle Banche Popolari and Mercury Payments Services ("Existing bonds"), were refinanced. The refinancing operation of the bonds involved the "transfer" of the bonds within the Nexi Group through the vehicle Nexi Capital SpA, established on 16/04/2018 and merged into Nexi SpA at 31 December 2018. This operation was carried out through the issuance by Nexi Capital of new bonds with the following characteristics:

- Fixed rate bonds for Euro 825 million with maturity in 2023
- Variable rate bonds for Euro 1,375 million with maturity in 2023
- Variable rate bonds (Private Placement) for Euro 400 million with maturity in 2023

The liquidity collected by Nexi Capital SpA (now Nexi SpA) was used, following transfer through Mercury UK to Mercury BondCo, to extinguish the Existing Bonds.

The aforementioned bonds include repayment clauses which, based on the analyses carried out, did not require a separate recognition of options for early repayment. For the purpose of the calculation of the amortised cost, as set forth in IFRS 9, the expected residual life of the bonds was estimated and taking into consideration the uncertainty of the effects of a possible refinancing, it was assumed to be equal to the contractual duration.

## 42. Business combinations

### Transactions carried out during the period

#### **"Under common control" transactions related to the reorganisation of the Group**

In 2018, the reorganisation process of the Mercury Group, authorised by the Bank of Italy with provisions dated 11 April 2018 and launched in the second quarter of 2018, changed significantly the organisation structure of the Group.

In particular, the reorganisation process that aimed, on the one hand, to separate the banking business from the payment business, has significantly impacted the separate financial statements of Nexi SpA due to the following extraordinary operations:

- spin-off transaction of the equity investment held by DEPObank in the companies operating in the payment business (Nexi Payments, Oasi, Help Line, Bassilichi and Consorzio Triveneto) to Nexi SpA. Due to this transaction, Nexi SpA acquired control of these companies. This transaction has involved the recognition of equity investments in the amount of Euro 1,929,783;
- merger by incorporation of the company Nexi Capital SpA into Nexi SpA, a company established on 16 April 2018. This transaction falls under the definition of "transactions under common control" and consequently any difference from a derecognition should be recognised based on the principle of continuity in value in respect of the consolidated financial statements of the parent company Mercury UK. In the case in question, no differences were noted from the derecognition, consistent with the absence of goodwill in the consolidated financial statements of the final parent company.

## 43. Retrospective adjustments

None in 2018.



# 3.4

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BOARD OF STATUTORY AUDITORS REPORT





## **Nexi SpA Board of Statutory Auditors Report for 2018 to the Shareholders' Meeting pursuant to article 2429 of the Italian Civil Code**

### **1. INTRODUCTION**

#### **To the Shareholders.**

The undersigned Auditors have acknowledged that during the year the Board of Statutory Auditors has performed its supervisory duties in compliance with the regulations that govern the tasks and responsibilities assigned thereto. It must be noted that the Board of Statutory Auditors acts also in the capacity as a *Supervisory Board, ex Legislative Decree 231 of 2001*. For the sake of clarity, the changes made to the composition of the Board in 2018 are hereinafter described. On 16 April 2018, the Shareholders' Meeting appointed as members of the Board of Statutory Auditors Mr Piero Alonzo, Chairman, Mr Alberto Balestreri and Mr Marco Giuseppe Zanobio, statutory auditors, since the appointment of the previous control body (sole auditor, Mr Andrea Vagliè) had expired. On 13 February 2019, following resignation by the entire Board in view of the potential listing of the Company, the Shareholders' Meeting appointed the new Board of Statutory Auditors for three periods until the approval of the financial statements at 31 December 2021. Therefore, at this reporting date, the Board of Statutory Auditors is composed as follows:

Chairman	Piero Alonzo
Statutory Auditors	Marco Giuseppe Zanobio Mariella Tagliabue
Alternate Auditors	Tommaso Ghelfi Andrea Carlo Zonca

It should be noted that since the new Board was appointed on 13 February 2019, the supervisory activities set forth in article 2403 of the Italian Civil Code, concerning the year 2018 were carried out by the previous Board of Statutory Auditors of which the current Auditors, Mr Piero Alonzo and Mr Marco Giuseppe Zanobio, were members.

Given the above, the Financial Statements at 31 December 2018, together with the Director's Report, were approved by the Board of Directors on 13 February 2019 and concurrently forwarded to the Board of Statutory Auditors.

## 1.1 Regulatory Provisions

The Board of Statutory Auditors has carried out its tasks pursuant to the provisions of article 2403 of the Italian Civil Code. In performing its supervisory duties, it has operated in compliance with the Rules of conduct set forth for the Boards of Statutory Auditors by the National Council of Chartered Accountants.

## 1.2 Methods adopted by the Board of Statutory Auditors in the performance of its duties

The Board of Statutory Auditors has performed its duties, including supervisory activities, through:

- participation in the meetings of the corporate bodies and in particular of the Board of Directors and in the Shareholders' Meetings;
- meetings with and collection of information from the upper management of the Company;
- periodical meetings with the managers of the main corporate functions, including Audit, Risk Management and Compliance, and AML;
- exchange of information with the Auditing Company also pursuant to the laws;
- acquisition of statements and periodical reports also from the corporate functions with reference to both the activities carried out and the outcomes of the individual controls performed;
- information and activities carried out in the capacity as Supervisory Board, ex Legislation Decree 231/2001.

## 2. SUPERVISORY ACTIVITIES OF A GENERAL NATURE

### 2.1 Compliance with the Law and the Articles of Association

The Board of Statutory Auditors is not aware of any transaction carried out by the Company that may be in breach of the law, not aligned with the purpose of the Company or in violation of the Articles of Association or with the resolutions issued by the Shareholders' Meeting and the Board of Directors. Furthermore, the Board of Statutory Auditors acknowledges that on 3 July 2018 the Board of Directors approved, also in view of the Group restructuring, the new governance structure of the Company implemented also through the execution of the appropriate service agreements with the subsidiary Nexi Payment SpA in order, inter alia, to provide the necessary secondment of personnel as regards the main corporate functions (Internal Audit, Corporate Affairs, Chief Financial Officer). On 9 November 2018, the Board of Directors approved the General Regulations of the Nexi Group regarding the management and coordination activities to be carried out by the Company as from 2 July 2019 (this activity is currently performed on the subsidiaries Nexi Payment SpA, Mercury Payment SpA and Help Line SpA). In addition, in regard to the bond loan listed on the Luxembourg MTF, issued by the incorporated Nexi Capital SpA and all related obligations set forth in the Market Abuse Regulation, on 9 November 2018, the Board of Directors approved the Group Regulations for the processing of relevant/insider information, as well as the establishment and maintenance of the Insider List and Internal Dealing.

## **2.2 Participation in the meetings of the corporate bodies, of the Board of Statutory Auditors and of several functions, in addition to exchanges of information with the Auditing Company**

The Board of Statutory Auditors has carried out its supervisory activities also through the participation, during the year, in the meetings of the Board of Directors and the Shareholders' Meeting.

More specifically, the Board has:

- participated in all eleven meetings of the Board of Directors (the sole auditor in office participated in the first two meetings at the beginning of the year) acquiring all information provided by the delegated bodies pursuant to ex article 2381, paragraph 5 of the Italian Civil Code regarding operating performance and outlook;
- participated in the four shareholders' meetings held over in the year, following its appointment;
- held, during the year, six meetings of the Board of Statutory Auditors (in addition to the two meetings mentioned above held by the sole auditor) performing its supervisory duties with the support of the internal control functions;
- acquired additional information and carried out thorough analyses concerning the two afore-mentioned meetings and the activities carried out in the capacity as Supervisory Body pursuant to Legislative Decree no. 231 of 2001.

## **2.3 Complaints and claims**

The Board of Statutory Auditors did not file, also in its capacity as Supervisory Body, any claims with the Supervisory Authority. In 2018, the Board of Statutory Auditors did not directly receive any complaints or claims and it ensured verification, through meetings held with the designated structures, of the process for the management of complaints and claims.

## **2.4 Observations on the most relevant transactions of an economic, financial and equity nature carried out by the company, and their compliance with the laws and the Articles of Association**

The Board of Statutory Auditors has acknowledged the main operations submitted to the Board of Directors and to the Shareholders' Meetings and it has no exceptions to raise. The most important operations are described in the paragraph "Group's development" of the Directors' Report annexed to the Financial Statements. In regard to the most relevant operations performed in 2018 involving the Company, the following should be noted:

- the proportional and partial spin-off of DEPObank, with the Company as the beneficiary, regarding the equity investment of DEPObank in Nexi Payments, Oasi Diagram SpA, Helpline SpA, Basilichi SpA and Consorzio Triveneto SpA (on 2 October 2018, the merger by incorporation of Basilichi SpA and Consorzio Triveneto SpA into the subsidiary Nexi Payments SpA was completed) - following this operation, the Company became Nexi Group's holding company;
- the issuance of a loan bond for a total of Euro 2,600,000,000 issued by the subsidiary Nexi Capital SpA, merged by incorporation into the Company with deed dated 11 December 2018, aimed at acquiring the resources necessary to repay and subsequently extinguish the financial debt resulting from the bond loans issued by Mercury Bondco plc;
- the distribution of an extraordinary dividend from the provisions available in the amount of Euro 2,202,750,000.

### **Indications about the existence of atypical and/or unusual transactions with related parties and accuracy of the information received**

The Board of Statutory Auditors did not identify, during the year, the existence of atypical and/or unusual transactions and acquired information on possible transactions with related parties both through the information contained in the Financial Statements documents and the information provided, from time to time, by the Board of Directors and other corporate functions, and/or information related to the topics discussed at the meetings of the Board of Directors. In any case, the Board of Directors reported on and described the transactions carried out with the indicated related parties, which, in compliance with the IAS 24 standards are included in the Directors' Report and in the Explanatory Notes, to which reference should be made and which were found to be compliant with the law.

## **2.7 Remarks on compliance with the appropriate administration standards**

The Board of Statutory Auditors has acquired knowledge of and has overseen, within its area of competence, compliance with the fundamental criteria of a sound and prudent management of the Company; it found that the Board of Directors had acted in a reasonable and well informed manner, that the process adopted for issuing resolutions was adequate; it has verified, based on the information acquired, compliance with the law and the Articles of Association regarding the resolutions issued, ensuring that they were neither imprudent or risky.

## **3. EXCHANGE OF INFORMATION AND SUPERVISION ON THE RELATIONSHIP WITH THE AUDITING COMPANY**

### **3.1 Remarks and proposals about the findings and references to information contained in the report from the auditing company**

The Board of Statutory Auditors met, during the year, with the Auditing Company in order to exchange information regarding the outcomes of the auditing activities carried out thereby. The Auditing Company reported about its accounting audit and confirmed the absence of situations of uncertainty or of any limitations in the audits carried out. Finally, the Board of Statutory Auditors received the report prepared by the Auditing Company regarding the Financial Statements at 31.12.2018 and acknowledged the absence of critical findings and non-compliances with the law.

### **3.2 Granting of additional powers to the Auditing Company**

The Board of Statutory Auditors acknowledges to have received from the auditing company a declaration about the absence of additional responsibilities assigned to it, or to its network, other than the legally-required auditing tasks.

### **3.3 Remarks on any relevant aspects that have emerged during the meetings held with the auditors**

The Board of Statutory Auditors has met periodically with the Auditing Company and acquired from it information about the outcomes of its audit activities performed during the period, without identifying any critical issues. The Board had prioritised the issue of the adequacy of the administrative, accounting and internal control system and did not report any serious findings.

## **4. OPINIONS, COMPLAINTS AND CLAIMS**

### **4.1 Opinions issued during the year pursuant to the law**

In 2018, the Board of Statutory Auditors issued opinions regarding special remunerations due to the Directors entrusted with particular tasks pursuant to the provisions of art. 2389, third paragraph, of the Italian Civil Code, as well as an opinion regarding the structure of governance and the establishment of special internal board committees (Risk and Sustainability Committee - Remuneration Committee - Strategic Committee - Related Parties Committee).

### **4.2 Filing of claims ex art. 2408 of the Italian Civil Code, initiatives undertaken and related outcomes**

In 2018, no claims were received by the Board of Statutory Auditors ex art. 2408 of the Italian Civil Code.

## **5. SUPERVISORY ACTIVITIES REGARDING THE ADEQUACY OF THE ORGANISATIONAL STRUCTURE, INTERNAL CONTROL SYSTEM AND ADMINISTRATIVE-ACCOUNTING SYSTEM**

### **5.1 Remarks on the adequacy of the organisational structure**

The Board of Statutory Auditors has monitored the adequacy of the organisational structure also in reference to the tasks assigned within the structure, to the existence of procedures and internal corporate provisions as well as to the controls established for monitoring the activities deemed as very sensitive for the Company. In the capacity of Supervisory Board, ex Legislative Decree no. 231 of 2001, the Board has acknowledged that the Model 231, in addition to the Code of Ethics and the Code of Conduct, was approved by the Board of Directors on 13 February 2019.

### **5.2 Remarks on the adequacy of the internal control system**

The Board of Statutory Auditors has acknowledged the revisions made by the Company to the organisational structure of 2018 also in view of the general restructuring of the Nexi Group. As regards the activities carried out by the Audit Function, the Board of Statutory Auditors has received and acknowledged the audit reports, as well as the annual and multi-annual plans, drawn up on the interventions prepared in coordination with the scheduled activities to be carried out by the Compliance and Risk Management function, in order to avoid any overlapping of the structures entrusted with the controls.

### **5.3 Remarks on the adequacy of the administrative/accounting system, and its reliability in correctly representing the transactions carried out**

The Board of Statutory Auditors did not find any issues, within its area of competence, regarding the reliability of the administrative-accounting system to transpose and represent correctly the company's operations. It has carried out these assessments also by obtaining information from the parties responsible for the corporate functions as well as from the periodical exchange of information with the Auditing Company and in particular with reference to the outcomes of its work regarding the assessment of the administrative-accounting system which did not show any critical issues or matters requiring attention.

## **6. CONCLUSIVE ASSESSMENTS REGARDING THE SUPERVISORY ACTIVITIES CARRIED OUT ALSO IN REGARD TO OMISSIONS, CENSURABLE FACTS OR IRREGULARITIES IDENTIFIED DURING THE PROCESS**

Based on the supervisory activities carried out by the Board of Statutory Auditors, and as detailed in this report, the Board acknowledges, also based on the project activities under way, the substantial adequacy of the Company as regards its organisational structure and its administrative and accounting system. In reference to the internal control system, the Board of Statutory Auditors has acknowledged the actions performed by the Company in the monitoring of non-compliance risk.

Within the supervisory activities carried out by the Board, no omissions, censurable facts or irregularities or critical issues that required reporting were identified.

## **7. REMARKS AND PROPOSALS REGARDING THE FINANCIAL STATEMENTS AND THEIR APPROVAL**

It must be noted that, pursuant to articles 13 and 14 of Italian Legislative Decree no. 39/2010 (formerly 2409-bis et seq. of the Italian Civil Code), the auditors are responsible for checking the correct recording of accounting entries, the results obtained from them and their accordance with the financial statements figures.

The Board of Statutory Auditors did not exclude any specific controls on some financial statements items to ensure that, within the broader and more general provision under paragraphs III and IV of section 6<sup>^</sup> bis, chapter, title and book V of the Italian Civil Code, as well as in consideration of the provisions as amended, of art. 2429 of the Italian Civil Code, the capacity to formulate an independent assessment of the correctness of the financial statements would not in any way be restricted.

On the part of the Board of Statutory Auditors, an analysis of the Financial Statements was carried out according to the principles of conduct adopted by the Board of Statutory Auditors, as established by the National Council of Chartered Accountants.

The Board of Statutory Auditors has supervised the general structure of the financial statements and of the Explanatory notes in their general compliance with the law, as regards their forms and layouts, as well as their accurate reflection of the acquired facts and information.

In particular, the Board confirms that the Financial Statements were prepared in compliance with the international accounting standards IAS/IFRS as ratified by the European Commission and adopted by the Italian legislator at the reference date.

The report on operations provides adequate information on the reasons that have determined the results of the period and highlights the most important events that have characterised the operations over the period ended 31 December 2018 and its predictable development, as well as any additional information set forth in article 2428 of the Italian Civil Code.

The Auditing Company KPMG SpA has informed the Board that as regards the preparation of the financial statements ex article 14 of Legislative Decree no. 39/2010 (former art. 2409-ter of the Italian Civil Code) issued on 25 February 2019, no exceptions or matters to be noted were identified.

Finally, the Board of Statutory Auditors declares that, to its knowledge, the Directors, in preparing the Financial Statements, did not deviate from the application of the IAS/IFRS international accounting standards.

As regards the consolidated financial statements, as it is known, their audit is the responsibility of the bodies or subjects to which the law attributes the duty of legal auditing, which in this case is assigned to the Auditing Company KPMG SpA; however, the Board of Statutory Auditors has deemed appropriate to review this document since it is the first consolidated financial statements drawn up by the Company (in fact, until 31 December 2017, the Company was not required to prepare consolidated financial statements since it was fully owned by Mercury UK which prepared its consolidated financial statements in compliance with the international accounting standards) and therefore to ensure that it complies with the International Financial Reporting Standards (IFRS) issued by the international Accounting Standards Boards, in effect at 31 December 2018. The Auditing Company KPMG SpA has issued, on 25 February 2019, its report, annexed to the consolidated financial statements, where no exceptions or matters of consequence are noted.

With reference to the Financial Statements, which show a loss of Euro 50,893,180, the Board of Statutory Auditors has no remarks or proposals to formulate and it is expressing, within its scope of responsibility, an opinion favourable to the approval thereof and of the proposals submitted by the Board of Directors about the coverage of the loss for this period.

Milan, 25 February 2019

**The Board of Statutory Auditors**

Piero Alonzo  
Chairman

Marco Giuseppe Zanobio  
Statutory Auditor

Mariella Tagliabue  
Statutory Auditor





# 3.5

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AUDITING COMPANY REPORT





KPMG S.p.A.  
Revisione e organizzazione contabile  
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(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010**

*To the shareholders of  
Nexi S.p.A.*

### **Report on the audit of the separate financial statements**

#### ***Opinion***

We have audited the separate financial statements of Nexi S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Nexi S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the separate financial statements" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements***

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

### ***Auditors' responsibilities for the audit of the separate financial statements***

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

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Report on other legal and regulatory requirements**

### ***Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10***

The company's directors are responsible for the preparation of a directors' report at 31 December 2018 and for the consistency of such report with the related separate financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the company's separate financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's separate financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 25 February 2019

KPMG S.p.A.

(signed on the original)

Roberto Fabbri  
Director of Audit



# 3.6

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RESOLUTIONS OF THE SHAREHOLDERS MEETING





# RESOLUTIONS OF THE SHAREHOLDERS MEETING

of 12 March 2019

The resolutions adopted by the Ordinary Shareholders Meeting held on first call on 12 March 2019 are summarized hereinafter as follows:

- 1) PRESENTATION OF THE YEARLY FINANCIAL STATEMENTS OF THE COMPANY AS AT 31 DECEMBER 2018, INCLUDING THE MANAGEMENT REPORT OF THE DIRECTORS, THE REPORT OF THE STATUTORY AUDITORS AND THE REPORT OF THE AUDITING FIRM. RELATED AND CONSEQUENT RESOLUTIONS.

The Shareholders' Meeting has approved the financial statements as at 31 December 2018 as presented by the Board of Directors.

- 2) PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE NEXI GROUP AS AT 31 DECEMBER 2018, INCLUDING THE MANAGEMENT REPORT OF THE DIRECTORS, THE REPORT OF THE STATUTORY AUDITORS AND THE REPORT OF THE AUDITING FIRM.

The Shareholders' Meeting has approved the consolidated financial statements of the Nexi Group as at 31 December 2018 as presented by the Board of Directors.

- 3) PROPOSAL OF DESTINATION OF THE LOSS OF THE FISCAL YEAR. RELATED AND CONSEQUENT RESOLUTIONS.

The Shareholders' Meeting has resolved to carry forward the loss of the fiscal year with the simultaneous use of the "reserve for the cover of losses" created with resolution dated 20 December 2018.

- 4) PRESENTATION OF THE REGULATION OF THE SHAREHOLDERS MEETING; RELATED AND CONSEQUENT RESOLUTIONS.

The Shareholders' Meeting has resolved to adopt the Regulation of the Shareholders Meeting in accordance with the proposed terms.

- 5) PROPOSAL OF AUTHORISATION TO THE PURCHASE AND THE DISPOSAL OF OWN SHARES; RELATED AND CONSEQUENT RESOLUTIONS.

The Shareholders' Meeting has resolved to authorise the Board of Directors to purchase and dispose of its own shares.

- 6) APPROVAL OF THE NEW REMUNERATION POLICIES, OF THE MBO AND THE LTI. RELATED AND CONSEQUENT RESOLUTIONS.

The Shareholders' Meeting has approved the remuneration policies, the MBO and the LTI.



# 3.7

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CORPORATE OFFICES



## Corporate offices

at 12 March 2019

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### BOARD OF DIRECTORS

Chairman	Michaela Castelli
Deputy Chairman	Giuseppe Capponcelli
Chief Executive Officer	Paolo Bertoluzzo
Directors	Luca Bassi Francesco Casiraghi Simone Cucchetti Federico Ghizzoni Robin Marshall Maurizio Mussi Jeffrey David Paduch Antonio Patuelli Marinella Soldi Luisa Torchia

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### BOARD OF STATUTORY AUDITORS

Chairman	Piero Alonzo
Statutory Auditors	Marco Giuseppe Zanobio Mariella Tagliabue
Alternate Auditors	Tommaso Ghelfi Andrea Carlo Zonca

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### GENERAL MANAGEMENT

General Manager	Paolo Bertoluzzo
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# 3.8

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SHAREHOLDERS' LIST





# SHAREHOLDERS' LIST

at 12 March 2019

Mercury UK HoldCo Limited	Londra
Banco BPM SpA	Milano
Credito Valtellinese SpA	Sondrio
Banca Popolare di Sondrio ScpA	Sondrio
UBI Banca SpA	Bergamo
Banca di Cividale ScpA	Cividale
ICCREA Banca SpA	Roma
Banca Sella Holding SpA	Biella
Banca Popolare del Frusinate ScpA	Frosinone
Banca Popolare Vesuviana Soc. Coop.	S. Giuseppe Vesuviano



## **Nexi SpA**

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Register of Economic Activities (REA) Milano 2093618

Share Capital € 50.000.000,00 fully paid in

Concept, Graphic design:



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