CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT 30 JUNE

2020

This is the English translation of the original Italian document "Relazione Finanziaria Semestrale 2020".

In any case of discrepancy between the English and the Italian versions, the original Italian document is to be given priority of interpretation for legal purposes.

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CORPORATE BODIES

at 30 July, 2020

BOARD OF DIRECTORS

		Expiry of mandate
Chairman	Michaela Castelli (*)	2021
Deputy Chairman	Giuseppe Capponcelli (*)	2021
Chief Executive Officer	Paolo Bertoluzzo (*)	2021
Directors	Luca Bassi (*)	2021
	Francesco Casiraghi (*)	2021
	Simone Cucchetti (*)	2021
	Federico Ghizzoni	2021
	Elisa Corghi	2021
	Jeffrey David Paduch (*)	2021
	Antonio Patuelli	2021
	Maurizio Mussi	2021
	Marinella Soldi	2021
	Luisa Torchia	2021

(*) Strategic Commettee members

BOARD OF STATUTORY AUDITORS

Chairman	Piero Alonzo
Statutory Auditors	Mariella Tagliabue
	Marco Giuseppe Zanobio
Alternative Auditors	Tommaso Ghelfi
	Andrea Carlo Zonca

OFFICE O THE GENERAL MANAGER

Paolo Bertoluzzo

FINANCIAL REPORTS MANAGER

Enrico Marchini

INDEPENDENT AUDITORS

PricewaterhouseCoopers SpA

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CONSOLIDATED INTERIM MANAGEMENT REPORT

CONSOLIDATED INTERIM MANAGEMENT REPORT

Introduction

Drafted pursuant to art. 154b of Italian Legislative Decree 58/1998, the hereby condensed consolidated interim financial statements for Nexi Group as at June 30, 2020 (hereinafter "interim statements") reports a net income of approximately Euro 33.1 million.

The interim statement as at June 30, 2020 was drafted pursuant to IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and the pertinent interpretation documents of the International Financial Interpretations Committee (IFRIC), ratified by the European Commission, as provided for by EU Regulation no. 1606 of July 19, 2002. In particular, the interim report has been drafted pursuant to the provisions set forth under paragraph 10 of IAS 34 concerning statements in condensed form.

These interim statements include the interim management report, the condensed consolidated interim financial statements and, pursuant to art. 154a, paragraph 5 of Legislative Decree 58/1998 of the TUF (Consolidated Law on Finance). As provided for by article 154 of the TUF, the interim statements are subject to limited audit by the independent auditor PricewaterhouseCoopers SpA and are published on Nexi's website, at www.nexi.it.

Nexi Group

The group's holding company is Nexi SpA, a company listed on Borsa Italiana SpA's MTA equities market as of April 16, 2019. Italian leader in digital payments, Nexi Group as at June 30, 2020 is comprised of holding company Nexi SpA and the following subsidiaries:
- Mercury Payment Services SpA - 100% controlled;
- Nexi Payments SpA - 99.071% controlled;
- Help Line SpA - 69.24% controlled

Consolidation scope also extends to non-core companies Orbital Cultura Srl (formerly BassmArt Srl), as well as associate companies
RS Record Store SpA, Bassnet Srl, K.Red.

Based on representations provided pursuant to art. 120 of Legislative Decree 58/1998 and on further information available, at time of approval of the present interim management report by the Board of Directors, Nexi SpA's major shareholders are:

Shareholder	Investment
Mercury UK Holdco	33.46%
Intesa Sanpaolo SpA	9.92%
GIC	3.82%
Tremblant Capital LP	1.29%
Norges Bank	1.06%

International economy

An international economic slowdown was predicted at the very beginning of 2020, even before the situation was compounded by the Covid-19 pandemic, which sparked the worst recession since World War II. Unlike the financial crisis that broke out in 2008, the current economic shock stems from the suspension of economic activities and lockdowns, hence from the real economy and it has affected – to different extents – almost all segments. The sectors that have mostly suffered are tourism and its supply chain, entertainment/leisure and, generally speaking, all the sectors linked to the consumption of non-vital goods.
The global nature of this crisis has both directly and indirectly affected the economic trend: direct effects, typical of the lockdown phase, were brought about by the clampdown on the circulation of people and the limited production of goods and services, consequently affecting demand – save for very few segments, particularly staple goods and online shopping. The indirect effects of the lockdown will affect the linked enterprises of the value chain with a severity that is directly proportional to the duration of the emergency; bankruptcies, especially in the tertiary sector, and job losses, particularly among practitioners, will trigger a drop in both consumption and investments in a highly uncertain scenario, which has already led to an increase in the propensity to save and which will eventually reduce the chances of a recovery once the emergency is over.
The current context is marked by great uncertainty, for the pandemic is still on the rise in some parts of the world, particularly in the United States and in South America; plus, there are now new clusters in countries (in Europe) that seem to have overcome the peak.
In order to curb such effects – and to better face a potential second wave in the coming autumn and winter – it will be crucial for governments to field the due healthcare and economic resources for supporting households. In this regard, some positive signals – for Italy in particular – are coming from the European institutions, with the ECB ready to purchase government bonds and the Recovery Bond issue plan presented by the European Commission.

Italian economy

Italy, which closed 2019 with a slight, unexpected GDP drop in the last quarter (-0.3% compared with the previous quarter), suffered the effects deriving from the halting of the main productive activities more than other major European economies.
The very segmented nature of our productive fabric – largely characterised by small businesses and self-employed workers, as well as the specific relevance of the sectors that mostly suffered the lockdown (such as tourism and catering, among others) – increased the lockdown exposure of our economy, already burdened by a huge public debt, which will further hinder recovery.
This led the major research and financial institutes to constantly revise down the economic outlook for 2020, envisaging an unprecedented GDP drop, in excess of 10%, and predicting that a partial recovery may occur in 2021, gradually making up for the lost ground.
During the lockdown months, as expected, consumer spending collapsed, following different patterns depending on the type of activity and channels; the physical channel was worst hit and e-commerce only partially offset such trend.
The recovery of such trends will depend on how long the pandemic lasts, on the presence of possible new clusters and on the resilience of the country's economic policies.

Reference Markets

The following section provides an overview of the reference markets in which Nexi Group operates.

Digital payments and digital banking solutions

Globally and in the Eurozone, the use of alternative cash instruments is on the rise: in the EU, from 2005 to 2018, per capita transactions soared from 166 to 272. With payments cards mostly resorted to as an alternative to cash at points of sale, payment card usage has risen considerably: over the aforesaid timeframe, the share of cards as a payment method alternative to cash rose from 30.1% to 52.1% of the overall transactions.
On the international stage, Italy is lagging behind in terms of number of transactions with instruments other than cash: transactions per capita totalled 125 in 2019, up from 111 in 2018.

However, in a context heavily burdened by the pandemic, there is an interesting growth potential for new digital payments in Italy: in 2019, contactless payments are estimated to have grown by 56%, in terms of value, and by 67% in terms of number of transactions, while mobile payments in physical stores almost trebled (+244%), reaching an overall value of Euro 1.8 billion.

The payment cards sector growth carried on throughout 2019 but was then abruptly halted by the pandemic outbreak and the subsequent lockdown.
In 2019, according to a survey conducted by the Bank of Italy, the market of POS-enabled debit cards grew in terms of both number of cards (up 2.5%) and use (volumes up 6.7%, transactions up 11.9%); the number of credit cards increased by 1.7% while their use increased more consistently: volumes +9.5%, transactions +11.5%. The number of prepaid cards, even owing to the citizens' basic income effect, soared by 5.2%, with volumes up 23.1% and transactions up 31.2%.

Nexi's market estimates for the first five months of the year highlight the lockdown effect, with a 3.9% drop (compared with the first five months of 2019) in POS volumes in terms of international issuing.
The revolving sector too, surveyed by Assofin, suffered a consistent drop in the first four months of the year, with volumes financed by revolving credit cards down 16.4% and number of transactions down 10.5%.

The breakdown of the evolution of distribution channels is as follows: bank and Bancoposta POS increased by 10.7% overall, while ATMs dropped by 1% as a result of the fall in number of bank branches and the growth of Bancoposta ATMs.

As for digital banking solution services, home and corporate banking services are more widespread; in particular, enterprises that use corporate banking totalled 2,332,791 in 2019 (up 3% compared with 2018), while almost 48 million households resorted to home banking information services and devices (+3.2%).
The overall payment flows managed by the TARGET2 system dropped by 7.6%, Interbank Flows by 11.2%.

Significant events during the reporting period

Agreement with Intesa Sanpaolo for the Acquisition of its Merchant Acquiring Business

On December 19, 2019 Nexi announced that a strategic agreement was reached with Intesa Sanpaolo group (hereinafter, "ISP") for the acquisition of the latter's merchant acquiring business. In June 2020, the agreement's conditions precedent were met and the transaction was authorised by the Bank of Italy and by the European Supervisory Authority; the transaction entered into force at 23:59 of June 30, 2020.

The acquisition concerns ISP's merchant acquiring business, consisting of about 180,000 merchants, which generated about Euro 67.6 billion transactions in 2019. In 2020, the transaction is expected to generate a group EBITDA increase of about Euro 95 million and a high-teens increase (between 17% and 19%) of EPS cash, starting from 2020.

The transaction envisaged the transfer of the business unit from ISP to Nexi Payments, which approved a Euro 1 billion capital increase (excluding option rights). Such price is subordinated to compensation in favour of Nexi Payments, based on possible differences:

- between the 2019 EBITDA estimated by the parties and the 2020 EBITDA actually recorded;
- between merchant fees indicated by ISP and the ones actually generated by the business unit over the 24 months that followed the closing;

By contract, such compensation is determined within 90 days from closing.

There will also be an earn-out mechanism in favour of ISP, to be paid after June 30, 2025, but only if the business unit exceeds its pre-established profitability targets.
The contribution has been recognised, pursuant to IFRS3, starting from the acquisition date (June 30, 2020); consequently, the transaction's effects on the income statement will be noticed as of the second half of 2020. Further details are available in the Note 37 to the Financial Statement.

Following such contribution, ISP received newly issued Nexi Payment shares, concurrently purchased in cash by Nexi, whose stake in Nexi Payments consequently rose from 98.92% to 99.07%. The acquisition, worth Euro 1 billion, was funded with the revenues generated by the issuing of the equity-linked bonds and a term loan, as further detailed under the 'Changes in Group Debt' section.

The transaction also envisaged the stipulation of 20+ year partnership with ISP for the marketing and distribution of Nexi Group products in the field of merchant services, as well as 20+ year extension of the partnership already in place, with reference to issuing and ATM services, with Mercury Payment Services.

Finally, fulfilling the execution of the agreements signed on December 19, 2019, Mercury UK Holdco Limited, Nexi's majority shareholder, completed the sale to ISP of a 9.9% share of Nexi's capital, with no governance rights.

Update on the sale of OASI to Cedacri

The agreement for the sale of OASI to Cedacri, signed in early 2019 and closed in late February 2019, envisaged, among other things, the possible payment by Cedacri of a positive earn-out to Nexi, subordinated to the attainment of specific business targets by Oasi in 2019. Following Cedacri's failure to comply with the contract provisions concerning said earn-out mechanism, on May 16, 2020, Nexi filed for arbitration at the Arbitration Court of Milan.

Changes in Group debt

The financial structure of the Group has changed during the first six months of 2020 as a result of the transactions carried out to fund the Intesa Sanpaolo SpA merchant acquiring business acquisition, closed on June 30, 2020. The value of the transaction (Euro 1 billion) was funded through the issuing of an equity-linked bond placed in April 2020, maturing in April 2027, of aggregate principal amount of Euro 500 million (hereinafter, the "Convertible Bond"), through a floating rate term bank loan (Euribor +2.5%), allocated on June 30 by a pool of major banks, with a principal amount of Euro 466.5 million, maturing in June 2025 (hereinafter, the "Term Loan") and through available cash. Further details are available under note 38 of the Notes to the Financial Statements.

Consequently, the Group's gross financial debt at June 30, 2020 increased by about Euro 901 million compared with December 31, 2019, from Euro 1,840 to 2,741 million, and mainly consists – aside from the Convertible Bond and the Term Loan – of a secured bond worth Euro 825 million, with a 1.75% p.a. half-year, fixed rate coupon maturing in October 2024 (hereinafter, the "Publicly Issued Fixed Rate Bonds") and of the IPO Loan.

The IPO Loan consists of two lines of credit:

- a floating rate credit line worth Euro 1 billion (the "IPO Term Line"), entirely allocated on June 30, with repayment due in full on May 31, 2024;
- a revolving credit line worth Euro 350 million, with a repayment date identical to that of the IPO Term Line, providing for variable allocations, tranches and currencies (the "IPO Revolving Line". At the time of publication, the IPO Revolving Line is entirely available.

As at the reporting date, Nexi's financial debt is no longer backed by collateral. Furthermore, during the first six months of 2020, no noteworthy debt paydown was recorded.

Finally, the increase in the total debt has not substantially impacted the average weighted coupon cost, which – excluding the effect of direct transaction costs and non-monetary financial costs – was basically unchanged compared with the figures recorded at the end of 2019, namely about 1.9%. At the time of publication, all covenants provided for by financing (described under note 38 of the Notes to the Financial Statements) are complied with.

In summary, as at June 30, 2020, the breakdown of the gross debt is as follows:

(amounts in Euro million)

Description/Carrying amount	June 30, 2020	December 31, 2019
Publicly Issued Fixed Rate Bonds	819	819
Convertible Bonds	441	
Term Loan	462	
IPO Loan	994	992
Other financial liabilities	25	29
Total	2,741	1,840

Other financial liabilities mainly include the leasing debt recognised in the 2019 financial statements following the first adoption of IFRS 16.

Current context following the Covid-19 outbreak

Foreword

Nexi's operational capacity in the first half-year was heavily impacted by the effects of the SAR-CoV-2 ("Covid-19") health emergency that struck Italy, where it officially broke out in the last week of February – earlier than in the rest of Europe – and grew increasingly severe in the first half of March, when a number of strict measures were taken throughout the national territory. Said measures were then gradually loosened and eventually removed – with the exception of some specific, high-risk sectors – starting from the month of May.

Ever since the very beginning of the epidemic, Nexi strived to thoroughly monitor the phenomenon. Under the coordination of a task force specifically set up to handle the crisis, which directly reported to the Executive Committee, continuity plans were promptly put in place to ensure regular business operations while ensuring the safety of staff and clients, consistent with the pertinent Authorities' guidelines. The Group companies quickly enable smart working for 95% of employees, including call centre activities, while ensuring adequate individual safety and protection standards for the rest of the staff physically working in the operating venues, while monitoring operational continuity and service levels by the main outsourcers Owing to such measures, even during the most severe phase of the lockdown, Nexi succeeded in serving partner banks and end customers with the usual quality and promptness.

Initiatives supporting customers and social initiatives

In order to facilitate the daily operating of enterprises and merchants, Nexi launched the *Pay By Link* service, dedicated to merchants that didn't have e-commerce channels, and the *Nexi Welcome* initiative (zero-fee mobile POS). Moreover, regarding the initiatives supporting small merchants, merchant fees on transactions worth up to Euro 10 will be refunded until the end of the year.
Regarding card holders, new momentum has been given to communication campaigns promoting an aware and safe use of such payment methods on online platforms and via contactless technology, including among the less digitalised customers. A social initiative worth mentioning is the contribution of the Nexi community (managers, employees, partner banks and end customers) to the enhancement of the healthcare facilities dealing with the emergency, through a Euro 1 million fund, for financing a project that envisages the setting up of over 200 intensive care units in Milan.

Impact on business performance

Following a very positive two-month period in January and February, with overall volumes showing a year-on-year growth in excess of 13% and 5% (in terms of quantity and value, respectively), the quick spreading of the health emergency and the subsequent lockdown measures imposed by the Government strongly impacted the flow of managed transactions, which dropped 45-50% year-on-year in the second half of March. Consistent with the reference market trend, the tourism and hospitality (HoReCa – Hotel, Restaurant and Catering) and entertainment industries were the hardest hit, while basic goods and some service categories held their own. The gradual loosening of the lockdown resulted in a gradual recovery of managed volumes, starting from early May, although figures were lower compared with the same period in 2019. The latest data on customer operations over the past few weeks confirm the gradual, steady recovery.
It is also worthwhile pointing out that roughly half of the Group's revenues stems from the installed base to serve clients (monthly licence fees for cards and management of terminals) – hence not directly correlated to transaction flows actually managed over a specific timeframe.
For a description of the impact, refer to "Group Performance" section.

Strategic measures for mitigating the Covid impact on financial performance

On top of business continuity plans, in order to mitigate the negative fall-outs on economic-financial performance, Nexi identified – and has, in some cases, already implemented – strategic actions and emergency measures for curbing operating costs and for updating and rescheduling plans and investments, for an overall value in excess of Euro 100 million on a full-year basis. Said measures, which involve consulting, marketing, performance-based compensations and less strategic or deferrable investments, have been carefully analysed and assessed by the relevant business units, the goal being that of retaining the Group companies' usual focus on the business offer and on strategic development and growth.
From this standpoint, Nexi has concurrently rolled-out specific initiatives to support or anticipate product demand trends in the new market context, simultaneously with the expected acceleration towards omnichannel models.

These condensed consolidated interim financial statements feature an analysis of the leading risks and impacts to which the Group is exposed as a consequence of the Covid-19 pandemic to the extent that, given the disease's unpredictability and virulence, these may lead to impairment. Said analysis delivered no indication as issues of a critical nature that may breed significant impacts on Group financials and position. For more information please refer to the Notes' "Intangible Assets: Impairment" and "Nexi Group Risks" sections.

2019-2023 Business Plan and post-Covid update

The multiyear business plan entered the executive phase last year: its mission is to consolidate the Group's leadership on the domestic digital payments market by investing in technology, services and skills. On a broader note, firmly believing that "all payments will eventually be digital", Nexi, together with partner banks, aims to lead this transformation process in the Italian market via services designed to cater even for the most technologically advanced needs.

That strategy builds on five fundamental pillars: organic growth through product leadership and customer experience; operating excellence at the service of customers; investments in technology and business partnerships with banks; development of the sector's best talent and skills and inorganic growth.
3
The current scenario acknowledges the value and position of the 3Group as a driver of innovation and migration towards digitalisation, consistent with a regulatory framework that encourages the use of payment instruments other than cash.

In terms of financial performance, during the first year of the plan Nexi achieved and, based on certain metrics (first and foremost, EBITDA and financial leverage), exceeded the preset targets. For the current year, on the other hand, after the very promising first two months, the epidemic-induced health emergency and the consequent paralysis of economic activities inevitably opened up a gap relative to the pre-Covid scenario. Considering the constantly evolving context, including in terms of restriction policies, and the significant uncertainty as to the timing and resumption of the country's economic activities, on April 15, Nexi decided to temporarily suspend, out of precaution, the guidance on medium-term financial objectives referring to the 2019-2021 three-year period, as included in the Business Plan and announced ahead of the IPO.

It should also be pointed out that the business plan is built on an organic base; it does not envisage the contribution of new acquisitions and/or aggregations, even if the reference market is marked by an intense consolidation activity. As such, it will have to be updated to consolidate the financial effects of the Intesa Sanpaolo's merchant acquiring business acquisition.

For further information, see the section "Business outlook".

Group Activities

Nexi is the largest group operating in Italy in the paytech sector and, either directly or through its partner banks, manages the transactions of some 30 million cardholders and provides its services to approximately 900,000 merchants (data as at December 31, 2019).

The technological complex leveraged by the Group is capable of connecting banks, merchants, businesses and consumers, allowing to perform and receive digital payments. The business is built on long-standing ties with some 150 affiliate banks, which together account for approximately 80% of bank branches nationwide.

The core of the Group's activities involve three main lines of business: Merchant Services & Solutions, Cards & Digital Payments and Digital Banking Solutions.

1 Half 2020 key indicators		
2,5 billion transactions managed (-14.7%)	€428 million in Operating Revenues (-8,5%)	€62,1 million in Capex (+6.2%)
€186 billion transactions managed (-16.9%)	€214 million in EBITDA (-8.0%)	Net Financial Position €-2,424.8 million

Note: Percentage changes on a year-on-year basis

Merchant Services & Solutions

Via this line of business the Group provides merchants with the services necessary for digital payment acceptance. This includes customer care services delivered by Help Line.

The services provided by this company unit can be subdivided into payment acceptance services, or acquiring services, and POS management services. The Group operates under several service models, which vary depending on the nature of the Group's relationships with partner banks, which vary and, therefore, determine value chain presence.

Acquiring services encompass the entire range of services that allow merchants to accept payments either through cards or other payment instruments belonging to credit or debit schemes.

POS management services include configuration, activation and maintenance of POS terminals (whether physical or e-commerce), their integration within merchant accounts software, fraud prevention services, dispute management, as well as customer support services via a dedicated call centre.

The level of the value chain covered by Nexi Group is dependent on the type of service model:
A. with the Direct and Referral models, the Group provides its services directly to selected merchants;
B. with partnership-based models (i.e. Licensing, Associate and Servicing models), the Group cooperates with partner banks in providing its acquiring and POS management services, leveraging their branches and their services relations to acquire and manage customers.

During the first half year, Merchant Services & Solutions business line generated operating revenue worth approximately Euro 193 million (or 45% of total Group revenue), down 13.7% on the same period of 2019, following the trend of customer transactions, which dropped 18.9% in terms of quantity and by 20.1% in terms of value, owing to the Covid lockdown effect. E-commerce suffered a less significant impact than the physical channels (-2.8% in terms of transaction value).

Cards & Digital Payments

Via this business line, the Group and its partner banks provide a wide range of issuing services, namely services relating to the supply, issue and management of private and corporate payment cards, with advanced fraud prevention systems ensuring fast, reliable and secure customer authentication and payments.

This business line is primarily tasked with satisfying partner banks' needs in respect of the issue of payment cards (i.e. cards issued in partnership with banks). To a lesser and more marginal extent, this business line supplies payment cards directly to private individuals and businesses without involving partner banks (i.e. direct issuing).

The majority of cards issued are charge cards, requiring customers to repay the balance in full each month. Credit cards, which allow cardholders to repay the balance in instalments, are issued solely in partnership with banks. This limits credit risk since, pursuant to agreements to that effect, the issue of cards in partnership with banks entails the latter fully shoulder the risk of their customers' insolvency. Therefore, the Group's credit risk in this business line is almost entirely shouldered by partner banks.

During the first half year, the Business Cards & Digital Payments business line generated operating revenue worth approximately Euro 180 million (or 42% of total Group revenue), down 4.1% compared with the same period of 2019, owing to the Covid impact, which particularly affected the cross-border component. The number of managed transactions dropped by 9.2% and their value by 13.1%, despite an increase in the actual number of cards managed.

Digital Banking Solutions

This business line of the Group provides, via Nexi Payments SpA, three types of service: ATM Management, Clearing and Digital Corporate Banking.

ATM Management

The Group is responsible for installing and managing ATMs on behalf of partner banks.

Clearing Services

The Group operates in the Italian market as an Automated Clearing House (ACH) for domestic and international payments pursuant to standard interbank regimes. The Group also provides ACH Instant Payment services, which differ from traditional clearing services in terms of the speed of transfers and its 24-hour availability.

Corporate Banking Digital Services

The Group provides partner banks' corporate customers with digital banking services for the management of current accounts and payments. The latter fall within the following three categories:
- electronic banking/mobile services: the Group provides dedicated e-banking platforms on behalf of banks or corporate clients;
- CBI, pensions and collection services: on behalf of banks and corporate customers, the Group provides payment platforms

for group accounts and for payment management. Additionally, the Group provides the CBI interbank corporate banking service. Initially developed to facilitate interbank communication and payments, the latter service subsequently extended to the public sector, for the purposes of centralising payments, collecting them and all relevant documentation;
- digital and multichannel payments support services: the Group provides internet, smartphone and ATM software applications to banks and businesses for invoice management and storage, prepaid card reloading, bill payments and postal payments.

During the first six months, the Digital Banking Solutions business line generated operating revenues worth approximately Euro 55 million (or 13% of total Group revenue), down 2.3% compared with the same period in 2019, owing to the limited impact of the Covid emergency on ATM maintenance activities and clearing services and lower revenues from ATM reselling.

Performance of Parent and Group Companies

The financial results and the activities of the Holding Company and the subsidiaries subject to Nexi management and coordination are presented below.

Nexi SpA

Listed on Borsa Italiana's MTA equities market as of April 16, 2019t, Holding Company Nexi SpA, while not directly involved in operating activities, carries out holding company and management and coordination functions with respect to the three companies presented below.

As at June 30, equity stood at Euro 1,420 million, including half-year profits worth approximately Euro 92.4 million. During the first half year, the company received dividends from subsidiaries worth approximately Euro 132 million, bearing the financial costs for the Group's debt service coverage (Euro 27 million) and other operating costs (Euro 23 million).

Nexi Payments SpA

The company, of which Nexi holds 99.07% of the share capital, performs activities connected to electronic money issuing and payment management services. As a registered EMI company, it operates in all of the sectors described above.

As at June 30, equity stood at Euro 2,139 million, including half-year profits worth approximately Euro 45 million and a Euro 1 billion capital increase for the acquisition of Intesa Sanpaolo's book acquiring business unit.

Abiding by the guidelines of the Group's Business Plan, Nexi Payments SpA focused its activities on the marketing of business lines, with a specific view to innovation and support to partner banks and, last but not least, to merchants, heavily penalised by the lockdown introduced following the health emergency. Specifically:

• extensive marketing was carried out for the "Smart POS" advanced POS terminal, and the introduction, alongside the standard and cash-register integrated models, of the "Smart POS Mini" model, a portable device designed for mobility. The entire range of these products proved a commercial success with both small to medium-sized and large merchants, even because the regulation has made the telematic forwarding of tax data mandator for merchants;
• the constant growth in e-commerce product uptake was sustained via the marketing of e-commerce solutions to the POS-terminal customer base, the development of solutions to Public Administrations and partnership agreements with Developers; Pay-By-Link remote payments services (provided to merchants via special offers during the lockdown) have become particularly widespread;
• the drive towards alternative cash instruments was given momentum, with many minor international circuits being activated, meal vouchers and Digital and C-Less activations for Italian debit cards;
• further development was carried out in terms of marketing payment solutions for large merchants in major business verticals (e.g. insurance companies, large retailers, travel and mobility, etc.), while pursuing a new multichannel solution;
• further marketing of the Nexi Business App saw registered merchants exceeding 250,000;
• a special offer was launched, regarding micropayments, to support small merchants, refunding merchant fees on transactions worth up to Euro 10 until the end of the year;
• marketing of the licensed international debit card was boosted, a new credit-risk free product authorised for use on all channels and particularly well suited to the needs of bank customers in the e-commerce sector (the stock, at the end of June, of licence and servicing models totalled approximately 969,000 cares, up 31% year on year);
• the marketing of mobile payments was further expanded (Apple Pay, Samsung Pay, Google Pay, Garmin, Fitbit) via deals

sealed with all partner banks covering the Android world and 33 contracts for the Apple sphere (equivalent to 90% of all activable cards). Active mobile users are now in excess of 225,000 and over 920,000 payment cards have been activated. Meanwhile, the Nexi Pay app is under constant development and now boasts new features and services (active users are now in excess of one million);

• the acquisition of further YAP clients carried on (YAPP being the app specifically designed for millennial prepaid cardholders), with total clients now exceeding 830,000, that's an increase of about 120,000 clients since the beginning of the year, including the lockdown phase;

• the complete offering of business products for digital enterprises was launched on the market: Travel Account and Corporate Pay virtual cards for managing B2B purchasing processes. The corporate business sector was significantly impacted by the lockdown and marketing will resume strongly in the second half of the year;

• customer value management activities have continued, via direct marketing campaigns targeting banks, aimed at boosting penetration of credit cards featuring evolved functions, specifically through the development of the "Restart" campaign (starting in July) supporting the spreading of new credit cards via targeted campaigns;

• new contents and services were added to the Loyalty programme; the basic version (iosiSTART), featuring targeted services and prices, was launched and is now available, aside from the premium version (iosiPLUS) dedicated to client engagement;

• the marketing of the Easy Shopping service (allows to pay in instalments via credit card) continued; activation plans have now exceeded 500,000;

• further efforts were made to promote sales of the ACH Instant Payments service launched in 2018;

• the roll-out and onboarding of clients on the new Open Banking (CBI Globe) platform, an initiative launched in June 2019, carried on.

Mercury Payment Services SpA

The company, which is directly controlled by Nexi SpA via a 100% stake in share capital, is a registered PI company.
As at 30 June, equity stood at Euro 121 million, including the half-year profits, that is approximately Euro 39 million.

The company' continued to provide the following services:
• issuing and acquiring processing for Intesa Sanpaolo (ISP), the key customer,
• acquiring, limited to its own customers.
Issuing (the issuing of its own payment cards) represents a non-significant sector of the overall activities performed.
Service agreements between Mercury Payment Services and ISP Group are governed by specific covenants.

In the area of acquiring services, development of business and innovative projects continued. The trade sectors mainly targeted were: Telecommunications, Public Transportation, Fuels Retail, Wholesale Distribution and the Luxury/Fashion industry.

The main initiatives that characterised the first half year are the following:
• support to Nexi Payments in the completion of the acquisition process of ISP's Book Acquiring;
• activation of the pilot for the migration of all debit cards to the new XME Card Plus product and to the Bancocard Base product;
• changes to mail delivery methods for ISP cards, in order to account for the Covid-19 emergency;
• further spreading, in the market, of the acquiring application developed for the Transit model; the service has been activated in several Italian cities (for example, Turin) and in France;
• pre-marketing of new credit and debit card products, with a view to offering new "Exclusive Services" to specific segments of Intesa Sanpaolo customers;
• Implementation of Banca5 strategic products:
  - winning of the Sisal PAY contract for the new prepaid card and starting of the migration of SialPay Acquiring volumes;
  - launch of Apple Pay on Oval cards;
  - migration of ex Wirecard cards to Banca5 products;

• Support to ISP for new key Proposition acquiring: Smart POS, mPOS, ATM
• Pre-marketing of the following new ISP products/initiatives, to be launched in the second half of 2020:
  - Instant Issuing services that enables the issuing of cards, firstly in a digital format (thus allowing their immediate use), to be followed by the delivery of the physical card at the applicant's address;
  - Migration of "chip & signature" credit cards to "chip & pin" credit cards;
  - tailored cards (card layout featuring a gallery photo).

• making available Alipay solutions to Italian and foreign clients of Intesa Sanpaolo, for both the acceptance of the physical POS device and for payments made directs from the Merchant's cash register;
• continued development and activation of new Mobile Payments services (e.g. Google Pay) and tokenisation of Card On File (via la Visa and Mastercard platforms);

• continuing support for fulfilment of the new digital channels and the implementation of electronic money services for cardholders, as part of the integrated Multichannel Projects for Intesa Sanpaolo clients;
• continuing cooperation with Intesa Sanpaolo with reference to the project for the replacement of the POS and Cards (CJ) management/sales/post-sales system (Customer Journey);
• compliance with obligations under PSD2 for issuing and acquiring services

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Help Line SpA

The subsidiary Help Line SpA, of which Nexi SpA and Nexi Payments SpA hold 69.24% and 1.08% of share capital, respectively, carries out "captive" activities mainly for Nexi Group, but also operates for a number of major Italian banks, supporting their customers 24 hours a day, 365 days a year.

As at June 30, equity stood at Euro 2.9 million, including yearly losses, just below Euro 0.08 million.

Group Performance

Reclassified Consolidated Income Statement as at June 30, 2020

The reclassified consolidated income statement highlights profit determinants by reporting items commonly used to provide a condensed overview of company performance. Said items are ranked as Alternative Performance Measures (APMs) pursuant to a Consob communication of December 3, 2015 which, in turn, encompasses the European Securities and Markets Authority (ESMA) guidelines of October 5, 2015. See the appropriate section on disclosures required pursuant to said communication.

(amounts in Euro million)

	I Half 2020	I Half 2019	Delta	Delta %
Merchant Services & Solutions	192.9	223.6	(30.7)	-13.7%
Cards & Digital Payments	180.1	187.9	(7.7)	-4.1%
Digital Banking Solutions	54.6	55.9	(1.3)	-2.3%
Operating revenues	**427.7**	**467.3**	**(39.7)**	**-8.5%**
Personnel-related costs	(78.3)	(84.1)	5.9	-7.0%
Operating costs	(135.2)	(150.3)	15.1	-10.1%
Total cost	**(213.5)**	**(234.4)**	**20.9**	**-8.9%**
EBITDA (*)	**214.2**	**232.9**	**(18.7)**	**-8.0%**
Amortisation and depreciation	(66.1)	(52.8)	(13.3)	25.1%
Customer Contract D&A	(18.3)	(18.4)	0.2	-0.9%
Interests and financing costs	(27.7)	(101.6)	73.9	-72.7%
Non-recurring items	(42.5)	(1.6)	(40.9)	n.m.
Pre-tax profit	**59.6**	**58.4**	**1.2**	**2.0%**
Income taxes	(26.5)	0.1	(26.6)	n.m.
Minorities	(0.4)	(0.0)	(0.4)	n.m.
Group net profit	**32.6**	**58.5**	**(25.8)**	**-44.1%**

Note: (*)EBITDA shown above is Normalised EBITDA whose definition is provided in the "Alternative Performance Measures" section.

The Group's operating revenues were down 8.5% in the first half year compared with the same period in 2019, inevitably suffering the fall in customer transactions, especially as of early March, when a nationwide lockdown was imposed and despite the positive trend of merchant fees deriving from the management of the installed base. More specifically:
• the Merchant Services & Solutions business line shows a 13.7% decrease, impacted by the contraction in transaction flows linked to the sectors hardest hit by the restrictions (international tourism, transports, Ho.Re.Ca, etc.) and a mix that, during the lockdown, relied more on large merchants rather than on small and medium enterprises;
• the Cards & Digital Payments business line, despite a larger contribution by the cards set, witnessed a 4.1% drop, again owing to the smaller volumes managed, particularly in international circuits, mainly due to the consistent reduction in tourist flows towards foreign countries and in commercial card expenditure;
•the Digital Banking Solutions business line, heavily affected by revenue sources associated with the supply of infrastructure

installed to support customers, suffered a drop that was limited to 2.3%, mainly due to the postponement of low-marginality projects with Partner Banks.

Costs were down almost 9% compared with 2019, therefore more consistent than the drop in revenues, reflecting, among other things, the minor effect of variable items directly linked to volumes and to the overall financial performance of the Group, as well as the previously mentioned Covid-effect mitigation measure, and other optimisation initiatives previously planned for the major cost centres. In particular, the first half year witnessed the completion of 27% of the overall cost-reduction plan announced on May 12, 2020 (55% of the plan concerning variable and semi-variable costs associated with volumes/activities and 46% of the plan concerning discretionary spending). Regarding the individual items, personnel-related costs were down 7%, while other operating costs dropped by more than 10%.

Owing to the effect of the revenues and cost trends described above (excluding amortisation), EBITDA as at June 30, 2020 was Euro 214 million, (-8.0%).

Major investments in software and technological developments over the past three years, intended to drive the Group's digital transformation, have led to a 25.1% increase in amortisation and impairment losses for tangible and intangible assets (excluding intangibles relating to Customer Contracts).

Interest & financing costs witnessed a consistent drop (-72.7%) compared with the first half of 2019, which was burdened by charges linked to the overall debt paydown and the IPO process.

Non-recurring items stood at a negative Euro 42.5 million, confirming the gradual downsizing of transformation costs stemming from the Group digital transformation programme (approximately -60%, roughly Euro 11 million), but it also suffered from costs directly ascribable to the acquisition of ISP's Merchant Business (Euro 17 million, approximately) and from the handling of the Covid-19 health emergency. It should be pointed out that last year recognised the capital gains arising from the sale of Oasi (approximately Euro 102 million) as non-recurring revenue.

Net of income taxes and profit/losses attributable to non-controlling interests, the Group's profits for the period were down to approximately Euro 33 million.

The half-year performance results displayed above do not include the contribution of the Merchant Acquiring activity recorded by Intesa Sanpaolo Group. The following table shows the trend of the Group's main indicators on a pro-forma basis, including the economic effects starting on January 1, 2019, for merely illustrative purposes.

Group's main indicators for 1Half 2020, on a pro-forma basis	
Euro 479 million (Operating revenues) (-6.3%)	Euro 262 million (EBITDA) (-3.9%)

Note

Including the contribution of the Merchant Acquiring business used acquired from Intesa Sanpaolo at the closing of the first half year on June 30, 2020

Financial Position Highlights

The main financial position indicators are listed below.

Investments

The following table details Capex investments as at June 30, 2020 and June 30, 2019.

(amounts in Euro million)

	I Half 2020	I Half 2019
Ordinary tangible and intangible assets	39.9	32.2
IT and Strategy Transformation projects	22.2	26.3
Investments (Capex)	62.1	58,5

The "Ordinary Tangible and Intangible Assets" item accounts for electronic systems (mostly connected to POSs e ATMs) as well as software and technology development.
The IT & Strategy Transformation Projects item refers to investments earmarked for the development of the Group's IT platforms and systems.

Net Financial Position as at June 30, 2020

The Net Financial Position changed significantly as a result of funding transaction carried out in the first half year; such transaction are detailed under the "Changes in Group Debt" section.

The following table details the Group's Net Financial Position as at June 30, 2020 and as at December 31, 2019.

(amounts in Euro million)

	At June 30 2020	At June 30 2019
A. Cash (*)	176.2	115.4
B. Cash equivalents (**)	140.0	133.0
C. Securities held for trading	-	-
D. Liquidity (A) + (B) + (C)	316.1	248.4
E. Current financial receivables	-	-
F. Current bank payables	(11.1)	(13.6)
G. Current portion of long-term debt	-	-
H. Other current financial liabilities	-	-
I. Current financial debt (F) + (G) + (H)	(11.1)	(13.6)
J. Net current financial position (I) + (E) + (D)	305.1	234.8
K. Non-current bank debt	(13.8)	(15.3)
L. Bonds issued	(1,260.0)	(819.0)
M. Other non-current financial liabilities	(1,456.0)	(992.6)
N. Non-current financial debt (K) + (L) + (M)	(2,729.8)	(1,826.9)
O. Net financial position (J) + (N)	(2,424.8)	(1,592.1)

(*) Item A entirely refers to bank accounts with DEPOBank and item K includes Euro 1.4m referring to the IFRS 16 debt for the lease contract with DEPOBank, which is a correlated party.
(**) Available liquidity generated during the period.

It should be noted that, at the time of publication, all the covenants provided for by the financings have been complied with. Such covenants and the negative pledges are further described under note 42 of the Notes to the Financial Statements.

The Net Financial Position presented above ranks as an Alternative Performance Measure (APM), as described in the relevant section.

Alternative Performance Measures

In line with guidelines published on October 5, 2015 by the European Securities and Markets Authority (ESMA/2015/1415) and in preparing its consolidated financial statements, Nexi Group as well as reporting figures for income statement and net financial position envisaged under International Financial Reporting Standards (IFRS) also submits alternative performance measures derived from the aforesaid, providing management with a further means to evaluate Group performance.

Pursuant to standing rules and regulations, the following sections further detail Group APMs

Operating Revenues

Nexi defines Operating Revenues as the Financial and Operating Income normalised in respect of non-recurring expenses and income, excluding, where applicable, financial charges on bond loans. The following table details the reconciliation of the financial and operating income to Operating Revenues at June 30, 2020 and June 30, 2019.

(amounts in Euro million)

	I Half 2020	I Half 2019
Financial and operating income	399.3	356.6
Interests and financing costs (*)	27.7	101.6
Non-recurring costs/(income)(**)	0.7	9.1
Operating Revenues	427.7	467.3

(*) For the first half year 2020, the item includes interest and commissions on Nexi SpA funding (Euro 27 million) and IFRS 16 interest (Euro 0,7 million) and interest on other liabilities (Euro 0,006 million). Such costs are reported under the interest income in the income statement.
(**) For the first half year 2020, the item mainly consists of non-recurring costs that, in the income statement, are reported under the item "Financial and operating income".

Normalised EBITDA

Nexi defines Normalised EBITDA as profits for the period adjusted for (i) profits/losses after tax from discontinued operations, (ii) income tax on continuing operations, (iii) profit/loss on equity investments and disposals, (iv) interest and financing costs (included in the net interest income), (v) amortisation and impairment losses for tangible and intangible assets, and (vi) Non-recurring expenses and income.
The following table details reconciliation of Group profits and Normalised EBITDA as at 30 June, 2020 and 30 June, 2019.

(amounts in Euro million)

	I Half 2020	I Half 2019
Profit for the period	33.1	58.4
Profits/losses, after tax, from discontinued operations	0.3	-93.6
Period income tax on continuing operations	26.5	-0.5
Profit/loss on equity investments and disposals	0.1	0.1
Interests and financing costs (*)	27.7	101.6
Amortisation and impairment losses for tangible and intangible assets	83.5	70.4
Non-recurring expenses and income (*)	0.7	9.1
Other non-recurring expenses/ income impacting EBITDA (**)	42.3	87.4
EBITDA	214.1	232.9

(*) Refer to previous table.

(**) For the first half year 2020, the item mainly consists of non-recurring costs associated with the stock grant assigned by Mercury UK (Euro 5,8 million), transformation costs (Euro 10,6 million) and other non-recurring expenses (Euro 23,6 million of witch Euro 17,2 milion related to cost incurred to execute the acquisition of Intesa Sanpaolo book acquiring),

Investments (Capex)

Nexi defines Investments as tangible and intangible assets acquired in the period, as listed in the relevant table in the Notes to the Financial Statement, concerning changes to tangible and intangible assets. Such an Alternative Measure does not include tangible and intangible assets acquired following business combination transactions.

Net Financial Position

The Net Financial Position is the balance between current and non-current financial liabilities and financial assets. More specifically, financial liabilities comprise the following items:
- securities issued, included under financial liabilities measured at amortised cost;
- IPO Facilities, included under financial liabilities measured at amortised cost; -
other financial liabilities, mostly consisting of liabilities under IFRS 16 and included under financial liabilities measured at amortised cost.

Financial assets, comprised of cash and cash equivalents and available liquidity generated by subsidiaries during the period, are included under financial assets measured at amortised cost.

Corporate Bodies

Board of Directors

On May 5, 2020, Nexi's Shareholders Meeting appointed member of the board Elisa Corghi, previously co-opted by the Board of Directors on September 26, 2019 to replace the resigning Robin Marshall until the approval of the financial statements as at December 31, 2021.

Chairperson	Michaela Castelli
Deputy Chairperson	Giuseppe Capponcelli
CEO and General Manager	Paolo Bertoluzzo
Directors	Luca Bassi
	Francesco Casiraghi
	Simone Cucchetti
	Federico Ghizzoni
	Elisa Corghi
	Maurizio Mussi
	Jeffrey Paduch
	Antonio Patuelli
	Marinella Soldi
	Luisa Torchia

Internal Board Committees

On March 6, 2020, the Board of Directors appointed board member Elisa Corghi Chairperson of the Related Party Transactions Committee and member of the Remuneration and Appointment Committee.

Remuneration and Appointment Committee (*)

Chairperson	Marinella Soldi
Members	Luca Bassi
	Elisa Corghi

Risk, Control and Sustainability Committee (*)

Chairperson	Elisa Corghi
Members	Francesco Casiraghi
	Marinella Soldi

Related Party Transactions Committee (*)

Chairperson	Elisa Corghi
Members	Antonio Patuelli
	Marinella Soldi

(*) Committees established as per the Corporate Governance code.

Strategic Committee

Chairperson	Paolo Bertoluzzo
Members	Luca Bassi
	Giuseppe Capponcelli
	Michaela Castelli
	Francesco Casiraghi
	Simone Cucchetti
	Jeffrey Paduch

Board of Statutory Auditors

Chairperson	Piero Alonzo
Statutory auditors	Mariella Tagliabue
	Marco Giuseppe Zanobio
Alternate auditors	Tommaso Ghelfi
	Andrea Carlo Zonca

Financial Reporting Manager

Enrico Marchini serves as Financial Reporting Manager, pursuant to article 154a of the TUF.

Independent Auditors

PricewaterhouseCoopers SpA has been entrusted with the independent audit of the Group's consolidated financial statements for 2019-2027 pursuant to Italian Law and, for the same years, with limited audits of the condensed consolidated interim financial statements for the six months ending June 30.

Group Internal Control Systems

In the first half of the year the projects targeting the development of the Internal Control Systems continued, consistent with the Group's evolution and with applicable legislation.

Furthermore, the Group has started, and completed, the preliminary activities for Nexi Payments' acquisition of Intesa Sanpaolo's *book acquiring*. Such activities will be further perfected during the second half of the year, in view of the fact that the operational guidelines for managing the book may change and require some fine tuning.

The Audit Function, as well as identifying issues and reporting findings arising during the course of audits – therefore useful for heightening the top executives' risk management awareness – implemented evolutionary measures in the area of methods and issued an internal Audit Manual that defines the benchmark standards and the crucial steps of the audit phase. The period witnessed the issuing of the policy that governs the auditing by third parties (independent auditors) of Nexi and its suppliers. Such actions, implemented by the Function's Monitoring & QA unit, are maintained with a view to continuously improving the effectiveness of audits, especially via an increasingly clear and direct correlation with major business risks.

On-site auditing was performed regularly, particularly focussing on the control of the Group's technological outsourcers, strategic business activities, IT security and operational continuity.
As for IT tools, with a view to improving the effectiveness of Group audits following reorganisation and in line with the aforementioned methodological developments, the implementation of a tool capable of supporting all stages of the audit process has been successfully completed. Lastly, throughout the period, the Audit function arranged the definition and

updating of the Organisational and Control Model pursuant to Italian Legislative Decree 231/2001 for Nexi SpA, Nexi Payments and Help Line SpA.

Second level controls for the Group's supervised companies, 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 assigned risk-return objectives and business operating rules, are entrusted to structures other than operations, and specifically to:
- the Risk Management Function, whose Operational Risks unit also features an Information Security Manager;
- 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, namely business units with responsibility for continuously ensuring compliance of activities and processes with regulations under their respective responsibilities.

The Risk Management Function, tasked with oversight in the area of risk management, in 2019 completed the new Enterprise Risk Management (ERM) framework. The latter, in line with top management's vision and pursuant to recommendations within Borsa Italiana's Code of Conduct for Listed Companies pertaining to risk management and control, focuses on the identification and handling of top risks impinging on value creation and protection. To that end, it is tasked with injecting a risk management culture and practices thereto pertaining in corporate processes relevant to strategic planning and performance management.

The mission of the ERM model is therefore to promote decision-making based on awareness, on the expected yields and on the underlying risk profile, ensuring an adequate management that is consistent with the propensity to corporate risk. To this end, Nexi Group's ERM aims to achieve the following goals:
• identify, prioritise and periodically monitor corporate risks in order to direct investments and resources towards the most critical and relevant risks for the Group's business;
• assign roles and responsibilities for a clear and shared management of corporate risks;
• give due value to the existing Risk Management units, coordinating them and enhancing them if possible;
• spread a culture of risk awareness and a risk-based approach in the Group's decision-making processes, raising management's awareness of the major risks the company is exposed to.

During the first six months of the year, the Group monitored, on a monthly basis, the enforcement of the mitigation plan for major risks, which emerged from the 2019 ERM analysis, whose risk monitoring Nexi has decided to further strengthen.

Following the Covid-19 health emergency, in 2020 pandemic-related risks have been identified, as well as the potential impact on Nexi's business, including through the creation of several scenarios envisaging varying lockdown periods and different recovery times for returning to a pre-crisis situation.

The Compliance & AML Function constantly monitors its assigned rules according to a risk-based approach and in the first six months of 2020 it has developed new reporting methods with the Managers of the supervised companies, in order to provide a clear and immediate picture of non-compliance risks, of the progress of the corrective measures undertaken, of new rules and of measures aimed at ensuring compliance by the enforcement date. Plus, it is one of the tools that allows the Function to promptly address open issues.

Activities aimed at boosting the efficiency of information tools supporting the Function carried on, in all scopes managed by the Function itself, as well activities aimed at harmonising, within the supervised companies, the non-compliance risk management model. Such activities will be completed during the second half of the year.

Throughout the first half of year, particular attention was given to the Law Decrees and the recommendations/guidelines issued by the Supervisory Authority to face the Covid-19 health emergency, following which specific adjustment measures were taken, as well as planning directly handled by the Compliance and AML Function, in order to ensure compliance with EU Directive 2015/849 and EU Directive 2018/843 (the "IV Anti Money-Laundering Directive" and "V Anti Money-Laundering Directive", respectively) and with EU Directive 2015/2366 concerning payment services in the domestic market (so-called "PSD2").

All Group Companies also further consolidated the data-protection activities set forth under EU Regulation 2016/679 on data protection (so-called "GDPR").

Nexi Group Organisational Structure

The resolution of Nexi SpA's Board of Directors of February 12, 2020 updated Nexi SpA's organisational structure, adding the CAO function, which directly reports to the CEO.

Nexi Payments SpA

With reference to the guidelines of the 2019-2023 Business Plan, in continuity with the transformation process underway and with reference to holding company Nexi's listing on Borsa Italiana's MTA equities market, and to pursue the Group's integration path and consolidate the link with Mercury Payment Services (MePS), the main interventions carried out during the first half of 2020 addressed the following:

- establishment of formal reporting lines in MePS structures within the Nexi Payments structure. Such management-level integration entailed a target alignment between functional reporting staff in Nexi Payments and senior managers in MePS in order to strengthen knowledge-sharing mechanisms and convergence towards a common innovation roadmap. In particular:
    - within the C&EA Management: Corporate Affairs MePS towards Corporate & Regulatory Affairs and Physical Security MePS towards Security;
    - within the CFO Management: Planning & Control MePS towards BU & Commercial Bus. Partners and Administration MePS towards Administration;
    - within the CAO Management: Organization MePS towards Organization & Processes and General Services MePS, towards Real Estate Facility & General Services;
    - within the Operations Management: Chief Operations Officer MePS towards Operations and Issuing Operations MePS towards Operations Cards & Digital Payments;
    - within the CIO Management: IT Governance MePS towards IT Strategy & Governance; IT Security MePS towards CISO Area; Digital MePS towards Digital; IT Infrastructure MePS towards IT Service Management & Infrastructures.

- an organisational unit called AML Compliance was created, within the Compliance and AML control function, for the integrated management of AML operating processes and of regulatory impacts; the Operational AML team reports to such unit; concurrently, the organisational unit previously called Compliance was renamed Business Compliance;

- within the CIO Area, the IT Cards & Digital Payments structure was reorganised into three new functions: SDP Solution Design, for the definition of functional and architectural solutions; CDP Projects, focusing on project management; CDP Running & AM, whose goal is to manage small changes and provide support to incident management;

- still within the CIO Area, in the Digital structure, the POS Key Initiatives and POS Application Factory functions were blended into one single function called POS Digital Factory, in order to create synergies and enhance focus in terms of POS technical development;

- within the CARO Area, the Organisation & Processes function has been reorganised so as to enhance monitoring and further support different project-related requirements, through the creation of the Regulatory/Compliance Process Development structure, which deals with the revision of processes linked to regulatory requirements, and through the creation of the Organisation & Processes Development Project structure, dealing with the development and projects of the organisation and of corporate processes. Furthermore, the function will be supported by two staff areas called, respectively, Organization Major Project & Change Management and SME (Subject Matter Expert), which focus on corporate and business processes;

- still within the CAO Area, the Facility Management function was renamed Real Estate Facility & General Services and now encompasses legal activities linked to general services, previously managed by HR Operations & General Services and two structures dealing with real estate were created; furthermore, to support the function itself, staff activity for managing Special Projects will be set up;

- finally, still within the CAO Area, the HR Operations & General Services was renamed HR Operations; such function was tasked with the management of the new Payroll Services structure and staff activity for managing and monitoring HR Costs and KPIs and employee policies;

- within the Operations Management area, the new Business Operations & Risk Prevention structure was created, the goal being that of ensuring a coordinated management and the digital transformation of the Frauds & Credits, Disputes and Clearing & Transactions Management operating structures; moreover, within the Security Digital Banking function was created within the Frauds & Credits structure;

- also within the Operations Management area, the new Merchant Services Integration & Transformation Office structure was created in-staff to deal with the governance of strategic initiatives and digital transformation regarding merchant operations.

Mercury Payment Services SpA

In order to pursue the Group integration path and to consolidate the link with Nexi Payments, some changes were made to the organisational structure, including through the institution of functional lines of reporting from Mercury structures to Nexi Payments structures. Such management-level integration entailed target alignment between functional reporting staff at the two companies, so as to bolster knowledge-sharing and to breed convergence on a common innovation roadmap.
In particular, major interventions in the first six months concerned:

- within the Compliance & AML structure: creation of two new functions, Compliance and IT & Data Protection Compliance.

- within the Human Resources & Organization structure:
    - subdivision of the Physical Security & General Services Function intro two Functions: Physical Security and General Services; formal reporting line from the manager of the Physical Security Function to the manager of the Security Structure at Nexi Payments;
    - formal reporting line from the manager of the General Services Function to the manager of the Security Structure at Nexi Payments;
    - formal reporting line from the manager of the Organisation Function to the manager of the Organisation & Processes Function at Nexi Payments.

- within the Corporate Affairs Structure: formal reporting lines from the manager of the Corporate Affairs Structure to the manager of the Corporate & Regulatory Affairs Structure at Nexi Payments.

- within the Planning & Control Structure:
    - creation of the 1° Level Planning & Control Structure;
    - formal reporting line from the manager of the Planning & Control structure to the manager of the BU & Commercial Business Partners Structure at Nexi Payments.

- within the Administration structure:
    - creation of the 1° Level Administration Structure;
    - formal reporting line from the manager of the Administration Structure to the manager of the Administration Structure at Nexi Payments,

- within the Chief Operations Officer Structure:
    - formal reporting line from the manager of the Chief Operations Officer Structure to the manager of the Operations Structure at Nexi Payments;
    - formal reporting line from the manager of the Issuing Operation Structure to the manager of the Operations Cards & Digital Payments Structure at Nexi Payments;
    - elimination of the Staff Supply Chain & Cards Perso Enhancement Structure.

- within the Chief Information Technology Officer Structure:
    - creation of the di II° Level IT Security Structure;
    - creation of the II° Level IT Governance Structure;
    - creation of the II° Level Authorization Systems Structure, broken down as follows:
        - Staff Function, which is to identify specific positions, such as Staff TO (Transformation & Service Officer) and Staff SA (Solution Architect);
        - Data Preparation & Authorization Services,
        - Authorization Platform & Fraud;
        - Cryptography Domain Management.
    - Creation of the II° Level Digital Structure, broken down as follows:
        - Digital Function, whose coordination is entrusted to Fabio Mantovani;
        - Staff Function of the Authorization Systems Structure, which formally operates even for the Digital Structure;
    - formal reporting line from the manager of the IT Security Structure to the manager of the CISO Area Structure at Nexi Payments;
    - formal reporting line from the manager of the IT Governance Structure to the manager of the IT Strategy & Governance Structure at Nexi Payments;
    - formal reporting line from the manager of the IT Infrastructure Structure to the manager of the IT Service Management & Infrastructures structure at Nexi Payments,

- formal reporting line from the manager of the Digital Structure to the manager of the Digital Structure at Nexi Payments.

Regulatory Compliance

During the first six months, efforts continued with reference to compliance with new regulations introduced by Directive (EU) 2015/2366 concerning payment services in the Common Market (the Payment Services Directive, or PSD2), as well as with ensuing secondary regulations issued by the EBA and transposition measures adopted by Italy - the latter including updates to Supervisory Provisions for Payment and Electronic Money Institutes. Activities concerning the transposition of Provisions on Banking and Financial Services Transparency were completed and the Compliance and AML Function started inspections aimed at ascertaining that the implemented solutions are compliant.

With reference to anti-money laundering and the Group's supervised companies, important measures aimed at making such companies compliant with the Law Decrees transposing EU Directive 2015/849 ("IV Anti Money Laundering Directive") and EU Directive 2018/843 ("V Anti Money Laundering Directive") and with the relevant enforcement provisions of the Bank of Italy. Activities aimed at ensuring full compliance are ongoing.

Constant effort is being put into consolidation activities aimed at protecting data, as provided for under EU Regulation 2016/679 ("GDPR"), as well as in the monitoring activities implemented by the Compliance and AML Function, aimed at ascertaining that the adopted solutions ensure compliance. Training activities continued too, within the scope of a plan that is reviewed on a yearly basis, which aims to raise the Group's awareness of the pertinent regulation and of data protection.

During the first half year, particular attention was given to the Law Decrees and the recommendations/guidelines issued by the Supervisory Authority to face the Covid-19 health emergency, following which specific adjustment measures were taken.
Furthermore, we identified the measures required to guarantee the provisions set forth under Law Decree no. 124/2019 on tax credit for merchants.

With reference to Nexi's listing on Borsa Italiana's MTA equities market, internal procedures were updated with respect to the processing of relevant/privileged information, and to the drafting and keeping of both the insider list and the relevant information list (i.e. the RIL), and to the Procedure regulating operations with related parties, pursuant to the applicable laws.

Group IT Systems

During the first half year, CIO-related activities focused on pursuing the technological transformation process, implementing project initiatives aimed at supporting Group Business goals and ensuring adequate service levels to customers.

Aside from the main activities described below, it is worthwhile pointing out the significant and prompt activation – throughout the entire company scope – of technological instruments that enables the operating continuity of Group activities following the Covid-19 health emergency.

In short, the measures taken in the first six months 2020 – basically consistent with the expected planning, taking into account the impacts of the Covid-19 emergency – focused on the following aspects:

- implementation of IT Strategy initiatives according the Programme masterplan for POS, Acquiring, Customer Interaction;
- implementation of project initiatives supporting business and transversal compliance programmes;
- activation of measures concerning the consolidation, evolution and maintenance of technological infrastructure and security platforms;
- execution of the IT activities envisaged as part of corporate restructuring projects (e.g. acquisition of Intesa Sanpaolo's merchant book);
- monitoring of service levels, to be consistent with the market's best practices, provided to internal Business Units and to Group clients;
- consolidation of the organisation structure and enhancement of the inhouse staff skills;
- management and optimisation of technological expenditure, with a specific view to the achievement of the Group's cost-efficiency goals.

Aside from the ordinary operations assured for manging current services, the following information further details the major measures that have either been taken or are underway in the following areas:

On the Issuing Systems front, the following activities were carried out:
- development of the International Debit product (*Carta Conto* and corporate version);
- expansion of the customer base of the international debit product by integrating new banks;
- completion of the roll-out of client banks for the adoption of the ContactLess and PagoBANCOMAT Digit technologies for cards and terminals enabled to operate on the PagoBancomat circuit;
- participation in the tender called by Consorzio Bancomat for the development of a "New Supply Chain Governance Model";
- making the PIN View function available with a specific pool of client banks.

Activities in the Merchant Services areas focused on:
- activation of new business offers (e.g. Welcome and Start; Micropayment Promotions) and new services (e.g. extension of acceptance of UPI, JCB cards) for SME customers;
- implementation of evolutionary measures on the Merchant On-Boarding platform;
- production release – on the first, pilot merchant – of the new Core Platform Acquiring service and implementation of certification activities with Visa and Mastercard circuits.

Regarding Payments systems, the following activities were carried out:
- integration of Instant Payments on the front end of the Remote Corporate Banking platform;
- start of the Depo Instant Payments intermediation service;
- start of the Nexi Open project for the creation of an API Market Place for fintech companies;
- start of the ATM to Win10 migration project;
- start of the enhancement project of the IBAN-based antifraud platform.

In the area of M&A, Operations and Corporate Systems, activities focused on:
- development, on the new Dispute management platform, of functions concerning Issuing in Licensing products;
- renewal of the instrument supporting the Contact Centre, through the realisation of a single CRM applicative based on market technology;
- creation of a Data platform for facilitating a speedy use of financial information and invoicing in the CFO area ("Smart Closing" project);
- implementation of the technological adjustments needed for the acquisition of the merchant book acquired from Intesa Sanpaolo;
- development of a single enabling platform in the Mercury Payments area, which enables the multi-acquiring and issuing function, as well as the real time feeding of the Group's data lake;
- completion of preliminary activities for the migration of the IT system to another provider of Deutsche Bank's electronic money portfolio.

Digital ICT activities focused on:
- completion of the migration of former Consorzio Triveneto and Nexi POS devices to a new Group platform;
- production release of the new platform providing VAS services on traditional and Android POS;
- release of the New Settlement POS platform;
- completion of the onboarding of the CSE Services Centre for the entire Debit product;
- completion of the alignment to IV AML Directive for all scope products;
- completion of the integration with Visa and Mastercard circuits for Token Lifecycle Management services concerning Mobile Payments (Apple/Google/Samsung Pay);
- release of the "*Sblocca Mercato*" offer and of the agreement process with FEA concerning the Merchant Online Store and launch of the remote payment service *Pay By Link*;
- continuous evolution of digital channel properties (e.g., new APP DB);
- activation of the new Marketing Automation platform and removal of the previous one;
- development of the YAP platform supporting the customer growth plan;
- release, on a primary customer, of the New Payment Gateway platform.

In the Data & Analytics area, activities mainly concentrated on the following:
- organisational development of the Data Community, through projects setting up a Data Academy and a central Data knowledge repository;
- development of the Big Data infrastructure, based on which artificial intelligence algorithms for Acquiring e Issuing were developed;
- development of Analytics instruments for partner banks;
- evolution of the ''Data strategy'' process supporting the transition towards a data-driven model.

In 2020, activities in the Infrastructure area focused on the implementation of the following measures:
- continuation of Data Centre Insourcing activities, whose transformation phase will last throughout 2020 and will involve several areas, including Network;
- completion of the components of the new Data Center Nexi Blu concerning the customer interconnection Network (Nexi Customer Connect), the POS for the collection of transactions (Nexi POS Connect) and the Internet access infrastructure (Nexi Internet Connect);
- unification and rationalisation of Group infrastructure, managing the infrastructure of the Data Centres acquired in the corporate restructuring operations;

- completion (still ongoing) of the migration from Mercury Payments Data Centres to Nexi Blu and management of the project for infrastructure re-insourcing in Facility Management at Nexi by OASI Diagram and PayCare;
- development of specific monitoring systems for the new IT Strategy platforms and initial development of the Core Platform control instruments;
- activation, throughout the entire company (before the lockdown ordered by the Government to counter the spreading of Covid-19), of the advanced Collaboration and Virtual Networking technological instruments, ensuring the seamless management of current operations, avoiding impacts on productivity and preventing service disruption.

In the area of IT Security and Business Continuity, as part of the continuous improvement of both IT security systems and measures to combat cybercrime, the main activities included:

- technical certification of the main Group applications in respect of compliance with IT Security and Business Continuity regulations (including PCI DSS Certification, PCI Card Production, PCI 3-D Secure, PCI PIN Security, ISO 27001, ISO 22301, etc.);
- continuation of a range of tactical and structural activities to improve IT Security and reduce potential vulnerabilities within Nexi Group IT systems,
- introduction of technologies designed to increase security of services offered to end customers;
- enhancement of technical and organisation checks aimed at mitigating new threats emerging following the Covid emergency;
- boosting of the 24/7 security events monitoring service and development of a central platform to gather all security warnings.

IT Strategy & Governance activities mainly focused on the following initiatives:

- governance of the implementation of the IT Strategy programme, with a specific view on planning monitoring;
- management of Covid-19 emergency impacts on the CIO Area and support to the "operational restart" of the Group, together with the Functions in charge of Operating Continuity;
- overseeing of the projects portfolio and relevant operational and management reporting, with a specific focus on the governance of priority programmes and Key Initiatives;
- monitoring of IT expenditure and implementation of spending review initiatives, including in view of the Covid-19 emergency impact;
- implementational rollout for the monitoring of the Group's architectural Reference Model and development of supporting instruments;
- constant monitoring of the Group's architectural development, so as to ensure its compliance with the development guidelines and with the market's best practices.

Human Resources

With reference to human resources, Group workforce as at June 30, 2020 stood at 1,945 resources, compared to 1,942 as at December 31, 2019, broken down as follows among the legal entities.
With reference to seconded staff, note that said staff is head-counted within the relevant group company if and when their percentage secondment is ≥ 50%.

(Figures in HCs)

2020	NEXI	Nexi Payments	Help Line	Mercury	Orbital Cultura Srl *	30 June, 2020
Senior Managers	6	79	1	6	1	**93**
Middle Managers	1	615	11	38	-	**665**
Employees	-	655	278	249	6	**1,188**
Other (1)	-	2	-	-	2	**4**
Total	**7**	**1,351**	**290**	**293**	**9**	**1,950**
Open-ended	7	1,350	290	289	9	**1,945**
Fixed-Term	-	1	-	4	-	**5**

* Bassmart changed company name on May 4, 2020

(Figures in HCs)

2019	NEXI	Nexi Payments	Help Line	Mercury	Bassmart	December 31, 2019
Senior Managers	2	84	1	7	1	**95**
Middle Managers	---	591	11	36	---	**638**
Employees	---	653	286	259	6	**1,204**
Other*	---	2	---	---	3	**5**
Total	**2**	**1,330**	**298**	**302**	**10**	**1,942**
Open-ended	2	1,328	298	290	10	**1,928**
Fixed-term	---	2	---	12	---	**14**

Information on staff and the environment

Nexi training can be subdivided into five main areas:

- compulsory training: the goal being to provide for the knowledge necessary to ensure legal and regulatory compliance (e.g. privacy, safety & security, etc.);
- speacialist training: the goal being to provide for learning, updating and enhancement of specialist knowledge relevant to specific professional and business area categories;
- technical training: these specialist courses were provided by third-party training services providers and issued in certification, the goal being to both instruct participants on required tools, methods and knowledge and enhance operational performance;
- OneNexi training: this training reflects Nexi values and its goal is that of pursuing a common and shared path that aims to give value to experience diversity, to strengthen organisational leadership and individual soft skills. It includes activities that allow the individual to gain and enhance personal, operational and management skills;
- business training: to goal being to breed knowledge of relevant market sectors and their trends, as well as Nexi's positioning, strategy, products and services.

In the first half of 2020, considering the external events that weighed on the staff's development targets and changed mobility and working modalities, training activities mainly concentrated on:

- completion and update of compulsory training;
- specialist training, with a specific focus on the "Skill-up" IT skills-mapping project, with a view to develop and transform the structure;
- boosting awareness of the management rules of the Transition Phase, which immediately followed the lockdown, and of the relevant implications in terms of Health and Safety at work, both on the venue and smart working;
- drafting and implementing a Change Management plan, which – by involving the entire staff – can help create a new corporate culture that may efficiently deal with all new competitive scenarios and new working modes, new professional relations and new conduct in performing one's job, providing useful and pragmatic tools to working teams, so as to design and face the so-called "New Normal".

During the first half of 2020, the activity carried out by the Prevention and Protection Service focused on the Coronavirus (SARS-CoV-2) epidemic. A Biological Risk Assessment was conducted, with reference to the spreading of the virus, and identified the due prevention and protection measures for preventing contagion.

The major measures put in place concerned the modalities for entering the company venue, the cleaning and sanitation of working environments, personal hygiene and cleanliness precautions, Personal Protective Equipment, instructions on the use of working spaces and common areas, movement inside the company venue, possible access of suppliers.

Finally, information and training were provided to all employees as to the adopted measures and the conduct to be followed. A programme was adopted for the enforcement prevention and protection measures, in order to adjust measures over time, depending on the regional contagion indices.

Another area that was given great attention, through information and training, was that of smart working, in terms of ergonomics and organisation of the work.
Last but not least, a crucial role was played by Health Surveillance, together with the Relevant Physician, who assessed the cases and took decisions during both the pre-lockdown phase and the phase that followed the resumption of working activities.

Main risks and uncertainties

This section describes the main risks the Group is exposed to; such risks emerged within the scope of the Enterprise Risk Management and have been broken down into several aspects and put in the current macroeconomic, political and regulatory framework.

For further details concerning financial, operating and reputational risks linked to the type of business handled by the Group, please refer the relevant Note, which also describes the relevant risk management policies.

Risks linked to economic conditions and political uncertainty in Italy
Nexi Group operates in and derives its revenue from the Italian market only, hence is vulnerable to risks linked to the weakness of the Italian economy.

Revenues from received fees, especially that generated in the Merchant Services & Solutions and the Cards & Digital Payments business lines, is dependent on the number and volume of payment transactions. The latter, in turn, track overall expenditure of consumers, businesses and public administration in Italy.

Any macroeconomic event that negatively impacts Italy's economic growth may impact Nexi Group revenue in terms of both volumes and product base (e.g. card, POS and ATM fees). In fact, a worsening of the macroeconomic scenario may negatively impact not just transaction volumes but also the number of cards issued or the number of next-generation POS terminals distributed to merchants.

Uncertainty linked to Italy's economic policies may breed further strains in respect of Italian government bond yield spreads and of the institutional liquidity market and, hence, the banking sector's financial supply chain, triggering a general decline in ratings.

Any consequent rise in the average cost of funding for banks that finance Nexi Group, or any tightening in such banks' lending standards, may result in an increase in the cost of banking credit lines or a lower cap on lending. Furthermore, should economic conditions dictate that partner banks tighten credit requirements, the number of cardholders may dwindle and so too the number of digital payment transactions and the average spending per transaction.

Lastly, prospective domestic policy initiatives or provisions addressed at the payments market may impact its growth and profitability, accelerating or decelerating either of them.

As highlighted under the "Covid update" section, Italy was the first western country to adopt, in early March, some of the most restrictive measures, imposing a nationwide lockdown. The Covid-19 pandemic and the consequent containment measures generated a consistent decline in our country's business activities. The basic scenario (in the event that the pandemic is kept under control globally and in Italy, with contagion containment measures gradually being lifted and their economic repercussions consequently mitigated) envisages a 9.2% GDP drop in Italy, based on this year's average trend, to be followed by a gradual recovery over the next two years (up 4.8% in 2021 and up 2.5% in 2022)[1].

After a two-month lockdown, starting on May 4, the so-called "Phase 2" kicked off in Italy; it entailed a gradual loosening of the restrictive measures previously adopted, as well as the gradual reopening of economic activities. In this emergency context, the government also introduced some extraordinary measures to ensure economic support to enterprises, workers and households, through the so-called *"Cura Italia"* (cure Italy) Law Decree and the *"Decreto Rilancio"* (recovery decree), which set forth initiatives aimed at driving the country's economic recovery.

In such a situation, where electronic payments are paramount to ensure the operating of the country's entire economic system, Nexi strived to ensure the operation of services provided to partner banks and end customers with the usual quality and security. In tackling the complexity of the current context, Nexi can rely on a diversified and resilient business model, as roughly half of the total Revenues generated by the Group as associated with the product base – hence not directly impacted by the short-term volumes trend – and with 38% of Variable Costs associated with volumes and activity levels (data for 2019).

[1] Source: Bank of Italy, macroeconomic outlook for Italy – June 2020

Risks linked to the Italian banking sector and to industry consolidation

A sizeable proportion of Nexi Group activities is linked to the provision of services to banks. More specifically, Nexi Group products distributed via the Merchant Services & Solutions, Cards & Digital Payments and Digital Banking Solutions business lines are delivered as part of commercial agreements with a number of leading Italian banks, whose performance stands to significantly influence Group activities.

In recent years, as a result of the enduring financial crisis, Italian banks have had to contend with the increasing volume of non-performing loans. The situation may further deteriorate in the face of greater than forecast economic slowdown or of enduring global trade tensions.

Italy's leading banks, many of which are Nexi Group customers, have had to shoulder a high burden of cost and have met with significant difficulties in meeting financial stability regulatory requirements set forth by EU policymakers

Should a Nexi Group partner bank be the subject of forced liquidation or of crisis resolution measures, said bank may be unable to provide for the execution of contracts entered into with Nexi Payments SpA and, therefore, to fulfil obligations.

In addition to the above, mergers and consolidations within the Italian banking and financial sectors are broadly expected to continue. Such processes, depending on the parties involved, may reduce the number of corporate customers (current and future) and of partner banks.

Should partner banks merge or be acquired by parties that are either lie outside Nexi Group's distribution partnerships or are less reliant on the Group's services, significant losses are probable.

Another potential consequence of mergers and consolidations is that the larger entities arising from banking or financial institute mergers may hold greater bargaining clout in negotiations with Nexi Group. Lastly, the extent of Nexi Group's dependence on partner banks increases with the latter's size, such that the loss of even one partner bank stands to breed a substantial impact on revenue, profitability and cash flow.

Furthermore, the takeover bid launched by Intesa Sanpaolo on UBI Banca on February 17, 2020, came to a close on July 30, 2020, securing 90.2% of its shares, Both banks are already key partners of Nexi Group, hence the transaction poses no relevant risks for Nexi's business.

Such trend confirms the gradual consolidation and evolution that is underway in the banking sector, with the subsequent decrease in the number of bank brokers and an increase in market concentration.

Risks linked to competition within Nexi Group's operations sector

The reference markets for Nexi Group's business lines are highly competitive and within each of them the Group faces competition in the following areas: technology, speed, performance, quality, reliability, reputation, customer support and pricing.

At present Nexi Group faces competition from the likes of processors such as SIA, specialising in transaction processing management in respect of payment transactions. Such suppliers provide services similar to those offered by Nexi to its partner banks. In the foreseeable future Nexi Group will face competition from both market entrants in the fintech sector and service expansion by incumbent competitors.

Currently, Nexi Group also faces new pressure from international competitors such as Adyen and Stripe and from non-traditional payment service providers such as Google, Apple and Samsung. Current competitors in the area of e-commerce and m-commerce include Amazon and PayPal. All of the above currently compete with Nexi Group on the level of one or more services. Said companies boast considerable financial resources, solid commercial networks and high levels of consumer uptake.
Also, prospective consolidation between European players - e.g. Ingenico and Worldline merger announcement - contributes to heightening competitive tensions.

Risks linked to strategic outsourcers EquensWordline and SIA

Transaction processing on Nexi Group's ICT infrastructure domain is, for the most part, outsourced to third-party service providers. These include, first and foremost, given their strategic relevance, SIA and EquensWorldline.

Nexi Group, having made significant investments in SIA and Equensworldline equipment and software, would face a complex task were it to choose to replace such suppliers. That scenario would entail additional charges and costs, combined with the potential for disruptions and delays to service, certain of which inevitable, whichever replacements are made.

While, to date, there have been no instances of appreciable issues arising in connection with either the activities conducted by said suppliers or the commercial ties therewith, Nexi Group, however, cannot rule out that said suppliers may, in future, breach contractual obligations, or fall short of consistently delivering to Nexi Group quality standards, to an extent such as to compromise Nexi Group's operations, all of which with clear negative impacts.

Nexi Group also relies on said suppliers to connect its platforms with those of third parties, including Visa and MasterCard platforms. Hence, any damages ascribable to service providers, as much as any failure to perform data centre maintenance, or any network infrastructure malfunction, may issue in a service breakdown.

Lastly, it is worth noting that SIA stands not only eligible to enter into agreements with Nexi Group competitors, but can also engage in direct competition with Nexi Group. For instance, provided its doesn't leverage information available to it by way of its supply contract, as per unfair competition provisions, SIA can provide card issuing and clearing services

With reference to outsourced IT processing and Facility Management activities, the services rendered by outsourcers are governed by specific service contracts, covering aspects which include but are not limited to the following: service levels (i.e. SLAs), fines and audit rights. Nexi Group is planning, furthermore, on the formal appointment of a contract manager, tasked with representing the Group in respect of all issues arising with respect to service contract.

Outsourcing procedures are subject to the Group's policy on "Outsourcing and Business Functions", whose rules provide a frame of reference via which to ensure that procedures pertaining to supplier selection and to risk monitoring and mitigation with respect to activities carried out by suppliers are subject to specific oversight and accountability criteria.

With reference to the Covid-19 emergency, no operating impact was suffered by continuity and/or quality of the services provided by our key outsources EquensWorldline and SIA. Furthermore, they both promptly communicated the procedures put in place and the actions taken to ensure full operativity in conditions of smart working too.

Risks linked to delay or failure in implementing the growth strategy

The Group is exposed to the risk of either delayed attainment of, or failing to attain as expected, the goals envisaged under the growth programmes set in place by the 2018-2023 business. Considering the current, constantly evolving Covid-19 scenario and the inevitable uncertainty as to future recovery timing, Nexi decided to suspend – out of precaution – the guidance on medium-term financial objectives, it envisaged different scenarios, based on different lockdown lengths and recovery timeframes for returning to a pre-crisis situation, and promptly devised and implemented a plan for curbing costs and investments for an overall value up to Euro 100 million, while keeping the company focused on fulfilling strategic development and growth initiatives. The actions envisaged by the plan aim to mitigate the Covid-19 impact on EBITDA and on cash flow, while also rephasing some less strategic projects and investments (for further details see the previous section "Covid update").

Should the Group fail to complete within the planned timeframe the business and IT programmes and initiatives set in motion during said three years and/or should it fail to attain envisaged goals, it may incur unforeseen extraordinary costs which would negatively impact its financial performance.

Risks linked to ICT infrastructure operations

The operational integrity, reliability and performance of the Group's ICT infrastructure and technology networks underpin the Group's activities, market prospects and reputation.
An especially crucial part of its ICT infrastructure are the merchant acquiring and card issuing platforms, whether debit or credit, domestic or international. Said platforms comprise systems tasked with digital payments' authorisation and settlement processing, card issuing and management, POS and ATM terminal and payment services management - all of which subject to interbank standards, involving, among other requirements, features such as two-way messaging, transactions and notifications, as well as Digital Corporate Banking systems.

Crucially, in respect of platforms handling merchant acquiring, card issuing, terminals management, bank payment systems and other products, operability may be compromised by Group or third-party service provider ICT systems damage or malfunctions.

Malfunctions may result, for instance, wherever major infrastructure overhaul takes place, from migration towards new systems. One such instance occurred in 2014 when the Group carried out SEPA migration of its IT infrastructure, with providers EquensWorldline incurring service disruptions that bred temporary shutdowns and delays that cascaded down to the Group's clients. Shutdowns, albeit mitigated by procedures and systems already in place, may be caused by cyberattacks, human error and natural disasters (e.g. earthquakes, fires, flooding, etc.), or service infrastructure failures (e.g. grid power outages or network connectivity). In that respect, note that the Group rates system disruptions and cyberattacks based on severity, ranking them between "critical" and "low/null" impact. During the reporting period, no critical Group systems or third-party provider systems suffered critical malfunctions, no service infrastructure failures occurred, nor did any less severe instances occur that impacted on the economic, equity and/or financial position of the Group and any of its companies. Regarding the Covid-19 pandemic and the national lockdown, Nexi promptly implemented effective business continuity plans in order to ensure the regular functioning of its business, while ensuring the safety and security of all its staff and of its top level services to partner banks and to end customers. Ever since the very first day of the emergency, Nexi has fielded a number of initiatives, consistent with both the directives issued by the relevant Authorities and with internal continuity plans, which immediately secured all activities, ensuring smart working for over 95% of staff, including call centre activities, and implemented the necessary precautions for the limited number of employees that necessarily had to come to work at the head office.

In order to limit the impact of potential critical IT failures or malfunctions, the Group has set up a specialist IT unit tasked with, among other things, scheduling and carrying out annual disaster recovery testing on critical ICT systems, both in-house and at third-party providers. Said unit also provides for back-up plans and systems, such that, should the need arise, data can be recovered and restored to prior-to-outage conditions.

Should the latter provisions prove inadequate in the face of service and system disruption, that may result in failure to deliver on agreed service levels with reference to either availability of service or transaction processing reliability. That, in turn, may lead to loss of earnings as well as clients opting for another payment services provider, compensation fees, damage to reputation, operating expenses in light of repairs, as well as other losses and liabilities.

Should any of the above circumstances arise, they may negatively impact the economic, equity and/or financial position of the Issuer and/or Nexi Group.

Risks linked to personal data storage and processing

In carrying out its activities the Group processes the personal data of cardholders, including their names and addresses, credit and debit card numbers and bank account numbers, of merchants, including their enterprise names and addresses, sales figures and bank account numbers. As such, the Group is held to comply with domestic Italian and European laws pertaining to data protection and privacy rights. Additional rules apply in respect of credit card circuits, such as Visa and Mastercard.

Given the Group's access to the data of current or potential clients and customers, said rules and regulations as well as binding the Group to designated data protection and security standards, also, among other things, place liability with the Group for loss of privacy resulting from unauthorised third-party access to such data.

Note that, based on the regulation of payment card circuits, the Issuer is held to maintain certification with respect to the PCI's Payment Card Industry Data Security Standards (PCI-DSS), including the PCI 3D-Secure, PCI Card Production Logical Security, PCI Card Production Physical Security and PCIPIN certification. The Issuer, in that respect, is also responsible for ensuring PCI-DSS compliance among certain third parties, such as merchants and service providers.

Although the Issuer's incident monitoring and management service operates 24/7 all year long, unauthorised personal data disclosures may occur, for instance, as a result of IT security violations, either due to human error or cyberattacks, malicious conduct or physical security breaches by unauthorised staff. Note that the Issuer classifies cyberattacks based on severity, ranking them between "critical" and "low/null" impact.

Any unauthorised use of personal data or any IT security breach stands to damage the Group's reputation as well as to discourage clients and customers from using digital payments, in general, and the Group's services in particular; also, said uses and breaches may increase operating expenses as a result of redress of violations or malfunctions, to make the Group liable for expenses not covered by insurance, increase the risk of Supervisory Authority inspections, make it liable to legal claims, lead to substantial fines and penalties either pursuant to domestic, European Union and applicable international rules and regulations, or pursuant to payment circuit contracts. Said uses and breaches may also prejudice the Group's continued participation in credit card issuing partnerships with banks.

Furthermore, unauthorised disclosure of merchant and cardholder data may result in the Group being charged by credit card issuers for issuance of new payment cards, for merchant compensation, as well as for fines and sanctions, all of which may negatively impact the economic, equity and/or financial position of the Issuer and/or Nexi Group. Additionally, any of the above circumstances may lead to payment card circuits may even ban the Group from operating on their payment services networks.

On a final note, while service contracts with all third-party providers - whether engaged in transaction processing, such as

SIA and EquensWorldline, or debt collection, IT, marketing, etc. - that may have access to merchant, client and customer data include non-disclosure and privacy and security compliance agreements as standard, the Group cannot rule out that said parties may breach contractual provisions, thus leading to disclosure of personal data without due authorisation by the owners of such data.

Breach of contractual and/or regulatory obligations with reference to consumers' personal data, whether by the Group or by third parties, may lead to the loss of cardholder data by merchants and third parties for whom the Group is ultimately liable. In such instances, the Group may have to terminate contract with the merchants responsible for the breach, leading to reputational damage, fines and/or penalties issued by payment card circuits and/or loss of international credit card circuit membership, negatively impacting the economic, equity and/or financial position of the Issuer and/or Nexi Group. For the purposes of partly mitigating the prospective adverse impact of this type of risk has secured coverage with leading insurance companies.

The widespread use of smart working and remote links may bring about an increase in IT security risks for enterprises. In such a context, it is becoming increasingly important to be prepared to deal with cyberattacks in order to minimise impact. To face smart working-related cyber threats, Nexi has implemented specific IT security measures and enhanced training and information concerning Covid-related risks and the relevant conduct to be followed. Besides, the Group has continued to put in place the IT security measures provided for by the strategic plan for mitigating IT risks, and it has regularly monitored their implementation.

Risks linked to credit exposure with respect to partner banks and clients

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:

• from the Factor, for receivables generated by cards issued by the Group under the Factoring Contract;

• 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

• 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 refunded by the Group, in its capacity as acquirer, to the cardholder. Also, wherever the Group should fail to recover the amounts charged back to the merchant, under international circuit rules, the acquirer is under obligations to refund the full transaction amounts, including fees, to the card issuer. In that instance the Group is liable for losses in respect of the amounts refunded to either the cardholders or, for cards issued outside the Group, international circuits.

Following the Covid-19 health emergency and the ensuing macroeconomic downturn, Nexi started a constant monitoring of chargebacks and insolvencies and has implemented risk mitigation actions that are detailed in the Notes.

Credit risk in issuing activities

Nexi Payments SpA, in its capacity as issuer, grants 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 liable for any insolvency related to purchases made in the 5 days following card revocation. Once that period has elapsed, if the issuer has not yet revoked the card, any additional amounts (i.e. purchases made as of the sixth day subsequent to card revocation) are under the responsibility of the issuer.

As at time of reporting, there has been no increase in direct-issue card insolvency directly associated with the Covid-19 emergency.

Credit risk in servicing activities

With reference to the Cards & Digital Payments business line's servicing model and special covenants with banks, the Group is exposed to counterparty risk for the payment of 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.

Any of the above events may negatively impact the economic, equity and/or financial position of the issuer and/ or Nexi Group.

Risks linked to merchant, cardholder, supplier or other third-party fraud

The Group may incur liabilities and may suffer damages, including reputational ones, 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 Merchant Services & Solutions and Cards & Digital Payments business lines.

Examples of commercial fraud may include the sale of counterfeit goods, the malicious use of either stolen or counterfeit credit or debit cards, use by merchants or other parties of payment card numbers or of other card details to register a false sale or transaction, the processing of an invalid card, and the malicious failure to deliver goods or services sold within the scope of an otherwise valid transaction.

The parties engaging in criminal counterfeiting and fraud resort to increasingly sophisticated methods. Failure to identify theft, as well as ineffective risk management and fraud prevention, may increase the Group's chargeback liability or cause the Group to incur other liabilities, including penalty fees and fines. Although the Group is equipped with sophisticated monitoring, detection and alert systems that allow for verification of suspicious transactions and potential fraud, these may not prevent all and any fraud instances and are liable to technical malfunction. Furthermore, fraud may increase in the future. Increased chargebacks or any other liability arising from fraud may negatively impact profitability and the economic, equity and/or financial position of the issuer and/or Nexi Group.

Risks linked to reliance on third-parties for services/products

In order to conduct its business, Nexi relies on third-party service providers and product suppliers. Its main suppliers and providers include: (i) EquensWorldline and SIA (transaction processing), (ii) Idemia, formerly Oberthur, now part of the Advent portfolio (suppliers of EMV-standard smart cards and card personalisation services), (iii) Poynt, (suppliers of advanced SmartPOS terminals featuring flexible Android-based operating systems), (iv) Ingenico Italia and Verifone Italia (suppliers of POS terminals), (v) ATM suppliers, (vi) providers of other outsourced services, such as branch deliveries, cheques, cash, mail and the Internet.

The main risks linked to reliance on said companies include potential interruptions to critical services/supplies, the transfer of critical knowledge arising from failures to protect it, and the unauthorised use of confidential data or information. Any of the above instances stands to negatively impact Nexi Group's profitability and reputation. In order to mitigate the risk of product stock-outs (e.g. POS terminals, Cards) owing to delays or interrupted delivery by one or several suppliers impacted by the Covid-19 emergency, Nexi has increased its inventory levels, ordering in advance products such as POS and smartPOS terminals, cards and chips, whose suppliers are based in Asia and Europe. To date, no supply chain disruption has occurred.

Risks linked to the group's ability to attract, retain and motivate skilled professionals

Nexi Group performance and the future success of its businesses are significantly dependent on its ability to attract, retain and motivate certain very specific skills sets in middle and senior management, namely individuals with significant levels of specialisation and technical knowhow. Therefore, the loss of one or more key figures in either middle or senior management and/or failure to attract and retain highly qualified and/or highly experienced managers, may lead to the reduced Group competitiveness and may affect the Group's ability to secure of its goals and implement its strategy, breeding potential adverse impacts on the economic, equity and/or financial position of the Group.

The Group's performance and the future prospects of its business are also dependent on its ability to advantageously adapt to rapidly unfolding technological, social, economic and regulatory changes. To that end the Group must leverage as broad a set of diverse specialist skills as possible in the fields of engineering, technical servicing, finance and control, sales, administration and management. That places the Group under the constant requirement of having to attract, retain and motivate staff that is able to provide the professional skills and knowhow required to cater for the entire spectrum of the Group's activities.

The high-skills labour market is highly competitive and the Group may not be able to replace outgoing human resources with equally skilled new staff. The Group, therefore, cannot ensure that it will be able to identify or hire candidates, whether internally or externally, that are suitably skilled and qualified. In that respect the Group places a special emphasis on selecting, recruiting and training its human resources, with a view to maintaining high standards within its staff.

Despite its recruitment and training policy, the Group cannot rule out that at some future time, as a result of errors of judgement in assessing candidates and/ or of inadequate prior training, its staff will not be able to deliver to the required quality standards, leading to negative impacts on the economic, equity and/or financial position of the Issuer and/or Group.

Risks linked to continuous developments in the regulatory environment

In the wake of a number of regulatory interventions at the European and Italian levels and of ensuing domestic implementation rules, the industry's regulatory environment is subject to ongoing change on several fronts. Adaptation in such a scenario requires concerted effort and can also be time-constrained and may thus directly impinge on profitability and compliance costs.

Pursuant to the PSD2 directive, Nexi Group is under obligations to comply with, among other things, rules pertaining to data security reporting, systems interoperability and consumer protections in respect of payments.

With reference to the AML IV anti-money laundering directive, Nexi Group is under obligations to enact new customer acceptance and monitoring procedures and to expand compliance with money laundering and terrorist funding regulations, by directing further efforts towards local and alternative payment methods such as electronic money

With reference to the GDPR regulation, it is worth noting that Nexi Group, in pursuing its activities, manages the personal data of cardholders and merchants, and, as such, is under obligations to comply with data protection laws issued at the domestic Italian and EU levels.

Within the context of commercial ties to international card schemes, among which Visa and Mastercard, and as part of its acquiring and issuing activities, Nexi Group operates under specific licensing agreements. Such agreements require that Nexi Group comply with binding rules (i.e. mandates, which are periodically updated by the international circuit operators themselves), and that it secure certification under the Payment Card Industry Data Security Standard issued by the Payment Card Industry Security Standards Council.

With reference to recently modified regulations issued by the Bank of Italy on the transparency of banking and financial sector transactions and services, Nexi Group continues to implement actions designed to maintain full compliance. Its efforts focus especially on payment services transparency, customer pre-contract information and claims management

Nexi Group companies are subject to domestic Italian and European competition rules and regulations. To ensure compliance with the latter, as of July 2019, Nexi Group has established an internal Antitrust Compliance Programme, aimed both at expanding Nexi employee awareness of antitrust rules and regulations and of their impact on Group activities, and at providing guidance as to how to prevent actions, behaviours and any shortcomings that may constitute a violation of said rules and regulations. The Group department entrusted with preventing and fighting actions unlawful in respect of antitrust rules and regulations is the Legal Affairs & Strategic Projects function.

As a listed company, holding company Nexi SpA is subject to the entire range of special listing rules, which include but are not limited to the TUF and Consob regulations, the EU's MAD II directive and MAR regulation, Law 262/2005, as well as the code of conduct and best practice rules applicable to listed companies.

Non-compliance risk management is entrusted to Nexi organisational and operational functions established with a view to averting any departures from standing rules and regulations.
More specifically, within the context of Internal Control Systems, Nexi features the Compliance & AML function, tasked with overseeing compliance risk management.

The function identifies regulations applicable to Nexi SpA on an ongoing basis, by tracking developments within its operating, strategic and/or regulatory environment. The Compliance & AML function also encompasses the Anti-Money Laundering function, a function tasked with preventing and fighting money laundering and the financing of terrorism.
The function's Compliance & AML Officer also serves as both Nexi's AML Manager and Money Laundering Reporting Officer. In the latter role, the Officer is responsible for reporting suspicious transactions pursuant to standing laws. The current Compliance & AML Officer has also been appointed Data Protection Officer (DPO).

The company also features Subject Matter Experts (SME), namely business units with responsibility for continuously ensuring compliance of activities and processes with regulations under their respective responsibilities.

Risks linked to debt refinancing and factoring

The Group's sizeable financial debt largely consists of Publicly Issued Fixed-Rate Bonds and the IPO Loan. With respect to the latter, the Group incurs high financial charges that could generate negative effects on Nexi Group results and on its capacity to generate cash flows and distribute dividends, with potential effects on its capacity to repay debts at their due dates, as well as the capacity to support the investments necessary for business development.

Furthermore, the Group, via Nexi Payments, has also executed a factoring agreement with Unicredit Factoring SpA. The contract involves the daily transfer of receivables deriving from the large majority, in revolving capital terms, of its own credit cards issued under agreement with the partner credit institutions; said receivables, more specifically, refer to receivables for which partner banks have shouldered the risk of their clients' defaulting on debt.

With specific reference to the direct consequences of the economic crisis (triggered by the Covid-19 pandemic) on the Nexi Group's funding liquidity risk, at present there are no critical elements, even in view of the fact that the vast majority of credit lines are committed. However, Nexi Group cannot rule out that at a future date it may have to refinance its debt at due date or that, for whatever reason, it will not replace its current line of factoring and that that may not lead to higher charges and costs and/or lead to disruptions or delays in service provision also due to the required timeframe for replacement, to the extent that that may compromise Nexi Group operations.

Business outlook

In keeping with strategic lines of action envisaged by the business plan, during 2020 the Group will be committed to broadening its commercial offer directed at partner banks and clients. The latter commitment is further driven by new domestic regulatory measures aimed at reducing cash transactions and promoting wider reliance on digital payments with a view to establishing greater transparency and security in commercial trades.

Nexi Group will pursue progress in respect of such business plan initiatives as reducing operating costs and generating synergies via the integration of recent acquisitions and via the development and launch of new products, with a view to reaping, in increased EBITDA terms, the full benefits of said initiatives by the end of the year, despite a less favourable macroeconomic scenario.

As previously pointed out (cf. "Covid update"), in the face of a trajectory of volumes and consequently of revenues which is dependent on macro and market trends, Nexi has been implementing a number of actions to mitigate the Covid-19 impact on profitability and cash flow generation, worth over Euro 100 million on a full-year basis.

Based on the available business information and on the current general expectations about the pandemic evolution, it is reasonable to expect a gradual recovery in client activity, hence of the volumes managed by Nexi over the coming months. A significant contribution will come from the acquisition of Intesa Sanpaolo's merchant acquiring business. To this matter, it is worthwhile pointing out that, following the closing, the selling counterparty transferred to Nexi the cash flow generated business from 1 January to June 30, 2020 (over Euro 60 million), based on the agreement reached.

Thanks to the cash cost containment plan promptly identified and put in place to mitigate the impact of Covid-19 on EBITDA and cash flow, Nexi has the ambition to grow EBITDA versus 2019 including the ISP merchant book contribution (broadly in line with 2019 on a stand-alone basis), with an expected 2020 EBITDA in the region of Euro 600 million, assuming continued path of recovery at current trajectory'. A material growth in EBITDA-Capex on a stand-alone basis, i.e. excluding the important benefit generated by the ISP merchant book acquisition, is also expected. Lastly, Nexi expects to retain a strong cash position.

Related-party transactions

Pursuant to relevant rules and regulations, Nexi SpA has set up an internal procedure for related-party transaction approval and disclosure, the contents of which are published on its website. It is worth noting that Nexi Group has availed itself of temporary exemptions under article 10 of Consob Resolution no. 17221 dated March 2, 2010. Said exemption allows a recently listed company to apply disclosure procedures normally applicable to less relevant transactions, until such time as the approval of its second annual financial statements from date of listing.

Note that during the first half of 2020, other than the above agreement, no related-party transactions were carried out that significantly influenced either Nexi Group's consolidated balance of assets and liabilities or its business performance throughout the reference period.

Information pertaining to financial and economic transactions between Nexi Group companies and related parties, are detailed under section 35 of the Notes to the Financial Statements.

Unusual or non-recurring transactions

No unusual or non-recurring transactions, other than those described under Significant Events during the Reporting Period, were carried out in the first half of 2020.

Research & Development

Note that the Group did not undertake any research and development activities in the first half of 2020.

Treasury Shares

At reporting date, the parent company and Group companies do not hold treasury shares.

Financial instruments

As well as receivables from operating companies, the Group holds Visa Class C shares convertible into ordinary shares. No derivatives contracts are in place.

Going concern

The Directors confirm the reasonable expectation that the Group will continue to operate in the foreseeable future. We emphasise, therefore, that no indications 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.

Regarding the Covid-19 pandemic and the nationwide lockdown, Nexi promptly implemented efficient business continuity plans in order to ensure the regular functioning of its business, while ensuring safety and security of all its staff and top level services to partner banks and end customers. Ever since the very first day of the emergency, Nexi has fielded a number of initiatives, consistent with both the directives issued by the relevant Authorities and with internal continuity plans, which immediately secured all activities, ensuring smart working for over 95% of staff, including call centre activities, and implemented the necessary precautions for the limited number of employees that necessarily had to come to work at the head offices.

Rating

Owing, among other things, to the increased financial debt stemming from the funding of the acquisition of Intesa Sanpaolo SpA's merchant acquiring business, closed on June 30, 2020, Nexi ratings at reporting date are listed in the table below.

	Moody's Investors Service	S&P Global Ratings	FitchRatings
Corporate Family Rating/ Long-Term Issuer Credit Rating/ Long-Term Issuer Default Rating	Ba3	BB-	BB*
Outlook	Stable	Stable	RWN*
Issue Rating	Ba3	BB-	BB*

* Rating Watch Negative (RWN)

Registered Office

The registered office of the Parent Company is Corso Sempione 55, Milan. The parent has no secondary offices.

Significant Events after the Reporting Period

Note that between June 30, 2020 and the approval for issue of the present financial statements, no events occurred that may impinge in any relevant way on the balance of assets and liabilities and profit and loss accounts as determined by IAS 10 paragraph 9.

Reconciliation Summary

The table below details reconciliation between equity and profits of holding company Nexi and their corresponding value in the consolidated financial statements for Nexi Group.

(amounts in Euro thousand)

	Net equity	Net profits
Balance of accounts for Parent Company at June 30, 2020	1,419,716	92,370
Effect of consolidation of controlled subsidiaries	(28,060)	72,656
Effect of measurement at net equity for controlled subsidiaries	(718)	0
Other adjustments including comprehensive income	15,522	0
Dividends collected for the period	0	(132,384)
Balance of consolidated accounts at June 30, 2020	1,406,459	32,642

Milan, July 30, 2020
The Board of Director

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2.1

FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

CONSOLIDATED BALANCE SHEET

(amounts in Euro thousand)

ASSETS	Note	30/06/2020		31/12/2019	
Cash and cash equivalents	3		176,179		115,388
Financial assets at fair value through OCI	4		120,594		118,581
Financial assets measured at amortised cost	5		1,229,189		1,595,709
a) loans and receivables with banks		404,261		507,024	
b) loans and receivables with financial entities or customers		824,928		1,088,685	
Equity investments	6		0		0
Property, equipment	7		180,547		193,102
Investment property	8		2,178		2,229
Intangible assets	9		3,596,937		2,684,671
Goodwill		3,010,488		2,093,428	
Tax assets	10		79,072		101,909
a) current		30,218		37,614	
b) deferred		48,854		64,295	
Non-current assets held for sale and discontinued operations	11		1,935		2,262
Other assets	12		527,938		474,442
Total assets			5,914,569		5,288,293

(amounts in Euro thousand)

LIABILITIES	Note	30/06/2020		31/12/2019	
Financial liabilities measured at amortised cost	13		3,807,304		3,140,389
a) due to banks		2,300,442		1,952,072	
b) due to financial entities and customers		245,968		369,303	
c) securities issued		1,260,894		819,014	
Tax liabilities	10		129,766		131,896
a) current		1,047		1,820	
b) deferred		128,719		130,076	
Liabilities associated with non-current assets held for sale and discontinued operations	11		271		335
Other liabilities	14		521,819		644,628
Post-employment benefits	15		14,552		14,528
Provisions for risks and charges	16		27,518		31,967
Share capital	17		57,071		57,071
Share premium	17		1,082,204		1,082,204
Reserves	17		219,021		29,428
Valuation reserves	17		15,522		13,609
Profit (Loss) for the period	18		32,644		135,166
Equity attributable to non-controlling entities (+/-)	17		6,877		7,072
Total liabilities and equity			5,914,569		5,288,293

CONSOLIDATED INCOME STATEMENT

(amounts in Euro thousand)

INCOME STATEMENT	Note	I Half 2020		I Half 2019	
Fees for services rendered and commission income	19		656,063		770,813
Fees for services received and commission expense	20		(223,643)		(300,514)
Net fee and commission income			432,420		470,299
Interest and similar income	21		8,040		9,560
Interest and similar expense	22		(38,150)		(113,530)
Net interest income			(30,110)		(103,970)
Profit/loss on trading activity / hedging on financial assets and liabilities designated at fair value through profit or loss	23		99		(5,298)
Dividends and profit/loss from investments and sale of assets at fair value through OCI (former AFS)	24		(3,089)		(4,386)
Financial and operative income			399,320		356,645
Personnel-related costs	*25.1*	(85,942)		(129,794)	
Other administrative costs	*25.2*	(163,426)		(188,411)	
Total administrative costs	*25*		(249,368)		(318,205)
Other operating income, net	26		(1,486)		(2,548)
Net value adjustments on assets measured at amortised cost	27		(5,278)		(1,811)
Net accruals to provisions for risks and charges	28		275		590
Net value adjustments/write-backs on tangible and intangible assets	29		(83,463)		(70,313)
Operating margin			60,000		-35,642
Profit (loss) from equity investments and disposals of investments	30		(138)		(74)
Pre-tax profit (loss) from continuing operations			59,862		(35,716)
Income taxes	31		(26,506)		542
Income (loss) after tax from discontinued operations	32		(263)		93,623
Profit for the period			33,093		58,449
Profit (loss) for the period attributable to the parent company			32,644		58,424
Profit (loss) for the period attributable to non-controlling interests	33		449		25
Basic earnings per share	43		0.05		0.10
Diluted earnings per share	43		0.05		0.10

STATEMENT OF COMPREHENSIVE INCOME

(amounts in Euro thousand)

Items	I Half 2020	I Half 2019
Profit (loss) for the period	33,093	58,449
Items to be reclassified subsequently to profit or loss		
Financial assets at fair value through OCI	1,871	29,451
Hedging of equity instruments designated at fair value through OCI		(27,243)
Defined benefit plans	36	(1,124)
Items to be reclassified subsequently to profit or loss		
Cash flow hedges	0	69
Other comprehensive income (net of tax)	1,907	1,153
Total comprehensive income	35,000	59,602
Comprehensive income attributable to non-controlling interests	445	2
Comprehensive income attributable to the parent company	34,555	59,600

STATEMENT OF CHANGES IN EQUITY

(amounts in Euro thousand)

			Allocation of prior year profit		Change for the period		2020 comprehensive income		
	Balance at January 1, 2020	Change in opening balance	Reserves	Dividends	Change in reserves	Transaction on net equity	Profit for the period	Other comprehensive income items	Balance at June 30, 2020
1. Group equity:	1,317,478	0	0	0	54.427	0	32.642	1.913	1.406.459
Share capital	57,071								57,071
Share premium	1,082,204								1,082,204
Reserves	29,428		135,166		54,427				219,021
Valuation reserves	13,609							1,913	15,522
Profit for the period	135,166	0	(135,16)	-			32,642		32,642
2. Equity attributable to non-controlling interests	7,072	0	0	(573)	(67)	0	449	-4	6,877
Total	1,324,550	0	0	(573)	54,361	0	33,091	1,909	1,413,337

CONSOLIDATED CASH FLOW STATEMENT

(amounts in Euro thousands)

	I Half 2020	I Half 2019
A. OPERATING ACTIVITIES		
1. Operations		
Profit for the year	33.093	58.424
Net losses on financial assets held for trading and other financial assets/liabilities at fair value through other comprehensive income and hedged assets	0	
Net accruals for risks and charges and other costs/income	(275)	
Net impairment losses on assets held for sale and disposal group	0	10.369
Amortization, depreciation and net impairment losses on property, equipment and investment property and intangible assets	83.463	70.313
Unpaid taxes, duties and tax assets	20.555	(542)
Other adjustments	(18.303)	(3.416)
	118.532	135.148
2. Cash flows generated by financial assets		
Financial assets at fair value through other comprehensive income	0	-
Financial assets held for trading	0	10
Loans and receivables with banks	102.763	147.209
Loans and receivables with customers	224.017	(282.144)
Assets held for sale	0	2.037
Other assets	(6.197)	(16.446)
	320.583	(149.334)
3. Cash flows used by financial liabilities		
Due to banks	(113.923)	207.667
Due to customers	(120.838)	(5.845)
Financial liabilities	0	
Liabilities associated with disposal groups	0	(1.790)
Other liabilities	(92.024)	(25.530)
	(326.785)	174.502
Net cash flows generated by operating activities	112.330	160.316
B. INVESTING ACTIVITIES		
1. Cash flows used by:		
Acquisition of property and equipment	(14.078)	(26.493)
Disposal of property, equipment and investment property and intangible assets	0	-
Acquisitions of intangible assets	(47.924)	(32.116)
Acquisitions of subsidiaries and business units, net of cash acquired	(936.680)	147.745
Net cash flows used in investing activities	(998.682)	89.136
C. FINANCING ACTIVITIES		
Repayment of loans and securities	(8.997)	(1.401.313)
Dividends paid	0	-
Issues/purchases of equity instruments	0	687.810
Issues of debt securities	956.709	590.095
Dividends distributed to third parties	(573)	(841)
Sales/acquisitions of non-controlling interests	3	(0)
Net cash flows used in financing activities	947.142	(124.249)
Net Cash Flows Generated (Used) in the Year	60.791	125.203
Net cash flows for the year	60.791	125.203
Opening cash and cash equivalents	115.388	40.688
Closing cash and cash equivalents	176.179	165.891

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NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of preparation

The Group, pursuant to art. 154 of Legislative Decree 58/1998 has prepared these condensed consolidated interim financial statements as at 30 June 2020 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and subject to interpretations by the International Financial Interpretations Committee (IFRIC) and, as such, ratified by the European Commission and transposed into Italian Law via Legislative Decree 38/2005 pursuant to Regulation (EC) 1606/2002..

The contents of these condensed consolidated interim financial statements as at 30 June 2020 were drafted in keeping with international accounting standards pertaining to interim financial statements, issued under IAS 34. Based on paragraph 10 of IAS 34, the Group opted to publish the present interim statements in condensed form.

No derogations were made from the IAS/IFRS standards.

The Condensed Consolidated Interim Financial Statements as at June 30, 2020 comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Notes detailing the criteria employed in preparing said financial statements. The Condensed Consolidated Interim Financial Statements also include the Board of Directors' Report on Operations addressing the Group's operating performance, its economic results and its equity and financial position.

All amounts reported in the Income Statement and the Comprehensive Statement of Income include comparative information in respect of the reporting period ended 30 June, 2019. All amounts reported in the Statement of Financial Position and the Statement of Cash Flows include comparative information in respect of the reporting period ended December 31, 2019.

The condensed Consolidated Interim Financial Statements as at June 30, 2020 are presented in the Company's functional currency, the euro. Unless otherwise specified, figures are presented in euro thousands.

As also specified in the Directors' Report, the measurement criteria are adopted considering the corporate business as a going concern with entries made on an accruals basis, respecting principles of relevance and significance of the accounting information and substance over form. Furthermore, no offset between costs and revenues or assets and liabilities is carried unless otherwise expressly provided for or envisaged under the accounting standards in force.

As well as providing all information mandatory pursuant to international accounting standards and under law, the Directors' Report and the Notes also provide additional non-mandatory information deemed useful for the purposes of presenting a true and fair view.

These condensed Consolidated Financial Statements are prepared in accordance with the international accounting standards (IFRS) in force at the reporting date. The ESMA document of May 20, 2020 and the Consob document of July 16, 2020 relating to the information on the impacts deriving from the Covid-19 Pandemic, were considered in the preparation of the half-year report.

For companies whose reference period is the calendar year, the standards at this reporting date differ from those applied to the preparation of the Financial Statements as at December 31, 2019 subsequent to the mandatory adoption as of January 1, 2020 of the following new standards or amendments:

- "Reference to the Conceptual Framework" (IFRS), issued May 2020. The amendments updated references to an old version of the Conceptual Framework for Financial Reporting replacing them with references to the latest version, which was issued in March 2018. Note that while the Conceptual Framework is not an accounting standard and, as such, does not require ratification, said document does since it amends several IAS/IFRS standards.

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These amendments aim to clarify definitions of what constitutes material information and improve the understandability of said definitions. The amendments highlight that materiality is dependent on the nature or relevance of the information or both. Entities, furthermore, should ensure that information, whether individually or in combination with other information, is material with reference to the scope of the financial statements as a whole.

- Interest rate Benchmark Reform, amendments to IFRS 9, IAS 39 and IFRS). The amendments modify specific hedge accounting requirements to avert the prospect of uncertainty over the timing and amount of cash flows (arising from the interest rate benchmark reform) causing hedging relationships to be discontinued or causing uncertainty as to how to designate new hedging relationships.

- Definition of a business (amendments to IFRS 3 – Business Combinations). The amendment was in response to concerns over difficulties arising in respect of the application of the definition of "business" in practice.

The amendments described above have had no significant impact on the Group's consolidated interim financial statements.

The table below shows the standards for which changes have been issued but not yet ratified by the European Union.

IASB document	IASB publication date
IFRS 17: Insurance contract including amendments to IFRS 17	May 18, 2017 – June 25, 2020
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	January 23, 2020
Amendments to • IFRS 3 Business Combinations; • IAS 16 Property, Plant and Equipment; • IAS 37 Provisions, Contingent Liabilities and Contingent Assets • Annual Improvements 2018-2020	May 14, 2020
Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions	May 28, 2020
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS19	June 25, 2020

Given that none of the above have been ratified by the European Commission, they have not impacted the preparation of the Condensed Consolidated Interim Financial Statements as at June 30, 2020.

These condensed consolidated interim financial statements include the CEO and the Financial Reporting Manager's joint statement as mandated by article 154a of the TUF, and are subject to a limited audit by PricewaterhouseCoopers SpA.

Contents of the accounting statements

Statement of Financial Position and Income Statement

The Statement of Financial Position and the Income Statement consist of items, sub-items and additional, more detailed information. In the Income Statement, revenues are presented without a sign, while costs are preceded by the minus sign.

Statement of Comprehensive Income

The Statement of Comprehensive Income, starting from the profit (loss) for the period, presents income items recognised as balancing entries of the valuation reserves, net of the related tax effects, in compliance with the international accounting standards.

Statement of Changes in Equity

The Statement of Changes in Equity shows changes in equity during the reference period of the condensed consolidated interim financial statements, broken down as share capital, equity, income and valuation reserves and the profit (loss) for the year.

Statement of Cash Flows

The Statement of Cash Flows provides information on cash flows for the period under review and the previous period, and has been prepared using the indirect method whereby, in reporting cash flows from operating activities, profit or loss is adjusted for the effects of non-monetary transactions.
Cash flows are broken down into those generated through operations, investments and financing. Cash flows generated in the reference period are presented without a sign while those used during the same period are shown with a minus sign.

Contents of the Notes

The Notes provide information deemed necessary to give a true and fair view of the condensed Consolidated Interim Financial Statements.
The measurement criteria described below were adopted to determine all information presented in these condensed Consolidated Interim Financial Statements.

Consolidation criteria

The Group's consolidation scope is determined in accordance with IFRS 10 – Consolidated financial statements. Accordingly, the principle of control underpins consolidation of all types of entities and applies when an investor concurrently:
- has power over the entity;
- is exposed or has rights to variable returns arising from its involvement with the entity;
- has the ability to use its power over the entity to affect the amount of its returns.

As such, the Group shall consolidate all types of entities when all three elements of control occur. Usually, if an entity is largely managed by way of voting rights, control stems from the investor holding more than half the voting rights.
Under all other circumstances, assessment as to whether conditions for control are met may prove more complex and will require greater use of judgement as it is necessary to consider all and any factors and circumstances that may give control over the investee (de facto control).

A regards Nexi Group, all the consolidated entities are largely managed by way of voting rights. Accordingly, the Group did not have to exercise judgements or make significant assumptions in order to establish the existence of control over subsidiaries and significant influence over its associates. For the purposes of consolidation Nexi's financial statements and those of the consolidated companies were used, subject to reclassification and adjustment requirements.

Interests in controlled companies are consolidated on a line-by-line basis with respect to assets, liabilities, revenues, expenses and cash flows and by making the following adjustments:
- eliminating the carrying amount of investments in the controlled companies and the parent's stake in their equity;
- recognising the equity and profits or losses of non-controlling interests separately.

Where positive and once allocated to the subsidiary's assets and liabilities, any differences issuing from the above adjustments are recognised as goodwill in item "Intangible assets" at the date of first consolidation. Any negative differences are recognised in the income statement.
Intragroup assets and liabilities, off-balance sheet transactions, income and expenses, as well as profits and losses are eliminated.
Revenue and costs of the subsidiary are included in the consolidated financial statements from the date of their acquisition. Revenue and costs of a subsidiary that is sold are included in the income statement up to the sales date, at which time the parent ceases to control the subsidiary.
Pursuant to IAS 28, the Group's condensed Consolidated Interim Financial Statements 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. Such investments are measured using the equity method which entails the initial recognition of the investment at cost and its subsequent adjustment based on the Group's share of the investee's equity. The Group's share of the associate's profit or loss is recognised under a separate item within the income statement.

The difference between the investment's carrying amount and the Group's share of its equity is included in the investment's carrying amount.

Should there be any 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.
As at time of reporting, Nexi Group is not party to any joint arrangements that would fall under IFRS 11 definitions of joint ventures (co-venturers having rights to the arrangement's net assets).

Investments in subsidiaries

The table below presents Nexi Group's subsidiaries as at June 30, 2020:

Company name	Operating office	Registered office	Type of relationship (1)	Parent	Investments %	Voting rights %	Share capital (Euro thousand)	Net Equity (Euro thousand)
				Mercury UK	33.46	33.46	57,071	1,419,716
Nexi Payments SpA	Milan	Milan	1	Nexi SpA	99.07	99.07	76,447	2,139,159
Mercury Payment Services SpA	Milan	Milan	1	Nexi SpA	100	100	7,109	120,883
Help Line SpA	Cividale del Friuli /Milan	Cividale del Friuli	1	Nexi SpA	69.24	69.24	2,139	2,947
			1	Nexi Payments SpA	1.08	1.08		
Orbital Cultura Srl (ex BassmArt Srl), (2)	Florence	Florence	1	Nexi Payments SpA	95	95	855	1,664

Notes
(1) Type of relationship: majority of voting rights at ordinary shareholders' meetings.
(2) Company that is fully consolidated but recognised as held for sale pursuant to IFRS 5.

The scope of consolidation of the condensed Consolidated Interim Financial Statements of the Nexi Group as at June 30, 2020 as well as the above companies (consolidated on a line-by-line basis), includes the following associates measured, given the stakes and/or relevance, are measured according to the equity method:

Company name	Registered Office	Operating Office	Investing company	Share %	Voting rights %
Rs Record	Piacenza	Piacenza	Nexi Payments SpA	30	30
Bassnet Srl	Monteriggioni	Monteriggioni	Nexi Payments SpA	49.68	49.68
K.Red	Milan	Milan	Nexi Payments SpA	50	50

Significant judgements and assumptions adopted to define the consolidation scope

As clarified above, since control is primarily exercised through majority stakes, no circumstances arose that would have required making either judgements or significant assumptions to determine the scope and method of consolidation.

Significant restrictions

Note that as for significant restrictions applicable to the transfer of resources within Nexi Group, Mercury Payment Services SpA and Nexi Payments SpA are subject to prudential rules under supervisory regulations. The ability of these subsidiaries to distribute capital or dividends is, therefore, subject to compliance with the relevant provisions on equity requirements.

Conversely, there are no significant limitations or restrictions to the exercise of voting rights held in subsidiaries.

Other information

The accounts and financial statements of the subsidiaries presented in the condensed Consolidated Interim Financial Statements were prepared as at June 30, 2020.

Main accounting policies

Financial assets at FVPL

Classification criteria

This category recognises financial assets other than at FVOCI or measured at amortised cost. Under IFRS 9 general requirements on the reclassification of financial assets (excluding equity securities, for which no reclassification is allowed), reclassifications to other categories of financial assets is only permitted if an entity changes the business model within which the financial assets are held. Such cases, the occurrence of which should be extremely infrequent, allow reclassification of financial assets measured at fair value through profit or loss to one of two categories designated by IFRS 9 (i.e. "Financial assets measured at amortised cost" or "Financial assets at FVOCI"). The transfer value, which is applied prospectively from the reclassification date, is recognised as the fair value at time of reclassification. In this case the reclassified financial asset's effective interest rate is calculated based on its fair value at the reclassification date, such date being the initial recognition date for the purposes of impairment stage assignment.

Recognition criteria

Financial assets at FVPL are initially recognised at their fair value, normally represented by the transaction price.

Measurement criteria

After initial recognition, financial assets measured at FVPL are measured at fair value.
Gains or losses resulting from fair value are recognised as trading income or expense.
Fair value is determined based on the criteria set out in the "Fair value disclosure" section.

Derecognition criteria

Financial assets or parts of such assets are derecognised whenever the contractual rights to cash flows expire or are transferred, essentially transferring all the related risks and rewards.
More specifically, transferred financial assets are derecognised when an entity retains the contractual rights to receive the assets' cash flows but concurrently assumes an obligation to pay these cash flows – only – to third parties without significant delay.

Financial assets at Fair Value through OCI (Other Comprehensive Income)

Classification criteria

At time of reporting, this category only includes equity instruments other than those held for trading and which the Group has opted to measure at FVOCI. Non-derivative financial assets held within the scope of the "Held to Collect and Sell" business model are, in fact, factored on a daily basis and, therefore, present a nil balance at the reporting date.

Under IFRS 9 general requirements on the reclassification of financial assets (excluding equity securities, for which no reclassification is allowed), reclassifications to other categories of financial assets is only permitted if an entity changes the business model within which the financial assets are held. Such cases, the occurrence of which should be extremely infrequent, allow reclassification of financial assets measured at fair value through other comprehensive income to one of two categories designated by IFRS 9 (i.e. "Financial assets measured at amortised cost" or "Financial assets at FVPL"). The transfer value, which is applied prospectively from the reclassification date, is recognised as the fair value at time of reclassification. Where financial assets at FVOCI are reclassified to amortised cost, the fair value of the financial asset at the reclassification date is adjusted by the cumulative gains or losses presented in the valuation reserve. Where financial assets at FVOCI are reclassified to financial assets at FVPL, the cumulative gain or loss previously recognised presented in the valuation reserve is reclassified from equity to profit or loss for the period.

Recognition criteria

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

Measurement criteria

They are measured at fair value and recognised as a balancing entry in the statement of changes in equity (i.e. " Statementof Comprehensive income" ").
While dividends are recognised under profit and loss, any impairment loss and any gain or loss from their sale is not recognised in the income statement.
Fair value is determined based on the criteria set out in the "Fair value disclosure" section.

Derecognition criteria

Financial assets or parts of such assets are derecognised whenever the contractual rights to cash flows expire or are transferred, essentially transferring all the related risks and rewards.
More specifically, transferred financial assets are derecognised when the entity retains the contractual rights to receive the assets' cash flows but concurrently assumes an obligation to pay these – and only these – cash flows to third parties without significant delay.

Where derecognition is applied to receivables transferred under the scope of non-recourse factoring contracts, the result of disposals, which is equal to the difference between the carrying value and the price of sale, is recognised under "Dividends and profit/loss from the investment and sale of assets at FVOCI" on the income statement.

Financial assets measured at amortised cost

Classification criteria

This category comprises non-derivative financial assets held in the "Held to Collect" business model, the contractual terms of which solely generate cash flows that are payments of principal and interest (SPPI criterion).
The item mainly accounts for receivables due from holders and merchants and positions towards the international card schemes.

Under IFRS 9 general requirements on the reclassification of financial assets (excluding equity securities, for which no reclassification is allowed), reclassifications to other categories of financial assets is only permitted if an entity changes the business model within which the financial assets are held. Such cases, the occurrence of which should be extremely infrequent, allow reclassification of financial assets measured at fair value through other comprehensive income to one of two categories designated by IFRS 9 (i.e. "Financial assets measured at amortised cost" or "Financial assets at FVPL"). The transfer value, which is applied prospectively from the reclassification date, is recognised as the fair value at time of reclassification.

Gains or losses generated by the difference between the amortised cost of financial assets and their fair value are recognised either to profit and loss, where the assets are reclassified as "Financial assets at FVPL", or to equity (and to the relevant valuation reserve), where the assets are reclassified as "Financial assets at FVOCI".

Recognition criteria

They are initially recognised at the signing date of the agreement, which typically matches the disbursement date, and at the financial instrument's fair value, which in most cases is equivalent to amounts disbursed, including transaction costs.

Measurement criteria

Subsequent to initial recognition they are measured at amortised cost using the effective interest method.
Financial assets at amortised cost are tested for impairment at each reporting date. The impairment rules described below also apply to loan commitments and financial guarantee contracts. Impairment is calculated considering the financial asset's expected credit losses. Application of the related method requires classification of the financial assets according to three stages, depending on whether any significant increase in credit risk has occurred as of initial recognition. Different recognition levels apply to each stage.
More specifically:

- Stage 1 includes performing financial instruments that have not witnessed significant increases in credit risk since initial recognition or financial instruments carrying a low credit risk at the reporting date. Loss allowance for such financial instruments is measured at an amount equal to 12-month expected credit losses.
- Stage 2 includes performing financial instruments that have witnessed a significant increase in credit risk since initial recognition. Impairment is measured using their lifetime expected credit losses.
- Stage 3 includes credit-impaired financial instruments, impairment being measured based on lifetime expected credit losses.

Credit-impaired financial assets include financial assets classified as bad, unlikely to pay or more than 90 days past due in accordance with Bank of Italy rules reflecting IFRS standards.

With respect to impairment:

- the Group defined the methods to monitor changes in credit quality of its financial assets at amortised cost and at FVOCI;
- it established the criteria to determine when a significant increase in credit risk takes place, so as to correctly allocate the performing exposures to stage 1 or stage 2. Since the IFRS definition of exposures at default is now aligned with the regulatory definition, the approach applied to classifying exposures as credit-impaired (now allocated to stage 3) has not changed.

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

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

Derecognition criteria

Financial assets or parts of such assets are derecognised whenever the contractual rights to cash flows expire or are transferred, essentially transferring all the related risks and rewards.
More specifically, transferred financial assets are derecognised when the entity retains the contractual rights to receive the assets' cash flows but concurrently assumes an obligation to pay these – and only these – cash flows to third parties without significant delay.

Equity investments

This item includes equity investments in associates, measured using the equity method, as described in the section on "Consolidation criteria".
After applying the equity method, the investment is subjected to an impairment test if there is objective evidence of impairment that could have an impact on the investee's cash flows and therefore on the recoverability of the carrying amount of the investment itself.
Investments in entities other than subsidiaries, associates or joint ventures are classified in the portfolio of financial instruments measured at fair value against the income statement or the portfolio of financial instruments measured at fair value against comprehensive income.

Property, equipment and investment property

Classification criteria

Property, equipment and investment property include land, instrumental properties, furniture, furnishings, valuable artistic heritage, POSs and ATMs, electronic machinery and equipment of all types, expected to be used for more than one year. The item, in accordance with IFRS 16, also includes rights of use acquired through lease contracts.
Items of property and equipment held for use in production or for the supply of goods and services are classified as such under IAS 16. Property held for investment purposes held to earn rentals or for capital appreciation or both is classified as investment property under IAS 40.

Recognition criteria

Assets acquired on the market are recognised as assets when the main risks and rewards connected with the asset are transferred. Initial recognition is at cost, which includes all directly related charges.
The rights of use recognised in accordance with IFRS 16 are entered according to the current value of payments due, net of any transaction costs and prepaid charges. The entry is made when the asset is available for use.
Land is recognised separately, even when purchased jointly with the building, taking a component-based approach. The breakdown of the value of the land and that of the building is prepared on the basis of independent-expert appraisals. The costs of major repairs which increase the future economic benefits associated with the asset are recognised in the carrying amount of the asset, when the criteria for capitalisation are met, while the costs of day-to-day servicing are recognised in the income statement.

Measurement criteria

Property, equipment and investment property with a finite useful life are subsequently measured at cost, adjusted for accumulated depreciation and any impairment losses or reversals thereof.
The depreciable value of property and equipment, equal to the cost of the assets insofar as the residual value at the end of the depreciation process is held to be insignificant, is split systematically on a straight-line basis throughout estimated useful life, according to a criterion of allocation that reflects the technical-economic duration and the residual possible use of the individual elements.

The useful life with reference to the main categories of property, equipment and investment property is as follows:
- instrumental property: 33 years maximum;
- electronic office machines: 5 years;
- physical ATMs and POSs, which are classified as electronic equipment, are respectively depreciated in 3 and 7 years, as this period is considered representative of the useful life of the assets.

Land is not depreciated insofar as it has an undefined useful life, and artistic heritage is not depreciated insofar as the useful life cannot be estimated and its value normally increases over time.
The rights of use recognised in accordance with IFRS 16 are depreciated over a period equal to the lesser of the asset's useful life and the term of the lease contract.
At each reporting date the Group assesses the presence or otherwise of any indications as to loss in value for property, equipment, investment property and rights of use. If there is evidence of any such loss, the book value is compared with the recoverable value, intended as the greater of fair value and value in use.

Derecognition criteria

Property, equipment end investment property are derecognised when disposed of or when no further future economic benefit is expected from either their use or their decommissioning.

Intangible assets

Classification criteria

Assets recognised as intangible assets are identifiable non-monetary assets without physical substance and able to generate future economic benefits that can be controlled by the entity.

Recognition criteria

Intangible assets are recognised at the cost of acquisition when the main risks and benefits connected with the asset are transferred, but only if it is likely that the related future economic benefits will be realise and if the cost can be reliably measured. Otherwise the cost is recognised as profit and loss for the year in which it is incurred. More specifically, the cost of software development only includes the expenses incurred directly attributable to the development process and constitute intangible assets only if all the following conditions are met:
- the cost attributable to the development activity can be reliably determined;
- the entity has the intention, the availability of financial resources and the technical capacity to make the asset ready for use or sale;
- it can be demonstrated that the asset is able to produce future economic benefits.

Further intangible assets include those issuing from relationships with customers, as with business combinations and the valuation of contracts or the valuation of stable business relationships.

Measurement criteria

All intangible assets recognised, other than goodwill, are considered of finite useful life and consequently amortised considering the cost of the individual assets and the related useful life.
More specifically, intangible assets based on technology, such as application software purchased with permanent user's licenses and the costs for software development, are amortised according to their expected technological obsolescence and in any case over a period of no more than five years. Assets to which the difference between the acquisition price and fair value is allocated have a useful life that is estimated individually for each transaction:
- Customer contracts: on the basis of the contract terms;
- Customer relationship: approximately 20 years.
The residual value of the assets is assumed at equal to zero.
The Group tests the assets for impairment at every reporting date and where indications of impairment are found, it compares the assets' carrying amount to its recoverable amount, namely the higher of fair value and value in use.

Derecognition criteria

Intangible assets are derecognised when disposed of or when no further future economic benefit is expected from either their use or their decommissioning.

Goodwill

The goodwill arising from a business combination is the difference between the purchase cost, including accessory expenses, and the acquisition date fair value of the acquired assets and liabilities. Where positive, the difference is entered at cost under assets (goodwill) as representing a payment made by the buyer in view of future economic benefits deriving from assets that cannot be identified individually and recorded separately. Where negative, it is recognised directly as profit and loss (surplus on cost).
Goodwill is recognised in the statement of financial position at cost, net of any accrued losses, and is not subject to amortisation.
Even in the absence of indications as to impairment, goodwill is impairment tested on an annual basis.
The goodwill arising from business combinations is allocated to the cash generating units (CGUs) or groups of such that are expected to benefit by the combination synergies. The recoverable value of an asset or CGU is the greater of its value in use ("VIU") and its fair value less costs of disposal ("FVLCD"). A loss of value is recognised if the book value of the CGU exceeds its recoverable value. Impairment of goodwill is recognised on the consolidated income statement and not restored in the years subsequent.

Non-current assets or groups of assets / liabilities held for sale

Non-current assets classified as held for sale and assets of a disposal group classified as held for sale are presented separately from other assets in the statement of financial position, under "Non-current assets held for sale and discontinued operations". Liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position, under "Liabilities directly associated with assets classified as held for sale". They include all non-current assets or disposal group assets or liabilities for which a decision has been made to dispose and the sale of which is considered extremely likely.
These assets/liabilities are measured at the lower of carrying amount and fair value net of disposal costs. income and expenses (net of tax effects) attributable to groups of assets held for disposal or recognised as such during the year, are presented in the income statement in a separate item.

Other assets

Other assets essentially include items awaiting arrangement and items that cannot be traced to other items of the balance sheet, including receivables deriving from the supply of non-financial goods and services, tax items other than those recognised under own item (for example connected with the activity of tax substitute), accrued income other than that capitalised on the related financial assets, including that deriving from contracts with customers in accordance with IFRS 15, paragraphs 116 et seq. and costs incurred to fulfil contracts with customers as envisaged by paragraphs 91 et seq. of IFRS 15. The item also includes inventories related to POS and ATM terminals (including spare parts) and plastics for cards managed by the Group. These inventories are valued respectively at weighted average cost and at FIFO. At the end of the year, any impairment losses are recognised if the fair value minus the selling costs is lower than the book value.

Current and deferred tax

The provisions made for income tax are determined on the basis of a forecast of the current, prepaid and deferred tax expense.
Current tax, determined on the basis of the "tax consolidation", not yet paid as at the reporting date, in full or in part, is included amongst the tax liabilities on the statement of financial position. Where the payment for the period's current tax or previous years' current tax exceeds the related tax payable, the surplus is entered among the assets of the statement of financial position, under "Tax assets - a) current".
Current and deferred tax is recognised under profit and loss as "Income taxes" with the exception of that relating to profit or loss, which is recorded in specific valuation reserves (i.e. defined benefit plans, financial instruments measured at FVOCI and related hedging derivatives). The latter are instead allocated directly to the same valuation reserves, which, therefore, are stated net of the relevant tax.
Deferred tax assets and liabilities are recognised as equity with open balances and without netting, stating the former under "Tax assets" and the latter under "Tax liabilities".
The provision for income taxes is determined on the basis of a forecast of the current prepaid and deferred tax expense. Deferred tax assets and liabilities are determined in respect of the temporary differences arising between the value assigned to an asset or a liability, according to statutory criteria, and their corresponding assumed value for tax purposes. For temporary deductible differences that will reverse over the next few years and for previous tax losses that have not been used, a deferred tax asset are recognised insofar as, on the basis of the strategic plans, it is considered likely that over that timeframe taxable income will be recognised against which the deferred tax asset can be used.
Deferred tax liabilities are calculated on all taxable timing differences.
Deferred tax assets and liabilities, in accordance with current tax legislation, are determined using the tax rates expected to be applied in the year in which the tax asset is realised or the tax liability will be extinguished.
Deferred tax assets and liabilities are systematically measured to reflect any alterations to tax rules or rates as well as any possible changes in the subjective positions of the Group's Companies.

Financial liabilities measured at amortised cost

Classification criteria

A financial instrument issued is classified as a liability when, on the basis of the substance of the contractual agreement, a contractual obligation is held to deliver money or another financial asset to a third party. More specifically, the item mainly includes loans and facilities in place in support of the Group's electronic money business, as well as lease debts.

Recognition criteria

Payables are recognised as at the date on which the contract is stipulated, which normally coincides with the time when the amounts collected are received and the debt securities issued.
Financial liabilities are initially measured at fair value, which normally coincides with the amount collected or issue price, plus the directly related costs/income. Internal administrative costs are excluded. Lease payables are initially recognised at the current value of payments due, calculated considering the implicit rate in the contract, where existing. Alternatively, the incremental rate is determined according to the market rates and the lessee's spread.

Measurement criteria

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

Derecognition criteria

Financial liabilities, or part thereof, are derecognised when extinguished, i.e. when the obligation has been met, cancelled or expired.

Financial liabilities held for trading

As at December 31, 2019, the item included the negative value of derivative trading contracts.

All trading liabilities are measured at fair value with the allocation of the result of the measurement to the income statement.
Fair value is determined based on the criteria set out in the "Fair value disclosure" section.

Share-based payments

Staff share-based remuneration plans are recognised in the income statement with a corresponding increase in equity, on the basis of the fair value of the financial instruments attributed at the assignment date, breaking up the expense throughout the plan period.
If options are present, their fair value is determined using a valuation technique that takes into account the specific terms and conditions of the stock option plan in place, in addition to information such as the exercise price and the life of the option, the current price of underlying shares, the expected volatility of the share price, dividends expected on the shares and the risk-free interest rate for the life of the option. The measurement model measures, separately, the option and the probability of fulfilment of the conditions on which basis the options have been assigned.
The combination of the two values is the fair value of the stock option.
Any reduction in the number of financial instruments assigned is recognised as the cancellation of a portion of such.

Employee benefits

Employee benefits are all types of remuneration disbursed by the company in exchange for the work of employees.
Employee benefits are divided up into:
- short-term benefits (other than benefits due to employees for the termination of the contract of employment and remunerative benefits in the form of a share in the capital), expected to be paid in full within twelve months of the end of the year during which the employees worked and recorded fully on the income statement at the time they are accrued (this category includes, for example, wages, salaries and "extraordinary" provisions);
- post-employment benefits due after the termination of the contract of employment that oblige the company to0 make a future payment to employees. These include severance indemnity and pension funds, which, in turn, can be divided up into defined contribution plans and defined benefits plans or corporate retirement funds;
- benefits for the termination of the contract of employment, i.e. compensation that the company acknowledges to employees in exchange for the termination of the contract of employment following its decision to terminate the contract of employment ahead of the standard retirement date;
- long-term benefits other than the foregoing, which are not expected to be extinguished in full within twelve months of the end of the year in which the employees worked.

Post-employment benefits

Post-employment benefits are a form of deferred staff remuneration paid at the end of the contract of employment. They accrue proportionally to the duration of the contract and are an additional element of the payroll costs.
As payment is certain, but when it will be made is not, just like for defined benefits plans, severance indemnity (referred to under the Italian acronym "TFR") is classified as a post-employment benefit.
Following the supplementary pensions reforms pursuant to Italian Legislative Decree no. 252 of December 5, 2005, portions of severance indemnity accrued by staff starting January 1, 2007 are determined without applying any actuarial method, as the expense, paid by the companies, is limited to the contribution at their charge, as defined by the provisions of the Italian Civil Code (defined contributions plan in accordance with IAS 19).
Severance indemnity, accrued as at December 31, 2006 continues, instead, to be recognised as a defined benefits plan, in accordance with the provisions of IAS 19. Actuarial gains and losses are recognised to the Statement of Comprehensive Income, whilst interest accrued on the net liabilities is carried as profit and loss.

Provisions for risks and charges

Provisions for risks and charges include all provisions made in relation to current obligations originating from past events for which an economic outlay is probable, as long as a reliable estimate can be made of the relevant amount.
At the close of all financial statements, the provisions made are periodically reviewed and, if the incurrence of possible expenses should become unlikely, the provisions are entirely or partially released to profit and loss.
When the effect of the time value of money is material, the amount of the provision is discounted at current market rates. The provision is recognised on the income statement.

Foreign currency transactions

Initial recognition

At initial recognition, foreign currency transactions are converted into the money of account, applying the exchange rate current at the date of the transaction.

Subsequent recognition

Upon recognition at the subsequent reporting date:
- monetary items are converted at the current exchange rate in force at the reporting date;
- non-monetary items measured at historical cost are converted at the exchange rate as at the date of the transaction;
- non-monetary items measured at fair value are converted at the exchange rate in force on the date on which the fair value is determined.

Exchange differences relative to monetary items are recognised to profit and loss when they arise; those relating to non-monetary items are entered as equity or profit and loss consistently with the method of entering profits and losses that include this component.
The costs and revenues in foreign currencies are recognised at the exchange rate current as at the time of booking or, if being accrued, at the exchange rate current as at the reporting date.

Other information

Income Statement and Statement of Comprehensive Income

Interest and similar income and expense

Interest income and expense is recognised on the income statement for all instruments measured in accordance with the amortised cost criterion, using the effective interest method, including commissions and transaction costs.

Fee for services rendered and commission income

Commission income other than that included in the amortised cost and fee for services provided are recognised when the obligation of the provision is satisfied, transferring the service to the client or when all the following conditions are met:

- the contract with the client has been identified - in order to identify a contract, the parties must have approved the contract (in writing or in compliance with other standard commercial practices) and must have undertaken to fulfil their respective obligations;
- performance obligations contained in the contract have been identified - the goods and services to be transferred are yet to be identified;
- the price has been determined - the prices and payment methods are yet to be defined;
- the price has been allocated to the individual performance obligations contained in the contract - if a contract envisages the delivery/supply of multiple goods or services, the prices agreed are to be allocated to the individual goods/services;
- the performance obligations set out in the contract have been satisfied - goods and services have actually been transferred to the client.

Additionally, in accordance with IFRS 15, the service is transferred to the client and, therefore, revenues can be recognised:

- at a specific moment in time, when the entity fulfils its obligation to do so, transferring the goods or services promised to the client, or
- over time, gradually, as the entity fulfils the obligation to do so, transferring the goods or services promised to the client.

The asset is transferred when, or during the period in which, the client acquires control over such.

The variable components of the prices, mainly relating to year-end balances and variable incentives, are included in the price if they stand to be reliably determined and where any refund is considered unlikely or its likelihood remote.

Furthermore:

- association fees are entered on the income statement according to the credit card validity date;
- commission income from merchants and systems are entered on the income statement, according to the trading date and expenses incurred by the holders;
- up-front revenues connected with the start of new clients, new products, are recorded throughout the expected term of the contracts;
- revenues for design activities specifically requested by clients are recorded during development (over time), if any of the following conditions apply:
  a. the client simultaneously receives and uses the benefits deriving from the provision, as it is made;
  b. the provision is provided on client's assets;
  c. the asset produced has no alternative uses and Nexi has the right to be paid for the work carried out up to that point; if not, the costs and revenues of the project are suspended and recorded at the end of the design phase;
- the revenues connected with recurring services (mainly maintenance and rental of POSs and ATMs and processing services) are split in a linear fashion throughout the contract term.

Note that, in application of IFRS 15, the value of the commission is rectified in order to take the fair value of the premiums connected with the Loyalty programme into account. The fair value of the catalogue is calculated as the average unitary value of the points with respect to the market value of the premiums, including VAT and delivery expenses, so as to link the fair value to the value perceived by the client. The unitary fair value is applied to the number of points in circulation, net of the points that, on the basis of the analysis performed, are expected not to be redeemed (on the basis of the redemption estimates). Deferred commission is recorded as profit and loss according to point redemption.

Commission considered in the amortised cost to calculate the effective interest rate are excluded and recognised instead under interest income.

Commission expense

Commission expense, other than that included in the amortised cost, is recognised when incurred or when the related revenues are recorded.

Fee for services received

Fee for services received are recognised when incurred or when the related revenues are recorded.
Costs for the implementation of the contract with the client (such as, for example, costs for the emission of cards and ICT services incurred during the start-up of new clients/products or non-substantial contractual changes) are recognised on a straight-line basis in connection with the useful life of the underlying contracts

Dividends

Dividends are recognised in the income statement when their distribution is resolved.

Basis for presentation of the segment disclosure

The segment disclosure of the Nexi Group is based on the elements that the management uses to make its operative decisions and is therefore consistent with the information requirements envisaged by IFRS 8.
More specifically, although the Nexi Group identifies two different CGUs, which substantively coincide with the two operative legal entities of the Group (the Electronic Money CGU, coincides with Nexi Payments SpA and the Mercury CGU coincides with Mercury Payment Services SpA), they relate to a single operating segment, i.e. that of electronic money and the technological services related to the payments segment.
More specifically, the identification of a single operating segment is based on the consideration that the information that the "chief operating decision maker" (i.e. the highest operative decision-making level, as defined by IFRS 8) receives and uses for the purpose of decision-making in regard to the resources to be allocated and the assessment of results, prepared exclusively on a consolidated basis.

Business combinations

Business combinations are accounted for using the "purchase method", which requires: (i) the identification of the buyer; (ii) the determination of the combination costs; (iii) the purchase price allocation ("Purchase Price Allocation").
According to the IFRS 3, an acquirer is identified for all business combinations. The acquirer is the entity that obtains control over another entity, which is the power to determine the financial and management policies of that entity in order to receive benefits from its activities.
The consideration transferred in a business combination is equal to the fair value, at the acquisition date, of the assets sold, the liabilities incurred and the equity instruments issued by the buyer in exchange for obtaining control of the acquiree. The consideration that the buyer transfers in exchange for the acquired entity includes any assets and liabilities resulting from an agreement on the "potential consideration", to be recognised on the acquisition date on the basis of fair value. Based on the purchase method, on the acquisition date, the buyer must allocate the cost of the combination (so-called PPA, "Purchase Price Allocation") to the identifiable assets acquired and the liabilities measured at the relative fair value on that date, also recognising the value of the minority interests of the acquired entity.

Use of estimates and assumptions in preparing the Consolidated Financial Statements

Financial statement aggregates are measured according to the standards set out above.
The application of these standards sometimes involves the adoption of estimates and assumptions that can have a significant impact on the values entered on the consolidated balance sheet and consolidated income statement.
In stressing that the use of reasonable estimates is an essential part of preparing financial statements, without this factor being held to affect their reliability, below are the items in which the use of estimates and assumptions is most significant:
- measurement of the financial instruments measured at fair value (including derivatives) not listed on active markets;
- measurement of the financial assets measured at amortised cost and loan commitments;
- measurement of intangible fixed assets, including goodwill;
- measurement and estimated useful life of tangible fixed assets;
- quantification of provisions made for risks and charges and payables for Loyalty programmes;
- quantification of deferred taxation..

In that respect, please also note that an estimate can be adjusted following changes to the circumstances on which it was based or new information or even additional experience. Any change to the estimate is applied prospectively and therefore impacts the income statement of the year in which the change is made and, potentially, those of future years.

Significant events after the reporting period

Since the reference date of these financial statements, no significant events have taken place over and above those described in the Directors' Report.

Transfers between portfolios of financial assets

There were no transfers of financial assets between portfolios.

Fair value disclosure

The international accounting standards IAS/IFRS prescribe the fair value measurement for financial products classified as "Financial assets at FVOCI" and "Financial assets at FVPL".
Accounting standard IFRS 13 regulates the fair value measurement and related disclosure.
More specifically, the fair value is the price that would be received for the sale of an asset, or which would be paid for the transfer of a liability in a regular transaction between market operators (i.e. not in a compulsory liquidation or sale below cost) as at the valuation date.
In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria in terms of the reliability of the fair value, according to the degree of discretion applied to businesses, giving precedence to the use of parameters that can be observed on the market, which reflect the assumptions that the market participants would use in the valuation (pricing) of the asset/liability. Three different levels of input are identified:
• Level 1: inputs consisting of listed prices (unadjusted) on active markets for identical assets or liabilities that can be accessed at the measurement date;
• Level 2: inputs other than the listed prices included on Level 1, which can be observed, directly (as in the case of prices) or indirectly (insofar as deriving from the prices) for assets or liabilities to be measured;
• Level 3: inputs for assets or liabilities that are not based on observable market data..

The measurement method defined for a financial instrument is adopted continuously over time and modified only following significant changes in market conditions or subjective conditions of the financial instrument issuer.

For financial assets and liabilities recognised on the financial statements at cost or amortised cost, the fair value given in the Notes is determined according to the following method:

- for bonds issued: fair value obtained from active markets where the liability is traded;
- for assets and liabilities at fixed rates in the medium/long-term (other than securities issued): discounting of future cash flows at a rate obtained from the market and rectified to include the credit risk;
- for variable rate, on demand assets or those with short-term maturities: the book value recognised net of the analytical and collective impairment is considered a good approximation of the fair value, insofar as it incorporates the change in rates and the change in the counterparty’s credit risk;
- for variable rate and short-term fixed rate liabilities: the book value is considered a good approximation of the fair value, for the reasons given above.

Qualitative disclosure

Fair value Levels 2 and 3: measurement techniques and inputs used

The assets and liabilities measured at fair value on a recurring basis mainly consist of Visa Inc shares held in the portfolio and share-based payments to employees.

For these instruments, without prices that can be directly observed on active markets, the fair value is determined as follows:

- Unlisted equity securities: these are measured according to the market value of Visa Inc class A shares, listed on active markets where the portfolio shares (class C) will be converted, adjusting the value to reflect both the liquidity risk of class C shares and the potential adjustments to the conversion ratio deriving from potential future liabilities of Visa Europe.
- For share-based payments in place, the fair value has been determined using available market data and commonly recognised measurement models. For further details see note36..

Measurement processes and sensitivity

Not applicable due to the absence of level 3 instruments.

Fair value hierarchy

Transfers between fair value levels derive from the empirical observation of intrinsic phenomena of the instrument taken into account or the markets on which it is traded.

Changes from Level 1 to Level 2 are brought about by a lack of an adequate number of contributors or the limited number of investors holding the float in issue.

Conversely, securities that at issue are not very liquid but have high numbers of contracts - thereby classified as Level 2 - are transferred to Level 1 when the existence is seen of an active market.

There have been no transfers between categories of financial assets and liabilities between Level 1, Level 2 or Level 3.

Information on "day-one profit or loss"

Not reported to the extent that for Nexi Group no transactions are recorded that are ascribable to this item.

2. Balance Sheet
(Amounts in Euro thousand)

ASSETS
3. Cash and cash equivalents

	June 30, 2020	December 31, 2019
a) Cash	27	27
b) Deposits and current accounts	176,152	115,361
Total	176,179	115,388

The “Deposits and current accounts” item refers to the liquid funds freely available in the current accounts of Nexi SpA. The change is largely ascribable to dividends collected from subsidiaries (net of Nexi Payments shares purchased as part of the acquisition of Intesa Sanpaolo's merchant acquiring business) and to funding transactions carried out during the reporting period.

The item total for "Deposits and current accounts" is included in the Net Financial Position.

4. Financial assets at Fair Value through OCI

4.1 BREAKDOWN BY PRODUCT

	June 30, 2020			December 31, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Debt instruments	-	-	-	-	-	-
Equity instruments	-	120,594	-	-	118,581	-
Financing	-	-	-	-	-	-
Total	-	120,594	-	-	118,581	-

4.2 BREAKDOWN BY ISSUER

	June 30, 2020	December 31, 2019
a) Banks	60	60
b) Financial institutions	120,534	118,521
- *Visa Europe Limited*	-	-
- *Visa Inc.*	120,490	118,478
- *Other financial companies*	*44*	*44*
c) Non-financial institutions	-	-
Total	120,594	118,581

The “Other financial companies” item refers to financial assets over which the Group does not exercise control, joint control or significant influence. More specifically, the item Is almost entirely comprised of preferred shares in Visa Inc., assigned following the sale of the equity investment in Visa Europe. Note that these are Visa Series C Shares eligible for conversion into Visa Series A Shares at a variable conversion rate dependent on expenses arising from contingent liabilities associated with the former Visa Europe.

The 2020 increase in this item is linked to a value increase in the Visa shares portfolio.

5. Financial assets measured at amortised cost

5.1 DUE FROM BANKS: BREAKDOWN BY PRODUCT

	June 30, 2020					December 31, 2019				
	Carrying amount		Fair Value			Carrying amount		Fair Value		
	Stages 1 & 2	Stage 3	Level 1	Level 2	Level 3	Stages 1 & 2	Stage 3	Level 1	Level 2	Level 3
Loans and receivables with banks										
Deposits and current accounts	280,381		-	280,381		353,753		-	353,753	
Prepaid cards liquidity	36,368	-	-	36,368	-	37,440	-	-	37,440	-
Other assets	87,512	-	-	87,512	-	115,831	-	-	115,831	-
Total	404,261	-	-	404,261	-	507,024	-	-	507,024	-

The current account balance includes the liquid funds of the operating companies. More specifically, it includes the daily settlement balance of transactions processed by Mercury Payment Services SpA on behalf of Intesa Sanpaolo and the liquidity at the level of the operating entities only. Note that the deposits and current accounts include Euro 140 million in liquidity generated by the operating companies during the period and which has been included in the Group's Net Financial Position. Said amount is also inclusive of cash acquired via the acquisition of Intesa Sanpaolo's merchant acquiring business (see Note 37) and of the operating companies' working capital, all of which calculated as per Notes 12 and 14.

The liquidity of the prepaid cards relates to the electronic money business carried out on said cards. Such liquidity is considered as separate from operational liquidity to the extent that it is deposited in a restricted current account held with DEPObank, transactions on which are limited to covering uses of prepaid cards by cardholders.

The "Other assets" item refers to receivables for services for Euro 34.6 million (57.3 million as at December 31, 2019), mainly relating to services provided by Mercury Payment Services SpA to Intesa Sanpaolo SpA. The item also includes the escrow accounts connected with the factoring transactions on the balances of credit cards (Euro 52.9 million as at June 30, 2020, on par with the balance as at December 31, 2019).

A Euro 50.5 million pledge in favour of the factoring company is attached to said restricted accounts.

5.2 LOANS AND RECEIVABLES WITH FINANCIAL INSTITUTIONS AND CUSTOMERS: BREAKDOWN BY PRODUCT

	June 30, 2020						December 31, 2019					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Stages 1 & 2	Stage 3		Level 1	Level 2	Level 3	Stages 1 & 2	Stage 3		Level 1	Level 2	Level 3
		Purchased	Other					Purchased	Other			
Ordinary credit cards	272,132				272,132		375,399				375,399	
Receivables with international schemes and merchants	311,577		3,884		311,577	3,884	398,821		1,504		398,821	1,504
Revolving credit cards	166,519				166,519	-	225,875				225,875	-
Personal loans	2,546				2,546		3,589				3,589	
Other assets	68,271				68,271	-	83,497				83,497	-
Total	821,045	-	3,884	-	821,045	3,884	1,087,181	-	1,504	-	1,087,181	1,504

The "Ordinary credit cards" item refers to charge cards and is the balance at the end of each month of the amount cumulatively spent up to that date by the cardholders during the last operative month. Via the partner banks this amount is generally debited to the current accounts of holders on the 15th day of the following month. The balance as at the reporting date has decreased significantly subsequent to the 2018 stipulation of a factoring agreement for the sale of receivables arising from credit cards issued by agreement with partner credit institutions, which has led to a significant percentage of the Group's receivables being derecognised. Note that the "Ordinary credit cards" item includes loans transferred "with recourse" for Euro 147,7 million, which have not been derecognised.
Positions in respect of international schemes refer to the daily settlement balances on the Visa-Mastercard schemes of which Nexi Payments SpA and Mercury Payment Services SpA are direct members and include the deposit paid by Nexi Payments SpA to its customer merchants on transactions that are yet to be settled. All such positions are settled within a few days (generally 1 to 3 days). Moreover, these year-end balances are influenced by the number of non-working days running across the end of each period, days on which settlement systems are closed, determining a greater build-up of transactions and a consequent drawdown of funding facilities.
Other assets mainly include the amount due from the factoring company of Euro 64.9 million (Euro 77.0 million in 2019), connected with the balance to be settled daily with the counterparty.

6. Equity investments

As at December 31, 2019, the balance of the item "Equity investments" had zeroed as a result of disposals and adjustments carried out in 2019.

7. Property and equipment

7.a) PROPERTY AND EQUIPMENT: BREAKDOWN OF ASSETS MEASURED AT COST

	June 30, 2020	December 31, 2019
Owned		
a) land	18,228	18,228
b) buildings	45595	46,926
c) furniture	1,737	1,779
d) electronic systems	93,408	100,465
e) other	106	166
Rights of use from leasing contracts		
a) land	-	-
b) buildings	18,220	19,762
c) furniture	-	-
d) electronic systems	2,065	4,306
e) other	1,187	1,467
Total	180,547	193.,01

The value of real estate includes the effect of the write-back to fair value of the assets acquired in 2015 with the establishment of the Mercury Group, as a result of the completion of the price allocation process (PPA).

The amount entered is net of depreciation up until the reporting date. Note that the "Electronic systems" item includes the POS terminals and ATMs.

The "Rights of use from lease contracts" item refers to assets recognised as of 2019 following the application of IFRS 16 which, as specified in the accounting policies section, has not affected the comparative data.

7.b) PROPERTY AND EQUIPMENT: CHANGES

30 June 2020	Land	Buildings	Furniture	Electronic Systems	Other	Total
A. Opening balance	18,228	66,688	1,779	104,771	1,633	193,101
B. Increases	-	1,898	113	14,019	97	16,128
B.1 Purchases	-	161	113	13,932	6	14,213
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Positive fair value adjustments recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit and loss statement	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	1,737	-	87	91	1,915
C. Decreases	-	4,771	155	23,318	437	26,681
C.1 Sales	-	-	-	130	-	130
C.2 Depreciation	-	4,771	155	23,115	437	28,478
C.3 Impairment losses recognised in:	-	-	-	71	-	71
a) equity	-	-	-	-	-	-
b) profit and loss statement	-	-	-	71	-	71
C.4 Negative fair value adjustments recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit and loss statement	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
D. Net closing balance	18,228	63,815	1,737	95,473	1,293	180,547

8. Investment property

8.a) INVESTMENT PROPERTY: BREAKDOWN OF ASSETS MEASURED AT COST

	June 30, 2020				December 31, 2019			
		Fair Value				Fair Value		
	Carrying	Level 1	Level 2	Level 3	Carrying	Level 1	Level 2	Level 3
1. Owned								
a) land	413		-	-	413	-		-
b) buildings	1,765		-	-	1,816	-		-
Total	2,178		2,244	-	2,229	-	2,244	-

This item has changed as a result of depreciation recognised during the first half of 2020.

The item includes the following properties:
- Via Selvamaggio, Colle di Val d'Elsa (Siena), owned by Nexi Payments SpA;
- Strada delle Frigge, Monteriggioni (Siena), owned by Nexi Payments SpA;
- Via Nazionale 3, San Giovanni al Natisone (Udine), owned by Help Line SpA.

These investments are recorded in accordance with IAS 40 and include properties held (whether through ownership or finance leases) either to obtain remuneration by way of their rental, or to benefit from a return on invested capital as they appreciate in market value. It should be noted that the annual rent generated by these properties amounts to Euro 462 thousand.

Investment property is measured at cost, net of depreciation.
As at the reporting date, there are no:
• restrictions or limits to the sale of property or collection of rental charges;
• obligations or contractual commitments for the purchase, construction, development, repair or extraordinary maintenance of these properties.

9. Intangible assets

9.1 INTANGIBLE ASSETS: BREAKDOWN BY TYPE OF ASSET

	30 June 2020		31 December 2019	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinit useful life
A.1 Goodwill	-	3,010,488	-	2,093,428
A.2. Intangible assets- Customer contracts	368,674	-	386,912	-
A.3 Other intangible assets	217,776	-	204,331	-
Total	586,449	3,010,488	591,243	2,093.428

Goodwill as at June 30, 2020 is as follows:
- goodwill arising from the 2016 acquisition of Mercury Payment Services SpA for Euro 590.8 million already net of the amount allocated to customer contracts for Euro 365.5 million upon completion of PPA in 2017;
- goodwill arising from the consolidation of equity investments held in Nexi Payments SpA and Help Line SpA purchased in 2018 and equal to Euro 931 million;
- goodwill recognised to Nexi Payments SpA in the amount of Euro 1,489 million, as follows:
• Euro 452 million relative to the acquisition of the merchant acquiring businesses of Monte dei Paschi di Siena, Deutsche Bank and Banca Carige, for which PPA issued in the allocation of Euro 130.7 million to customer relationships;
• Euro 120 million relative to the payments business unit acquired from DEPObank in 2018.
• Euro 917 million relative to the goodwill at provisional fair value assigned to the acquisition of Intesa Sanpaolo's merchant acquiring business closed on June 30, 2020 and concerning which PPA is ongoing. Please refer to Note 37 for further information.

The other intangible assets consist of:
- software purchases and technological developments;
- intangible assets with a finite useful life as resulting from the above PPA processes. More specifically, said assets, net of amortisation accrued as at the reporting date, consist of: Mercury Payment Services customer contracts for Euro 259 million and customer relationships Issuing from the acquisition of merchant acquiring businesses for Euro 109.8 million (i.e. MPS, Euro 96 million; DB, Euro 10 million; Carige, Euro 4 million).

9.2 INTANGIBLE ASSETS: CHANGES

30 June 2020		Other acquired intangible assets:		Other intangible assets: other		
	Goodwill	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	Total
A. Opening balance	2,093,428	386,912	-	204,331	-	2,684,671
B. Increases	917,060	-	-	50,070	-	967,130
Purchases	-	-	-	47,924	-	47,924
Other increases	917,060	-	-	2,147	-	919,206
C. Decreases	-	18,238	-	36,626	-	54,864
Sales	-	-	-	-	-	-
Amortisation	-	-	-	-	-	-
Other decreases	-	-	-	-	-	-
D. Net closing balance	3,010,488	368,674	-	217,776	-	3,596,937

9.3 INTANGIBLE ASSETS: IMPAIRMENT

In relation to the goodwill recorded in the condensed consolidated interim financial statements, the international accounting standard IAS 36 requires that impairment tests are carried out where impairment indicators are presented.

The value assigned to the CGUs and their respective goodwill, determined in keeping with the criteria adopted for the 2019 financial statements, are presented below.

CGU	Carrying value (Group share)	of which Goodwill
Monetica Nexi Payments SpA	2,419,660	3,065,360
Mercury Payment Services SpA	590,828	885,004
Total	3,010,488	3,950,364

During the first half of 2020, taking due account of the negative impact of the Covid-19 pandemic, assessments were conducted to gauge potential impairment indicators in respect of goodwill as recognised. Such assessments have shown that during the first six months of the year there were no indications of impairment with reference to the aforesaid goodwill

Furthermore, it is worth noting that the 2019 financial statements already feature the results of sensitivity analyses performed in conjunction with the Covid-19 outbreak. These tests sought to address potential impairment in response to scenarios involving EBITDA and revenue haircuts (for both the explicit forecast period and terminal values). Under said scenarios, the tests delivered the following break-even results:

- EBITDA haircut break-even: c. 55% annual drop for the Nexi Payments CGU; c. 59% for the Mercury Payment Services CGU;
- revenue-only haircut break-even: c. 35% annual drop for the Nexi Payments CGU; c. 40% for the Mercury Payment Services CGU.

Within the scope of the 2019 financial statements additional sensitivity analyses were carried out with respect to other parameters, namely growth rate and discount rate, neither of which under any scenario delivered results signalling potential impairment.

Despite the Covid-19 pandemic's impacts on performance as gauged against the Business Plan's forecasts during the first six months of the year, to the extent that Group performance widely exceeded the above break-even performance thresholds and that, as at time of reporting, these thresholds are deemed unlikely to be exceeded in the coming months, and given the Group's resilience with respect to revenue, much of which, indicatively speaking, does not – since it mostly arises from cardholder and merchant fees – strictly correlate with merchant and/or cardholder transaction volumes, there are no indications of impairment. This result is also indirectly confirmed by the level of market capitalization of the company, which is well above the book values of the consolidated activities, which results be at pre-Covid 19 levels.

As regards the goodwill recognised as at June 30, 2020 arising from the acquisition of the Intesa Sanpaolo merchant acquiring business, note that the appraisals carried out in the lead-up to the transfer have confirmed the valuations attached to Sales and

Purchase Agreement thereto.

As regards the customer contracts attached to the acquisition of the merchant acquiring businesses of MPS, DB and Carige, whereas the Covid-19 pandemic has produced a 7 to 8 percent drop the in revenues projected during PPA, in light of the fact that transaction volumes have witnessed a recovery in recent months and that there are indications of an increased merchant churn rate, and given more recent forecasts, the Group considers said drop in revenues to be contingent and that recovery is likely within the timescale of the business plan.More specifically, while duly accounting for uncertainties relating to both consumer spending and the economic outlook for Italy, said forecasts also suggest that the risks arising from such uncertainties stand to be more than compensated by the likely acceleration in the rate of adoption of e-payments in lieu of cash. Based on such considerations there are no indications of impairment.

10. Tax assets and liabilities

10.1 CURRENT TAX ASSETS AND LIABILITIES

As at June 30, 2020, the financial statements show Euro 30.2 million (37.6 million as at December 31, 2019) relative to current IRES tax assets; current tax liabilities of Euro 1 million (Euro 1.8 million as at December 31, 2019) refer to payables for additional IRES tax and for IRAP tax of Mercury Payment Services SpA. Note that the current tax consolidation scheme refers not just to the Parent Company Nexi SpA, but extends to subsidiaries Mercury Payment Services SpA, Nexi Payments SpA and Help Line SpA.

10.2 DEFERRED TAX ASSETS: BREAKDOWN

	June 30, 2020	December 31, 2019
Deferred tax assets		
- of which: recognised in equity	537	553
-of which: recognised in the profit and loss statement	48,318	63,742
Total	48,855	64,295

Deferred tax assets comprise the following:
- tax recognised in equity arising from deferred TFR tax;
- tax recognised in profit and loss mainly arising from adjustments to loans, the effects of first-time adoption of IFRS 15 and tax assets issuing from the transfer to Nexi of certain DEPObank SpA equity investments.

10.3 DEFERRED TAX LIABILITIES: BREAKDOWN

	June 30, 2020	December 31, 2019
Deferred tax liabilities		
- of which: recognised in equity	4,865	4,725
- of which: recognised in the profit and loss	38,231	34,690
- of which: recognised in the profit and loss statement due to elimination of the equity investments	85,624	90,660
Total	128,720	130,075

Deferred tax liabilities comprise the following:
- tax recognised in equity mainly arising from deferred tax relative to the fair value measurement of the Visa Shares portfolio;
- tax recognised in the profit and loss statement arising from temporary differences in goodwill and the effects of first-time adoption of IFRS 15;
- tax recognised in the profit and loss statement arising from the elimination of equity investments in Mercury Payment Services SpA and the allocation of part of the purchase price to intangible assets with a finite useful life.

11. Non-current assets held for sale and discontinued operations and liabilities associated with non-current assets held for sale and discontinued operations

	June 30, 2020	December 31, 2019
A. Assets held for sale		
A.1 Financial assets	1,908	2,229
A.2 Property and equipment	27	33
A.3 Intangible assets	-	-
A.4 Other assets	-	-
Total (A)	1,935	2,262
B. Liabilities associated with assets held for sale		
Payables to banks		
B.1 Other Liabilities	271	335
Total (B)	271	335

These are assets and liabilities referring to Orbital Cultura Srl (formerly BassmArt Srl). Concerning said company, a decision to carry through with the sale has been reached.

There are no circumstances warranting the recognition of impairment on assets held for disposal in respect of the expected value of the sale.

12. Other Assets

	June 30, 2020	December 31, 2019
Tax assets	59,645	55,964
Other assets for commissions to be collected	241,228	220,647
Deferred costs	87,510	67,348
Other assets	139,555	130,482
Total	527,938	474,441

Accounts relative to e-money settlements are excluded from the calculation of the working capital of the Group's operating companies (see Note 5), and are presented, instead, under "Other assets", above. Amounts recognised under "Other assets for commissions to be collected" are presented minus the effects of the merchant book acquisitions, worth Euro 34.9 million.

The caption "Other assets for commissions to be collected" refers to receivables invoiced to counterparties and yet to be collected.

The "Deferred costs" item includes deferred expenses relating to costs to fulfil contracts with customers (IFRS 15.91) for Euro 50.2 million and deferred expenses for costs paid but not yet accrued.

The caption "Other assets" includes accounts relative to e-money settlement.

13. Financial liabilities at amortised cost

13.1 FINANCIAL LIABILITIES DUE TO BANKS: BREAKDOWN BY PRODUCT

	June 30, 2020				December 31, 2019			
		Fair Value				Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3	Carrying Amount	Level 1	Level 2	Level 3
1. Financing	1,753,219	-	1,753,219	-	1,289,480	-	1,289,480	-
2. Other liabilities	534,466	-	534,466	-	647,233	-	647,233	-
3. Lease liabilities	12,757	-	12,757	-	15,359	-	15,359	-
Total	2,300,442	-	2,300,442	-	1,952,072	-	1,952,072	-

The "Financing" item refers to

- the IPO facility for Euro 993.4 million, namely a syndicated loan granted by a group of leading banks, with a maturity of five years. The carrying amount as at the reporting date includes direct transactions costs for Euro 8.2 million;
- the Term Loan for Euro 461.5 million, namely a floating-rate loan granted June 30, 2020 by a group of leading banks, with maturity in June 2025. The carrying amount as at the reporting date includes direct transaction costs of Euro 5 million.

The item also includes bilateral facilities in support of revolving cards and the facilities with Intesa Sanpaolo used by Mercury Payment Services SpA for the daily settlement of transactions with ISP customers.

The "Other liabilities" item includes facilities used to finance the settlement of the acquiring and payments services, the residual portion of direct issuing services not covered by the factoring facilities, as well as payables for commercial services used by Group companies.

The item total includes Euro 1,456 million in loans (i.e. the IPO Loan and the Term Loan) and Euro 13 million in lease debts included in the Net Financial Position.

13.2 FINANCIAL LIABILITIES DUE TO FINANCIAL ENTITIES AND CUSTOMERS: BREAKDOWN BY PRODUCT

	June 30, 2020				December 31, 2019			
		Fair Value				Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3	Carrying Amount	Level 1	Level 2	Level 3
1. Financing	197,405	-	197,405	-	318,436	-	318,436	-
2. Other liabilities	37,715	-	37,715	-	38,099	-	38,099	-
3. Lease liabilities	10,849	-	10,849	-	12,768	-	12,768	-
Total	245,968	-	245,968	-	369,303	-	369,303	-

The item "Financing" refers for Euro 189.4 million to payables due to the factoring company for advances on ordinary credit cards transferred with recourse and, as for the remainder, to the balancing facility in place with the factoring company.
The "Other liabilities" item refers to liabilities due to financial institutions for amounts yet to be paid. The item "Lease liabilities " includes the liability deriving from the application of IFRS 16 to operating leases, equal to the current value of the payment flows envisaged by current contracts. As indicated in the section on "Accounting policies", at first-time application, the Nexi Group exercised the option envisaged by the standard, not to restate the comparative data.
The "Lease liabilities" total is included in the Net Financial Position.

13.3 SECURITIES ISSUED: BREAKDOWN BY PRODUCT

The following table refers to securities issued by Nexi in 2019 and in 2020.

	June 30, 2020				December 31, 2019			
		Fair Value				Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3	Carrying Amount	Level 1	Level 2	Level 3
1. Fixed rate securities	1.260.894		1.381.365		819.014		850.208	
2. Floating rate securities	-		-		-		-	
Total	1.260.894	-	1.381.365	-	819.014	-	850.208	

Note: with reference to the convertible bonds, the fair value above refers to financial liability for the issue as a whole.

As further detailed in the Directors' Report, the first half of the year saw the issue of convertible bonds of aggregate principal amount of Euro 500 million with a 1.75% p.a. coupon payable semi-annually, maturing April 2027. As required under IAS 32, the Group has recognised the equity and liability components separately (see Note 38). The liability component as at June 30, 2020 amounts to Euro 441 million, including direct transaction costs for Euro 6 million.

As at June 30, 2020, the "Fixed rate securities" item also refers to the existing senior fixed rate notes of Euro 819 million, including direct transaction costs of Euro 8 million.

The total for said item is included in Net Financial Position.

14. Other liabilities

	June 30, 2020	December 31, 2019
Tax Liabilities	7,208	8,741
Due to employees	32,018	48,467
Other liabilities for fees and commissions	208,226	249,416
Unsettled transactions	169,796	190,175
Other liabilities	40,893	37,182
Deferred loyalty fees	62,498	63,199
Unsettled prepaid-card transactions	1,110	1,104
Cash advances to be settled	70	46,345
Total	521.819	644.628

Accounts relative to e-money settlements are excluded from the calculation of the working capital of the Group's operating companies (see Note 5), and are presented under the captions "Unsettled transactions", "Prepaid-card unsettled transactions", "Other liabilities" and "Cash advance to be settled". Amounts recognised under "Other liabilities for fees and commissions" are presented minus the effects of the merchant book acquisitions, worth Euro 6.2 million.

15. Post-employment benefits

Italian legislation establishes that upon termination of a contract of employment the employee has a right to receive severance indemnity defined according to the annual salary and the inflation rate. As at June 30, 2020, amounts payable pursuant to IAS 19 requirements for post-employment benefits totalled Euro 14.5 million (Euro 14.5 million as at December 31, 2019).

16. Provisions for risks and charges

16.1 PROVISIONS FOR RISKS AND CHARGES: BREAKDOWN

	June 30, 2020	December 31, 2019
1. Internal pension funds	-	-
2. Other provisions for risks and charges	27,518	31,967
2.1 Legal and tax disputes	2,241	2,619
2.2 Employees	1,117	1,538
2.3 Other provisions	24,160	27,810
Total	27,518	31,967

The "Legal and tax disputes" item of Euro 2.2 million (Euro 2.6 million as at December 31, 2019) refers to the provisions made for litigations for which the risk is considered "probable".
The "Other provisions" of Euro 24.1 million (Euro 27.8 million as at December 31, 2019) mainly refer to:
a. provision for contractual commitments made during the acquisition of the equity investment held in Bassilichi, for Euro 12.8 million, down Euro 0.5 million on December 31, 2019 due to period use;
b. provision for disposal costs of non-core equity investments held by the Bassilichi Group, for Euro 3.4 million, down from Euro 5.3 million as at December 31, 2019 due to period use;
c. provision for risks connected with transactions placed on hold and other disputes relating to routine operations, for c. Euro 7.7 million (Euro 8 million as at December 31, 2019);
d. provision for fraudulent transactions, of Euro 0.3 million

17. Shareholders' equity

	June 30, 2020	December 31, 2019
Share capital	57,071	57,071
Share premium	1,082,204	1,082,204
Reserves	219,021	29,428
Valuation reserves	15,522	13,609
Profit (loss) for the year	32,644	135,166
Equity attributable to non-controlling interests (+/-)	6,877	7,072
Total	1,413,339	1,324,550

The "Equity attributable to non-controlling interests" item of Euro 7 million, mainly refers to minority stakes in Nexi Payments SpA (Euro 6 million) and Help Line SpA (Euro 0.9 million). The reduction largely stems from the dilution of non-controlling interests following Nexi Payments' share capital increase.

Reserve increases for the period largely reflect retained earnings from the prior year (Euro 135 million) and the convertible bonds' equity component (Euro 55 million net of direct transaction costs), as well as stock grants and the LTI plans (Euro 8 million).

As at June 30, 2020, the share capital comprised 627,777,777 fully paid-up ordinary shares.

18. Income Statement

19. Fees for services rendered and commission income

	I Half 2020	I Half 2019
Issuing & acquiring fees	483.100	588.727
- fees and commissions from counterparties	379.693	482.740
- fees and commissions from cardholders	103.407	105.987
- other fees	-	-
Revenues from services	172.963	182.086
Total	656.063	770.813

The "Issuing & acquiring fees" item mainly consists of:
- commissions from counterparties, which include the interchange fees recognised by the schemes, the acquiring commissions paid by merchants and the commissions for processing issuing/acquiring and servicing paid by partner banks;
- commissions from cardholders, which include commissions debited to licensed cardholders, mainly relating to charges.

The item "Revenue from services" mainly consists of POS and ATM rental and maintenance charges, of revenue from Digital & Corporate Banking services, and revenue from activities linked to Payment Services and revenues connected with Help Desk services.

Note that as required by IFRS 15.116 fees for services rendered and commission income include revenues recognised during the year, included in the opening balance of liabilities from customer contracts for Euro 3.7 million.

20. Fees for services received and commission expense

	I Half 2020	I Half 2019
Bank charges	220,822	299,088
- Fees due to correspondents	140,315	207,342
- Fees due to banks	80,507	91,746
Other fees	2,821	1,425
Total	223,643	300,514

This item mainly comprises:
- Fees to correspondents, mostly consisting of interchange fees and other charges debited by the schemes;
- Fees to banks, mainly consisting of fees paid to partner banks.

21. Interest and similar income

	I Half 2020	I Half 2019
Loans and receivables with banks and financial institutions	-	-
Loans and receivables with customers	8,031	9,532
Other Assets	10	28
Total	8,040	9,560

Interest income with customers mainly refers to revolving credit card transactions.

22. Interest and similar expense

	I Half 2020	I Half 2019
Financial liability measured at amortised cost:		
- due to banks and customers: leases	509	714
- due to banks and customers	97,678	13,935
- securities issued	135,147	98,784
Other Liabilities and provisions	172	98
Total	38,150	113,530

Interest expense mainly refers to:
- recourse credit facilities attached to the factoring contract stipulated in 2018 by Nexi Payments SpA;
- outstanding securities which, as detailed in the Directors' Report and Note 38, increased during the first half of the year following the issue of the Convertible Bonds;
- the IPO Loan stipulated in 2019.

23. Profit / loss on trading activity / hedging on financial assets and liabilities designated at Fair Value through profit and loss

	I Half 2020	I Half 2019
Net trading income on financial assets	99	(5,298)
Net hedging income on financial assets	-	-
Total	99	(5,298)

As at the end of the 30 June 2019 , this item mainly includes fair value change for the derivative stipulated against price and market risks linked to the Visa Shares portfolio for the portion classified as held for trading. The derivative matured in September 2019.

The item also includes the exchange gains/losses deriving from the Nexi Group's recurring operating activities, which have a limited impact to the extent that the risks connected with foreign exchange positions are mitigated by offsetting foreign currency positions which naturally mitigate exposure to said risk.

24. Dividends and Profit/Loss from investment and disposal of financial assets at Fair Value through OCI

	I Half 2020	I Half 2019
Dividends	197	166
Profit/loss from disposal of financial assets at fair value through OCI	(3,285)	(4,552)
Net Result	(8,089)	(4,386)

The item's balance mainly refers to, under the scope of the factoring contract, expense due to transfer without recourse by Nexi Payments SpA of a significant portion of the loans portfolio attached to credit cards issued.

25. Administrative expenses

25.1 PERSONNEL EXPENSE: BREAKDOWN

	I Half 2020	I Half 2019
1) Employees		
a) wages and salaries	54,629	61,136
b) social security charges	14,693	17,604
c) post-employment benefits	704	660
d) pension and similar costs	23	20
e) accrual for post-employment benefits	421	141
f) accrual for pension and similar provisions:	-	-
—*defined contribution plans*	-	-
—*defined benefit plans*	-	-
g) payments to external supplementary pension funds	-	-
—*defined contribution plans*	3,845	3,065
—*defined benefit plans*	-	-
h) costs of share-based payment plans	8,365	42,604
i) other employee benefits	2,588	3,479
2) Other personnel	674	1,086
Total	85,942	129,794

Payroll costs also include costs linked to the stock grant plan (guaranteed by Mercury UK) for Nexi Group employees and the costs connected with the Long-Term Incentive plan, as further detailed in Note 36.

25.2 OTHER ADMINISTRATIVE EXPENSES: BREAKDOWN

	I Half 2020	I Half 2019
1. Third party services	72,816	84,579
2. Lease and building management fees	1,433	1,186
3. Insurance companies	1,118	1,341
4. Rentals	4,271	3,039
5. Maintenance	19,848	22,613
6. Shipping costs	7,737	3,142
7. Telephone and telegraph	6,839	6,474
8. Cards and accessories	2,288	2,345
9. Printed matter and stationery	2,228	2,323
10. Other taxes	4,830	2,268
11. Legal, notary and consultancy services	19,847	24,354
12. Agents' commissions and expense reimbursement	103	6
13. Advertising	2,207	3,087
14. Promotional materials and competition prizes	6,988	14,451
15. Other commercial costs	281	903
16. Other general expenses	10,590	16,301
Total	163,426	188,411

As required by IFRS 15.128, note that the costs for the execution of customer contracts recognised during the year and included in the opening balance of assets deriving from customer contracts, amounted to Euro 1.7 million.

26. Other operating income (expenses)

	I Half 2020	I Half 2019
Other operating income	854	182
Other operating expenses	(2,341)	(2,730)
Total	(1,487)	(2,548)

27. Net value adjustments on assets measured at amortised cost

The item, equal to Euro 5.3 million, refers to the net value adjustments applied to receivables due from customers mainly connected with direct issuing and acquiring operations carried out by Nexi Payments SpA.

	Impairment losses			Reversals of Impairment losses		I Half 2020	I Half 2019
	Stages 1 & 2	Stage 3 Write - off	Stage 3 Other	Stage 1 & 2	Stage 3	Total	Total
A. Loans and receivables with banks	-	-	-		-	-	-
B. Loans and receivables with customers	-	-	5,377	(99)	-	5,278	1,811
Total	-	-	5,377	(99)	-	5,278	1,811

28. Net accruals to provisions for risks and charges

The item totalling a Euro 0.3 million reflects changes to the provision for risks and charges

	I Half 2020	I Half 2019
Net accrual to provisions	(151)	(590)
Net accrual to provisions for frauds of Nexi Payments	(124)	-
Total	(275)	(590)

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

	I Half 2020	I Half 2019
Depreciation and net impairment loss on property, equipment and investment property	28,599	27,742
Amortisation and net impairment loss on intangible assets	54,864	42,571
Total	83,463	70,313

30. Profit (loss) from equity investments and disposals of investments

	I Half 2020	I Half 2019
Profit		
Profits on investments	-	-
Profits on fixed assets sales	(3)	-
Loss	-	-
Loss on investments	0	47
Loss on fixed assets sales	140	27
Net result	138	74

31. Income taxes

	I Half 2020	I Half 2019
Current tax expenses	(25.426)	3.165
Changes in deferred tax assets	(2.576)	(1.586)
Changes in deferred tax liabilities	1.496	(1.037)
Total	(26.506)	542

32. Profit (loss) after tax from discontinued operations

The item refers to the positive and negative items of income from assets held for disposal (see Note 11).

33. Profit (loss) for the year attributable to non-controlling interests

These are minorities mainly referring to Nexi Payments SpA for Euro 0.5 million and Help Line SpA for a negative Euro 0.02 million.

34. Information on risks and related hedging policies

Nexi Group is mainly subject to liquidity risk, operational risk (which includes fraud risk, legal and conduct risk and IT risk) and reputational risk.
Other risks monitored at Nexi Group are strategic risk, credit risk, interest rate risk and market risk, as shown in the table below:

	NEXI SPA (Holding)	NEXI PAYMENTS (Electronic Money Institution supervised by the Bank of Italy)	MERCURY PAYMENT SERVICES (Payment Institution supervised by the 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	
Market risk		X	X	

These risks are analysed in these Notes, with the exception of strategic risk, which is addressed in the section on "Main risks and uncertainties" of the Directors' Report.

Risk management at Nexi Group

With reference to risk management, the model adopted by Nexi establishes that the Parent Company monitors strategic risk and the Group's Internal Control System.

The Internal Control System – namely the organisational, regulatory and methodological environment for the effective and economical assurance of guidance and strategic, managerial and technical and operational control – is a process aimed at offering reasonable certainty as to the attainment of such corporate objectives as efficiency and effectiveness of operations, reliability of the information on the financial statements and conformity with the laws and regulations in force.
The rules governing relations between the Parent Company, Nexi, and Nexi Group companies (hereinafter the "Subsidiaries") are set out in specific regulations aimed at standardising organisational rules and conduct with a view to focusing development policies and Group management strategies towards convergent objectives, in line with the strategic guidelines issued by the Parent Company.
Such regulations also address safeguards to management autonomy as with reference to subsidiaries that are supervised and which operate in the payment services and electronic money sectors (hereinafter "Supervised Companies"), said companies operating subject to compliance with special legislation.

Parent Company Nexi's own Audit Function, among its other duties, supports the Parent Company's Board of Directors via the Risk Committee, verifying that the Group's companies define an Internal Control System in line with group-level strategic guidelines and risk management policies defined by Nexi's Board of Directors.

Monitoring, provided via the Group's Internal Control System in accordance with mandatory rules applicable to Supervised Companies, ensures permanent oversight as to all risks that may impact the Group. To that end, the Parent Company's Board of Directors:

- defines guidelines applicable to the Group's Risk Management and Internal Control System in accordance with mandatory rules as applicable to the Supervised Companies;
- ensures control of the Group's comprehensive exposure to business risks;
- along with the Boards of Directors and Boards of Auditors of the Subsidiaries, is informed by the Company's Audit Function as to whether the controls carried out by the relevant organisational units of the Subsidiaries have made significant findings or revealed abnormal, problematic situations. Responsibility for the design, management and oversight of the Risk Management and Internal Control System (hereinafter the "RMICS") of each Nexi Group company rests with the Boards and managers of each Subsidiary individually, even in respect of compliance to special regulations on Supervised Companies. Said companies assure the establishment and adequate and effective maintenance of the RMICS, implementing the guidelines defined by the Parent Company..

The Subsidiaries:

- are responsible for implementing the risk management strategies and policies;
- provide the Parent Company with reports, defined each time according to Group needs, on a scheduled basis or upon request, in order to ensure standardised consolidated management of risk;
- organise corrective interventions to remove/mitigate anomalies and problems encountered, in line with any indications received from the Parent Company.
-

In accordance with current supervisory provisions, Supervised Companies' Internal Control Systems are structured around a three-tier control system:

- Tier 1 controls - line controls aimed at assuring proper fulfilment of operations; these controls are hierarchical and carried out by the production units themselves and are generally incorporated into their own procedures or alternatively performed as part of back-office activities;
- Tier 2 controls:
  - risk management controls aimed at defining the methods employed to measure risk, verify respect for limits assigned to the various operational functions and to check the consistency of the operations of the individual production areas with risk/return objectives;
  - control of compliance with standards aimed at overseeing the risks connected with failure to comply with internal and external regulations;
- Tier 3 - internal audits aimed at identifying any performance anomalies, breaches of procedures and both internal and external rules and regulations, as well as at assessing the overall Internal Control System function.

Risk management activities, compliance checks with rules and internal audits are carried out by non-operational, independent functions.

Nexi Group risks

Liquidity and interest rate risks

The Group has significant financial debt mainly comprising, as at the date of these statements, Fixed-Rate Notes, the IPO Loan and the Convertible Bonds, with respect to which it incurs considerable interest expenses; this may have a negative impact on the Group's results and its capacity to generate cash and distribute dividends, with consequent possible effects on the capacity to repay debt at due dates and on its capacity to make the investments necessary to develop the business.

The Group is exposed to the risk that failure to respect the obligations and covenants envisaged by contractual documentation relative to this financial debt and, more specially, the Fixed-Rate Notes, the IPO Loan, the Term Loan and the Convertible Bonds and bank and factoring credit facilities in place, may result, amongst others, in the application of the acceleration clause, also due to cross-default clauses included in some of the contracts, regulating the Group's financial debt and facilities to support working capital needs generated by the subsidiaries. Refer to section 38 for further information.

Sustainability of Nexi Group's debt level is correlated, first and foremost, to its operating results and thus to is capacity to generate sufficient liquid funds and to refinance debt at maturity.
The risk profiles correlated with the provided guarantees are associated with any defaults on the underlying loan contracts and, consequently, the possibility that lenders may, through the contract remedies available, enforce guarantees to protect their credit rights, accordingly negatively impacting the Nexi Group's economic, equity and financial position.
The risk is limited by clauses in the contracts that come under the "standard" conditions used in similar transactions.

The Group is exposed to the risk that significant changes may take place with respect to interest rates and that the policies adopted to neutralise such changes may prove inadequate. The fluctuation of interest rates depends on various factors, which are outside the Group's control, such as monetary policies, macroeconomic performance and economic conditions and political uncertainty in Italy.
Changes in interest rates impact the market value of the company's financial assets and liabilities and the level of interest expenses, as some of the loans subscribed are variable rate.
In this regard, as at June 30, 2019 the Group is exposed for a significant percentage to sources of funding at a variable interest rate; more specifically, 53% of the amount of funding sources used, which represent financial debt, are index-linked to the Euribor variable interest rate: more specifically, via the IPO Term Line for Euro 1,000 million and the Term Loan for Euro 466.5 million. Although not representing financial debt, both the factoring agreement and most of the bilateral facilities, are also index-linked to the Euribor variable interest rate.
Note that as at the date of these Notes, the Group has not subscribed any instruments to hedge the interest rate risk, which are periodically analysed and measured.

Furthermore, the Group has credit facilities which it deems sufficient, in terms of operational modalities and amounts, to cover the financial needs of its working capital requirements, specifically:
(1) a factoring agreement entered into by Nexi Payments and Unicredit Factoring S.p.A. valid for the majority of the working capital generated on an ongoing basis via the issue of charge cards under the licensing model. Such agreement governs the transfer of Nexi's account receivables whose default risk is assumed by partner banks;
(2) a series of bilateral credit facilities with different technical forms (hot money, committed, revolving, etc.) to cover acquiring activities, receivables from issuing activity not covered by the factoring agreement or by revolving credit facilities (as defined below) and other potential short-run operational funding needs;
(3) bilateral credit facilities aimed at covering receivables from issuing activities that are paid in instalments upon request of cardholders (revolving credit facilities).

It is not possible to rule out that, in the future, Nexi Group might have to replace - for any reason whatsoever - one or more of its major lenders of such credit facilities and that such potential circumstance may entail greater charges and costs and/or result in discontinuity and/or delays in the provision of services, also due to the time needed to complete the replacement, which could be prejudicial to the operations of Nexi Group.

With specific reference to the impact on funding liquidity risk of the economic crisis triggered by the Covid-19 pandemic, as at the date of these notes there are no indications as to significant critical issues, insofar as available liquidity is deemed consistent with the Group's medium-term financing and investment needs, and said credit facilities and committed.

The Group has set up procedures aimed at identifying, monitoring and managing the liquidity 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 other macroeconomic market indicators;
(b) periodic alignments with research departments of leading banks on the outlook for the financial market;
(c) analysis of possible hedging strategies of interest rate risk through derivatives.

With reference to interest rate risk arising in connection with the specific nature of Nexi Payments SpA's business, it is worth stressing that exposures are mostly concentrated in the "within one month" category and, as such, mostly result in minimum risk exposure, except for exposures related to revolving cards, which have an average maturity of 10 months. Exposure to this type of risk is, to all intents and purposes, irrelevant.

Operational risk

The Group may incur liability and, therefore, may suffer damages, including to its reputation, in connection with fraudulent digital payment transactions, fraudulent loans made by merchants or other parties or fraudulent sales of goods or services, including fraudulent sales made by Group merchants under the scope of the Cards & Digital Payments and Merchant Services & Solutions business lines.

Examples of fraud may include the intentional use of stolen or counterfeit debit or credit cards, of payment card numbers or other credentials to book sales or false transactions by merchants or other parties, the sale of counterfeit goods, the intentional failure to deliver goods or services sold under the scope of a transaction that is otherwise valid. Failure to identify thefts and the failure to effectively manage fraud risk and prevention may increase the Group's charge-back liability or cause the Group to incur other liability, including fines and sanctions. It is worth noting that the overriding risk of external fraud relates to fraud in the issuing sector, which in the first half of 2020 accounts for 0.07% of spending by cardholders (gross fraud).

In order to tackle such risks, Nexi has set up a specific framework for the identification, management and monitoring of risks, comprising policies, processes, organisational measures and instruments. The framework incorporates the national and international regulatory provisions and requirements and best practices for the development and enhancement of supporting methods and instruments. The Group has sophisticated systems in place for transaction control and detection suitable organisational measures to prevent fraud and control risk management.

In line with the high degree of technological innovation of the services supplied by the Group and given the sensitive nature of operations involving the management of payment data, specific policies and methods have been set in place to identify and manage IT risk (including cybersecurity risk) and specific organisational measures have been implemented under the scope of the Information Security Management System (ISMS) for line controls and risk management control.

Operational risk is also mitigated via specific insurance cover.

Reputational risk

Reputational risk is defined as the current or prospective risk of a loss, of a downturn to the business volume or profits or of a decline in the value of securities that is the product of a negative perception of the Group's image by customers, counterparties, shareholders, investors or by the relevant supervisory authorities. Such circumstances stand to impact Nexi's ability to either maintain or establish business relations and to continue to access funding resources, including through capital markets or banking channels.

Given the scope and nature of reputational risk and its prospective negative impacts, the Group has established dedicated subunits tasked with preventing operational and compliance risk factors that may impact the Group's reputation. These are assigned to:
- AML controls;
- privacy controls;
- IT risk monitoring and risk control;
- business continuity management;
- brand management and communication (for Nexi-branded cards);
- crisis management (i.e. the reputational risk management task force);
- compliance and operational risk monitoring and Tier 2 controls.

Furthermore, the Group operates on an ongoing basis with respect to all actions geared towards preventing and monitoring risk factors that may impinge on the Group's reputation (especially in respect of the Nexi brand holder, Nexi Payments SpA). Such actions include: (i) the assessment of reputational risk issuing from the periodic assessment of compliance and process operational risk; (ii) the assessment of potential reputational risk during the design of new services/products; (iii) the assessment of potential impacts on reputation in the event of operating "incidents"; (iv) a reputational risk-monitoring dashboard; (v) a behavioural risk-monitoring dashboard.

Credit risk

The Group is exposed to credit risk as further detailed herein.

Credit risk in the acquiring business

Settlement between counterparties results in the merchant-customer receiving the funds before the Group, as the acquirer, receives them:
(i) from the factor, for the receivables generated by cards issued by the Group under the factoring contract;
(ii) from the banks of the cardholders, for all other receivables generated by cards issued by the Group and not covered by the factoring agreement;
(iii) and/or, where cards are issued by other issuers, from the international payment card schemes.
In respect of acquiring services supplied by means of traditional and referral license contracts, as the acquirer, the Group is also exposed to counterparty risk issuing from the amounts paid to merchants before the goods or services are supplied to the consumer or disputed by the cardholder. In such an event, the amount of the transaction is usually charged back to the merchant and the purchase price is reimbursed by the Group, as acquirer, to the cardholder.

The Group is also subject to credit risk for (a) the amount of the international payment card scheme commissions and (b) its commission due by merchants. When the acquirer pays the customers/merchants the amount of transaction payment, it does not always deduct commissions owed, but in some cases debits them later, on a monthly basis. If the merchant refuses or delays payment of such receivables, the Group may suffer the ensuing loss.

Credit risk in the issuing business

The Group's Supervised Companies, as issuers, grant credit to cardholders in order to finance purchases made using the payment cards of such customers.
Timing of collection in regard to cardholders depends on the type of card used. If the purchase is made with a debit card, issuer exposure is not envisaged; vice versa, with charge cards, the issuer is exposed for an average period ranging between 15 and 45 days.
If the cardholder is not able to pay off the balance, due to bankruptcy or insolvency, the partner bank ensures reimbursement of the amounts due by it. In the event of partner bank insolvency, the issuer can seek to recover the amounts directly from the cardholders.
In this regard, note that even in the event of an insolvent holder's card being blocked, the partner bank remains liable for any insolvencies for spending in the 5 days following. Once these 5 days have passed, if the issuer has not blocked the card, any additional amounts (namely, spending from the sixth day onwards) are the responsibility of the issuer.

Credit risk in the servicing and "associate" business

In the event of agreements with banks in the "servicing" and "associate" model, the Group is exposed to the counterparty risk for the services rendered and the credit risk linked to the POS and ATM management service with the merchants and customer banks of such services.

Credit risk monitoring

Credit risk is monitored constantly, ensuring that exposures fall within the set budget limits for each year. Careful scoring is also carried out prior to any Direct Issuing agreements being drawn up with new merchants or new cardholders.
The Risk Management Function constantly monitors credit risk performance and in the event of a budget overrun it activates the required escalation measures.
In order to control and measure the risk, specific maximum limits are set for gross and net insolvency and the related incidence on spending, monitored constantly together with the performance of expected losses with respect to effective losses recognised and the performance of losses incurred in connection with business performance. Credit risk control is also carried out upstream via the Tier 1 functions, starting with the credit evaluation and approval process, which involves the following:
- internal checks;
- consistency checks;
- positive and negative Credit Bureau use;
- credit-scoring algorithms.

Further processes with a bearing on credit risk involve the monitoring and collection of debt from merchants and holders, designed to limit the impact of the risk events.
In the area of servicing activities, the Group has no direct credit risks with respect to retail customers to the extent that its business is focused on Issuing servicing and acquiring servicing. Such credit risk, therefore, lies with the banks that are the issuing and/or acquiring license holders.

Potential impact of the Covid-19 pandemic on credit risk

While experts agree as to the extraordinary nature of the current economic crisis, no consensus exists as to reliable forecasts concerning the duration of the global recession and as to Italy's recovery – in the latter instance, uncertainty being further compounded by the fact that it is, as yet, impossible to draw conclusions concerning the effectiveness of the extraordinary measures adopted by the Italian government.
Any attempt to quantify expected credit loss, therefore, is also subject to significant uncertainty.
Several macroeconomic outlook reports published by international bodies and organisations – including those published by the IMF, the ECB and rating agencies – as well agreeing on the outlook being negative, also address the sectors hardest hit by the pandemic containment measures. With reference to the latter, said reports point to a significant deterioration in credit quality especially with reference to the retail and SME customer base – typically less resilient in the face of prolonged financial distress.
As for the Nexi Group, as at the date of these Notes, despite the potential for critical situations to develop, any increase in credit risk has proven fairly contained.
Duly accounting for the nature of its operations and the credit risk factors outlined above, the Group has identified three potential factors conducive to further losses:

1) *Increased losses due to chargeback for undelivered goods / services not rendered (especially in the hardest hit sectors, such as the travel, tourism and entertainment sectors).*
This risk factor stands to have potentially conspicuous impact also in light of a prospective rise in claims in the medium term.
Nexi Group has responded by constantly monitoring such instances and setting mitigation measures in place, among which:

- bolstering of fraud prevention efforts in order to reduce losses and limit the number of disputes and claims leading to compensation;
- effective claims management combined with careful appraisal as to which claims to settle upfront in favour of customers rather than facing chargeback plus additional expenses;
- ongoing dialogue with payment card circuits concerning the correct implementation of relevant rules with respect to force majeure representations made by counterparties (e.g. supply chain interruptions, workforce shortages, limitations to free movement of people) and to the consequences of certain relief measures in favour of private citizens and businesses approved by the Italian government.

2) *Increased default risk among merchants (especially SMEs).*
This risk factor would lead to an increase in the level of unpaid commissions owed by merchants and, to a lesser extent, unpaid POS fees.
As at the date of these Notes, there is nothing to indicate either any sizeable short-term increase in customer defaults or in any of the relevant risks thereto, save for potential delayed timeframes with respect to merchants' payment of commissions.

Mitigation measures
The mitigation measures set in place by Nexi include initiatives designed to help small and medium-sized merchants face temporary liquidity setbacks causing delays in payment (e.g. extending the micropayments initiative and the "digital solidarity" initiative)

3) *Increased cardholder insolvency*.
As at the date of these Notes there has been non appreciable increase in direct-issue card insolvency compared to the months leading up to the pandemic.

Market risk (price and currency)

Nexi Group is exposed to the risk of unfavourable movements in the price of its Visa Inc. Class C Shares (convertible into Visa Inc. Class A Shares at a variable conversion factor according to the expenses deriving from the potential liabilities of the former Visa Europe, acquired by Visa Inc.), as well as negative effects on the value of said shares due to movements in the EUR/USD exchange rate.

As at the reference date of these Notes, based on of the current and prospective fair value and VaR measurements of the securities in the context of the reference markets, while subscribing such instruments to hedge against market risks has been deemed not appropriate, the faculty is reserved to provide for a new hedging in the event of a likely reduction in the value of the securities with respect to objectives.

For the sake of completeness, Visa Inc. Class C Shares are illiquid financial instruments and, as such, are characterised by possible obstacles (in law or de facto) or restrictions on divestment within a reasonable time and at fair market conditions.

Furthermore, the Group companies are also marginally exposed to the foreign exchange risk, to the extent that the payments and collections, respectively for transactions to be paid or collected in relation to the Mastercard and Visa schemes, are denominated in euros.

35. Related parties

The purpose of IAS 24 (Related Party Disclosures) is to make sure that the financial statements of an entity provide the additional information necessary to highlight the possibility that its equity-financial position and economic results stand to have been altered by the existence of related parties and transactions and balances applicable to said parties.
In accordance with these indications, applied to the organisational structure and governance of the Nexi Group, the following are considered as related parties:
a) all entities that, directly or indirectly, including through subsidiaries, fiduciaries or intermediaries, control, individually or jointly, Mercury UK, or hold an investment in Mercury UK that is such as to be able to exercise significant influence over it;
b) the subsidiaries or entities under the joint control of the entities listed at the point above;
c) the subsidiaries, associates or entities under the joint control of Nexi SpA;
d) key management personnel of the Nexi Group and its direct Parent Company and its subsidiaries, entities under its joint control or subject to its significant influence;
e) close family members of the natural persons included under letters b) and e) above;
f) the complementary pension fund established in the favour of employees of Nexi SpA or its related entities.

35.1 INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

Below are the fees paid, in the reference period, to the Administrative and Control Bodies and the key management personnel.

(amount in Euro thousand)

	Directors	Board of Statutory auditors	Executives holding strategic responsibility
Corporate bodies remuneration	737	357	-
Short-term benefits	-		2,289
Benefits subsequent to the termination of employments	-		407
Other long-term benefits	-		-
Indemnities for termination of employment Payments Based on actions (stock plan)	-		-
Total	737	357	2,696

35.2 INFORMATION ON RELATED-PARTY TRANSACTIONS

The effects of transactions with related parties, over and above the fees described above, are summarised below.

(amounts in Euro thousand)

	Controlling company	Other related parties	Directors, Executives and other monitoring bodies
Cash and cash equivalents		12.561	-
Financial assets measured at amortised cost		221.155	-
Intangible assets			-
Other Assets	2.001	70.410	-
Financial liabilities measured at amortised cost			-
Other liabilities		26.548	-
Fee for services rendered and commission income		18.519	-
Fee for services received and commission expense		1.106	-
Interest and similar income			-
Interest and similar expense		1.165	-
Other administrative expenses		3.121	-

Note that these contracts are regulated by the terms and conditions in line with market procedures.

The main contracts in place with related parties refer to the following relations entertained during the period with DEPObank (included in the category "other related parties"):

- outsourcing contract for the supply of IT services by Nexi Payments SpA to DEPObank. The price varies according to the effective use of internal and external resources; the contract was renegotiated in 2020, extending the deadline and reviewing the prices;
- agreement for the provision of commercial services that defines the terms and conditions on which basis Nexi Payments SpA offers its customers the products and services of DEPObank through its commercial network. The price, identified upon completion of a market benchmark check, is correlated with the annual business volumes accrued by DEPObank as a result of the commercial activity of Nexi Payments SpA;
  - credit mandate contract whereby DEPObank provides a financing service through the advance of the daily settlement of issuing/acquiring transactions relative to servicing and associate banks. The price is measured to market conditions in place as at the contract stipulation date;
  - outsourcing contract whereby Nexi Payments SpA supplies DEPObank with a clearing service and accounting activities relative to a specific contract. The price is measured to the effective use of internal resources;
  - deed of assessment stipulated with DEPObank, aimed at considering the effects deriving from the results of the query raised in respect of the tax asset pertaining to Nexi as a result of the spin-off;
  - credit facility granted by DEPObank, used as a current account overdraft to manage the financial needs and guarantees. The contract is regulated by conditions in line with market conditions;
  - current account contracts held with DEPObank. The contract is regulated by conditions in line with market conditions.

Other existing contracts, all of which falling within ordinary operations, mostly refer to services received from related parties (especially consulting and card production services) and positions linked to corporate cards that are regulated by conditions in line with market conditions.

36. Share-based payments

36.1 STOCK GRANTS

Mercury UK HoldCo Ltd ("Mercury UK") has adopted two incentive plans (the "Plans"), with Nexi SpA ("Nexi") shares as the underlying.

The Plans are reserved to certain selected employees (the "Beneficiaries") of Nexi Payments SpA, Help Line SpA and Mercury Payment Services SpA (together with Nexi, the "Group").

The Plans give Beneficiaries the right to receive free of charge a certain number of Nexi shares (the "Benefit in Shares"), for which Beneficiaries are not required to pay any strike price. The Benefit in Shares consists of ordinary shares in Nexi for which no restrictions are envisaged with respect to either voting rights or distributions. The Benefit in Shares is subject to a period of deferral.
More specifically, for some Beneficiaries, the shares are assigned as follows:

- 50% of the Benefit in Shares is assigned at the date of Nexi's stock exchange listing, which occurred on April 16, 2019;
- 25% of the Benefit in Shares is assigned after the first anniversary of Nexi's stock exchange listing;
- 25% of the Benefit in Shares is assigned after the second anniversary of Nexi's stock exchange listing.

For other Beneficiaries, however, the Plan envisaged delivery of 100% of the Benefit in Shares with a deferral period of at least 100 days from the date of Nexi's stock exchange listing.

In all cases of termination of the contract of employment before the first date of share assignment in accordance with the Plans, the Beneficiary forfeits the right to receive the entire Benefit in Shares. In the event of termination of the contract of employment after the first date of share assignment for certain selected causes not the fault of the Beneficiary, if the Benefit in Shares is deferred in multiple tranches, the Beneficiary maintains the right to the assignment of part of the deferred Benefit in Shares (on a pro-rata temporis basis throughout the deferral period). By contrast, in all other cases of suspension of the contract of employment (other than those specified above), after the first assignment date, the Beneficiary forfeits the right to the assignment of the deferred Benefit in Shares.

The total number of Nexi shares reserved to the Plans is equal, in all, to 7.023.885, of which 5.316.980 already accrued and definitively assigned to the Beneficiaries..

The shares allocated to the Plans are reported below.

Description	Number of shares
Total shares allocated to the Plans	7.023.885
Shares assigned definitively in accordance with the Plans	-5.316.980
Shares forfeited from the Plans in 2019 and 2020	-134.296
Premiums in place as at June 30, 2020	1.572.609

On the basis of that envisaged by IFRS 2, although not having made any commitments to Beneficiaries, as the Nexi Group is the entity that receives the services (the "receiving entity"), it must book, in its consolidated financial statements, the Plans in question on the basis of the accounting rules envisaged for the "plans settled with equity instruments".

More specifically, IFRS 2 establishes that, in the plans settled with equity instruments with employees, the entity must:
- measure the cost for the services it has received on the basis of the fair value of the representative instruments as at the assignment date;
- book the fair value of the services received, throughout the accrual period, making a counter-entry as an increase in Equity on the basis of the best estimate available of the number of equity instruments expected to accrue;
- review this estimate, if the subsequent information indicates that the number of equity instruments to be accrued differs from previous estimates.

The fair value of the "Stock Grant" Plan has been determined taking into account the price of the IPO, which has also determined the time of delivery to most Beneficiaries of 50% of the granted shares and that, considering the short space of time that has passed between the assignment of the shares and the IPO, is considered a consistent indicator in terms of representing the share value at the grant date.

On this basis, the Plan generates a total cost over the entire duration of the plan, of Euro 62 million, recognised to the consolidated financial statements throughout the vesting period, in accordance with the provisions of IFRS 2. The cost pertaining to the first half of the year is approximately Euro 6 million.

36.2 LONG-TERM INCENTIVES

In 2019, the medium/long-term incentive Plan was implemented, as approved by the Shareholders' Meeting on March 12, 2019, in implementation of the remuneration policy adopted by the Company by Board of Directors' resolution passed on February 13, 2019. This plan, according to the provision of IFRS 2 described above with reference to the Stock Plan, must be accounted for as a transaction with employees to be settled with equity instruments of the entity.

The Plan is structured into three cycles, each with a three-year duration (2019-2021/2020-2022/2021-2023) and envisages the assignment of rights to receive ordinary shares in the Company once a year. These shares are not subject to any restrictions to voting rights or dividend distribution. As at the date of these financial statements, the first cycle of the Plan has already been assigned, in regard to which a vesting period is envisaged, ending on December 31, 2021. More specifically, the process of assigning the rights to receive shares concluded on July 19, 2019 for the employees on the workforce on the listing date, and on September 30, 2019 for those hired thereafter. These dates are the grant dates in terms of IFRS 2. The second cycle is due for assignment in July 2020.

The rights to be assigned in the context of the LTI plan are divided up into:
- Performance Share Rights, i.e. the rights to receive ordinary shares in the Company, which accrue (and therefore the attribution of the related shares to the employee) only upon achieving predetermined business performance objectives, referring to a specific period of time; and
- Restricted Share Rights, i.e. the rights to receive ordinary shares in the Company, which accrue (and therefore the attribution of the related shares to the employee) regardless of whether or not the predetermined business performance objectives are achieved. These rights will accrue after the vesting period, subject to the beneficiary remaining in the Company.

A condition for the accrual of the rights and, therefore, the attribution of the shares for both the types described above is that the employee remains in service until the delivery date of the share attribution letter.
More specifically, with reference to Performance Share Rights:
- accrual is first and foremost subject to achieving - at the end of the Vesting Period of each Cycle - at least 80% of the Operating Cash Flow Target (the "Entry Gate");
- once the Entry Gate is satisfied, accrual of Performance Share Rights is also subject to achieving specific objectives at the end of the related Vesting Period, comprising two components:
• a market-based component, linked to the achievement of objectives related to the performance of the market price of Nexi shares with respect to a benchmark, during the measurement period (weighing for 50%). The benchmark is determined as the mathematical average of three market indicators identified in the Plan regulation;
• a non-market-based component, linked to the achievement of the Company's performance objectives in terms of Operating Cash Flow (weighing for 50%).

Changes in the number of rights assigned are reported below.

Description	No. of performance share rights	No. of restricted share rights	Total
Outstanding rights at the grant date	839,512	390,210	1,229,722
Accrued rights			
Forfeited rights in 2019 and 2020	(4,825)	(7,427)	(12,252)
Outstanding rights as at June 30, 2020	834,687	382,783	1,217,470

The rights assigned were measured, reflecting the financial market conditions valid as at the grant date. Determination of the total plan value, as established by IFRS 2, is impacted by the number of rights that will accrue in accordance with the rules set out by the performance and fair value conditions of each right.
Measurement was carried out considering the two components of the Performance Shares and Restricted Shares included in the plan, separately. Moreover, within the Performance Share component, consideration was given to the presence of the above specific objectives.

More specifically, the market-based component was estimated using the Monte Carlo Method, a stochastic simulation technique which, based on a set of starting conditions, produces of a wide array of outcomes within a specified time horizon. More specifically, for each outcome scenario, share price projections are computed as of the initial value according to geometric Brownian motion, whose formula is as follows:

$$\Delta S = \mu \cdot S \cdot \Delta t + \sigma \cdot S \cdot \varepsilon \cdot \Delta t$$

According to above formula, for a given time interval, Δt, changes in share price, ΔS, are dependent on price variability (σ) and on a random variable (ε) governed by standard normal distribution. Starting conditions for the simulation include an expected dividend yield of zero for the 2019-2021 time interval so as to also reflect the Board of Directors' resolutions dating February 13, 2019 concerning the distribution of dividends. Based on market sources at the reference date, other starting conditions include a risk-free rate in Nexi share returns of 1% p.a. and a share price volatility of 25% – the latter deemed reasonable based on historical volatility as at the measurement date).
At the grant date the simulation delivered a unit value of Euro 11.9 for shares assigned on July 12, 2019, and of Euro 11.6 for share issued September 30, 2019.
As for the likelihood of beneficiaries leaving, the annual exit probability was assumed to be zero.
In accordance with IFRS 2, the non-market-based component is a condition that rather than be measured at the time of assignment is to be updated periodically at each reporting date, so as to take into account the expectations in relation to the number of rights that may accrue. For these components the unit fair value is Euro 9.57.
The total cost of the plan is estimated at approximately Euro 12.6 million, which, as previously mentioned, has been split throughout the vesting period. The portion accrued and recognised in the first six months of the year is approximately Euro 2.5 million.

37. Business combinations

37.1 TRANSACTIONS CARRIED OUT DURING THE PERIOD

Acquisition of the Intesa Sanpaolo merchant acquiring business

As detailed in the interim Directors' Report, the acquisition of Intesa Sanpaolo Group's merchant acquiring business, agreed to on December 19, 2019, was completed on June 30, 2020.
As a result of the transaction Nexi Payments SpA has acquired the merchant contracts formerly managed by Intesa Sanpaolo, with reference to both traditional and alternative payment methods and POS terminal management.
With Nexi leading on the innovative product and services development front, Intesa Sanpaolo will ensure placement of such products and services.
The acquisition resulted in the transfer of Intesa Sanpaolo's acquiring branch into Nexi Payments for Euro 1 billion, an amount reflected in a like increase in the transferee's equity.
Pursuant to a master and distribution agreement and reflecting long-standing ties between the Nexi and Intesa Sanpaolo groups, Intesa Sanpaolo will act as distributor for Nexi's acquiring services.

Since the transaction falls within the scope of a business combination, it has been accounted for pursuant to the IFRS 3 -- Business Combinations standard. The latter defines a business combination as "a transaction or other event in which an acquirer obtains control of one or more businesses" and states that any assets acquired (including any intangible assets not featured in the acquiree's statements) and any liabilities assumed or contingent are subject to fair value consolidation as at the acquisition date, and that the same applies for measurement at goodwill of the difference between the fair value of the identifiable assets and the considerations transferred. Purchase price allocation is subject to a measurement period not exceeding one year as of the acquisition date.

As at June 30, 2020, purchase price allocation, which is to be completed by close of H1 2020, is ongoing and will mainly address the valuation of contracts with customers. Furthermore, the contract also provides for an earn-out mechanism based on future profitability, which IFRS 3 ranks as contingent consideration and whose initial recognition at fair value is yet to be carried out. Note that several items in the acquired business balance sheet are still in the process of being estimated, as is the price due – which is subject to adjustment based on the performance of the acquired business as at December 31, 2019. As of the acquisition date no changes were made to the recognised amounts.

The transaction was recognised, in compliance with the provisions of IFRS3, starting from the date of acquisition (30 June 2020) with the consequence that the effects on the income statement deriving from it will be effective from the second half of 2020.
Note that the costs incurred to execute the transaction, during the first half of the year amount to Euro 17,2 milion.
The provisional goodwill arising from said business combination totals c. Euro 917 million broken down as follows:

Intesa Sanpaolo acquiring book	Provisional fair value
Cash consideration paid	1,000,000
Contingent consideration	5,900
Minority interests	(8,599)
Cash and cash equivalents	63,320
Intangible assets	2,147
Other assets	37,772
Other liabilities	(22,998)
Identifiable net assets	**80,241**
Goodwill on acquisition	**917,060**
Cash consideration paid	1,005,900
Cash acquired	63,320
Net cash consideration	942,580

37.2 RETROSPECTIVE ADJUSTMENTS

During the first half of2020 no retrospective adjustments were carried out.

38 Group funding transactions

The proceeds of financing transactions carried out by Nexi Group during the first half of 2020 have been entirely allocated to funding the acquisition of the Intesa Sanpaolo SpA's merchant acquiring business. Said acquisition was completed on June 3, 2020 pursuant to agreements between the parties and as announced on December 19, 2019, and upon fulfilment of conditions precedent.

The consideration towards the acquisition, which totalled Euro 1 billion, was funded via the April 2020 issue of equity-linked bonds of aggregate principal amount of Euro 500 million due April 2027, and a floating-rate syndicated loan granted June 30, 2020 by a group of leading banks of principal amount Euro 466.5 million and due June 2025 (i.e. the "Term Loan"). The residual amount towards the purchase price was funded with own resources. Said transactions replace the initial bridge loan facility of Euro 1 billion due by end of 2021.

ISSUE OF CONVERTIBLE BONDS

With a view to extending the average maturity of its debt and to curbing its average cost and also to strengthen the company's liquidity in view of the prospective acquisition of Intesa Sanpaolo's merchant acquiring business, Nexi SpA (the "Issuer") issued equity-linked convertible bonds (the "Convertible Bonds") with the following characteristics:

- settlement date: April 24, 2020
- aggregate principal amount: Euro 500 million
- issue price: 100% of par value
- maturity date: April 24, 2027
- coupon: 1.75% p.a. payable semi-annually
- conversion rights for settlement in the Issuer's ordinary shares at conversion price of Euro 19.47 per share.

A share capital increase, excluding shareholder pre-emption rights pursuant to article 2441(5) of the Italian Civil Code, in service to the conversion of the equity-linked bonds and involving the issue of a maximum of 25,680,534 dividend-paying Nexi SpA shares on terms equal to ordinary shares in issue, was approved by the Extraordinary Shareholders' Meeting on June 29, 2020.

The Convertible Bonds are classified as compound financial instruments under IAS 32,
pursuant to which the debt host contract and the equity component for the fair value of the conversion rights are recognised separately. Initial recognition values for both were determined as follows:

- the host contract component is the present value of the bond, calculated based on a discount rate equivalent to the fair market value of the interest rate that Nexi would have secured had it issued bonds of equal maturity but barring conversion rights. Said value, net of direct issuing costs, is equal Euro 438 million. This component is subject to subsequent measurement at amortised cost.
- the equity component is equal to the difference between the face value of the bond and the value of the host contract, namely Euro 55 million. This component is not subject to subsequent measurement.

Costs directly associated with the issue of the Convertible Bonds were allocated to debt (Euro 6 million) and equity (Euro 0.8 million) in amounts proportional to the abovementioned initial value.

COVENANTS AND OTHER GUARANTEES LINKED TO FUNDING TRANSACTIONS

In line with financing transactions of similar nature and complexity,
the IPO Loan, the Term Loan and, to a lesser extent, the Fixed-Rate Notes and the Convertible Bonds envisage compliance by Nexi SpA, Nexi Payments SpA and Mercury Payment Services SpA (jointly the "Obligors") with certain obligations, including:

i. financial maintenance covenant: financial maintenance covenant: at each "test date" (i.e. June 30 and December 31 of each year), starting June 30, 2020, respect for a financial leverage ratio (essentially the ratio of net debt and consolidated EBITDA), which will be tested with regard to the consolidated and separate financial statements and consolidated interim reports, which shall not exceed 5.75:1 throughout 2020 and shall eventually decrease to 5.25:1. Note that said covenant only applies to the IPO Loan and Term Loan;
ii. negative pledge: each Obligor must abstain from establishing or allowing for the continuation of collateral over its assets, with the exception of certain expressly permitted guarantees and restrictions;
iii. ban on carrying out any spin-off, merger or corporate restructuring, other than the specifically permitted transactions.

Note that as at June 30, 2020 all obligations attached to the abovementioned loans have been fulfilled.

39. Earnings per share

The share capital of Nexi SpA is made up entirely of ordinary shares.

The indicator "Earnings per share" (or "EPS") is presented on both basic and diluted basis: the basic EPS is calculated by considering the ratio of profit theoretically attributable to shareholders to the weighted average of the shares issued, whilst the diluted EPS also takes into account the effects of any future issues.

Furthermore, as envisaged by IAS 33, below are details of earnings per share, deriving from the result of the continuing and discontinued operations:

Basic earnings per share	I H2020	I H 2019
Profit from continuing operations attributable to the Group's ordinary shares	0.05	-0.06
Income (Loss) after tax from discontinued operations	-0.00	0.16
Basic earnings per share	0.05	0.10

Diluted earnings per share	I H2020	I H 2019
Profit from continuing operations attributable to the Group's ordinary shares	0.05	-0.06
Income (Loss) after tax from discontinued operations	-0.00	0.16
Diluted earnings per share	0.05	0.10

Result attributed to ordinary shares

Below is a reconciliation of the profit attributed to ordinary shares, divided up between the result deriving from the continuing operations and the result deriving from discontinued operations

(Amounts in Euro thousand)

Description	I H2020	I H 2019
Profit from continuing operations	33,356	-35,174
Income (Loss) after tax from discontinued operations	-263	93,623
Profit for the year	33,093	58,449

Average number of ordinary diluted shares

The average number of outstanding shares used for the calculation of diluted earnings includes the effects of future potential issues of shares in service to the LTI Plan and the Convertible Bonds, for the tranche already assigned to employees.

Description/(nos. in thousand)	I H2020	I H 2019
Average number of ordinary shares used to compute basic earnings per share	627,778	582,407
Deferred Shares (*)	1,367	-
Average number of ordinary and potential shares used to compute diluted	629,145	582,407

(*) Shares attributed to employees according to the first tranche of LTI Plan and potential shares in issue upon conversion of the convertible bonds issued June 29, 2020.

40. Segment reporting (segment disclosure)

The segment disclosure has been prepared in compliance with the IFRS 8 international accounting standard. The disclosure by business segment reflects the organisational and business structure with which the Nexi Group operated during the year. The comparative data shown below refers to pro-forma data that is consistent with that stated in the Report on Operations.

The disclosure by business segment includes a single operating segment, represented by electronic money and payment services and which includes the central structures. A greater level of breakdown is given for net revenues from operations, which are divided up into three business lines that can be identified under the scope of the Nexi Group organisation and, therefore, specifically:
- Merchant Services & Solutions;
- Cards & Digital Payments;
- Digital Banking Solutions.
Allocation of the financial results to the various business lines is based on the accounting standards used in the preparation and presentation of the Consolidated Financial Statements.

The tables below thus provide a net revenue breakdown by business line, since the current structure does not require specific allocations by service line at the equity level.

Note 40.2 presents a reconciliation of the income statement drafted by means of segment disclosure and the income statement prepared in the Financial Statements that, in addition to including the effects of the various classifications, also highlights the impact deriving from the different contribution of the companies affected by the spin-off and the Payments BU, as described above. There is no provision for any alternative allocation of net revenues by geographic distribution, to the extent that business is conducted in regards to a nationwide customer base, which is thus managed as a whole.

40.1 SEGMENT REPORTING: INCOME STATEMENT I HALF 2020

	Payments	Consolidation adjustments	Total segment reporting
Merchant Services & Solutions	207,145	(14,223)	192,923
Cards & Digital Payments	180,850	(727)	180,123
Digital Banking Solutions	54,610		54,610
Operating revenue	442,606	(14,950)	427,656
Personnel expenses	(78,263)		(78,263)
Administrative expenses	(142,357)	15,615	(126,742)
Adjustments and net operating provisions	(7,469)	(1,003)	(8,472)
Operating costs	(228,089)	14,612	(213,477)
EBITDA (*)	214,517	(337)	214,180
Amortisation and depreciation			(66,081)
Operating margin			148,099
Amortisation and depreciation (Customer contracts)			(18,265)
Interests financing costs			(27,717)
Non-recurring items			(42,518)
Pre-tax profit			59,599
Income taxes			(26,506)
Profit for the year			33,093
Profit for the year attributable to non-controlling interests			(449)
Profit attributable to the Group			32,644

Note: The EBITDA presented above is the "normalized EBITDA" as described in the "Alternative Performance Indicators" section. Pursuant to IFRS 8 requirements, it is hereby disclosed that more than 10% of Group revenue is accounted for by a single customer.

40.2 SEGMENT REPORTING: RECONCILIATION OF SEGMENT REPORTING ON THE INCOME STATEMENT WITH INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2020

	Total segment reporting	Reconciliation	Financial statements
Operating revenues/Financial and operating income	427,656	(28,336)	399,320
Personnel expenses	(78,263)	(7,679)	(85,942)
Other administrative expenses	(126,742)	(36,684)	(163,426)
Adjustments and net operating provisions	(8,472)	1,983	(6,489)
Operating costs net of amortisation	(213,477)		
EBITDA	214,180		
Amortisation and depreciation	(66,081)	(17,382)	(83,463)
Operating margin	148,099		
Amortisation and depreciation (Customer contracts)	(18,265)	18,265	-
Interest and financial costs	(27,717)	27,717	
Non-recurring items	(42,518)	42,117	(401)
Pre-tax profit	59,599		
Income taxes	(26,506)	-	(26,506)
Profit for the year	33,093		33,093
Profit for the year attributable to non-controlling interests	(449)	-	(449)
Profit attributable to the Group	32,644	-	32,644

3

CERTIFICATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE NO. 58/1998

Certification of the condensed consolidated interim financial statements pursuant to art. 154 bis, par. 5, of Legislative Decree 58/1998 and to art. 81 ter of Consob Regulation 11971/1999 and subsequent amendments and additions

1. The undersigned Paolo Bertoluzzo, as Chief Executive Officer, and Enrico Marchini, as Financial Reports Manager at Nexi SpA, pursuant also to provisions under art. 154-bis, pars. 3 and 4, of Legislative Decree no. 58 dated 24 February 1998, hereby certify as to:

- the adequacy with respect to the nature of company;
- The effective implementation of the administrative and accounting procedures adopted in the drafting of the condensed consolidated interim financial statements as at 30 June 2020.

2. With reference to the latter, no significant issues were encountered.

3. We also certify that:

3.1 the condensed consolidated interim financial statements:

a) were drafted pursuant to the international accounting standards applicable within the European Union pursuant to Regulation (EC) 1606/2002 of the European Council and of the Council dated 19 July 2002, and more specifically pursuant IAS 34;

b) are true to accounting records and entries;

c) are suitable to providing a truthful and accurate representation of the assets and liabilities, financial position and profit or loss of both the issuer and the consolidated companies;

3.2 the interim management report features reliable analysis of relevant and major events that occurred during the first half of the year and of their effects upon the condensed consolidated interim financial statements, as well as a review of the main risks and uncertainties impinging on the remaining half of the year. The interim management report also includes reliable analysis of information pertaining to material related party transactions.

Milan, 30 July 2020

The Chief Executive Officer	The Financial Reports Manager
Paolo Bertoluzzo	**Enrico Marchini**

4

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 30 JUNE 2020

NEXI SPA

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the
shareholders of
Nexi SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of Nexi SpA and its subsidiaries (the Nexi Group) as of 30 June 2020, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes. The directors are responsible for the preparation of the condensed consolidated interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full- scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Nexi Group as of 30 June 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 7 August 2020

PricewaterhouseCoopers SpA

Signed by

Lia
Lucilla
Turri
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

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Share Capital € 57.070.707,00 fully paid in