

**Sisal Payments Business Unaudited Interim
Carve-out Financial Statements for the nine
months ended September 30, 2019 and 2018**

INTERIM STATEMENT OF COMPREHENSIVE INCOME

(in Euro thousands)	Note	Nine months ended September 30,	
		2019	2018
Revenues	5.1	154,803	139,693
Other income		2,047	—
Total revenues and income		<u>156,850</u>	<u>139,693</u>
Purchases of materials, consumables and merchandise	5.2	1,799	1,618
Costs for services	5.3	101,073	73,150
Lease and rent expenses	5.4	117	1,216
Personnel costs	5.5	7,041	8,410
Other operating costs	5.6	1,306	2,439
Amortization, depreciation, provisions, impairment losses and reversals . . .	5.7	18,126	16,615
Operating profit (EBIT)		<u>27,388</u>	<u>36,245</u>
Finance income and similar		—	—
Finance expenses and similar		—	—
Share of net loss of associates accounted for using equity method	6.3	228	—
Profit before income taxes		<u>27,160</u>	<u>36,245</u>
Income taxes	5.8	7,022	9,613
Profit for the period		<u>20,138</u>	<u>26,632</u>
Other comprehensive income:			
Actuarial gains (losses) on employees' defined benefit plans		—	—
Tax effect		—	—
Total comprehensive profit for the period		<u>20,138</u>	<u>26,632</u>

(The accompanying notes are an integral part of these Unaudited Interim Carve-out Financial Statements)

INTERIM STATEMENT OF FINANCIAL POSITION

(in Euro thousands)	Note	<u>As of September 30,</u> 2019	<u>As of December 31,</u> 2018
Non-current assets			
Property, plant and equipment	6.1	33,118	33,143
Goodwill		308,379	308,379
Intangible assets	6.2	73,975	74,377
Investments accounted for using the equity method	6.3	3,202	—
Other non-current assets		6,400	4,436
Total non-current assets		<u>425,074</u>	<u>420,335</u>
Current assets			
Inventories		1,950	6,303
Trade receivables		121,232	103,003
Tax receivables		157	—
Restricted bank deposits		11,641	34,667
Cash and cash equivalents		410	—
Other current assets		6,117	5,583
Total current assets		<u>141,507</u>	<u>149,556</u>
TOTAL ASSETS		<u>566,581</u>	<u>569,891</u>
EQUITY			
Net equity		324,514	297,674
Total equity	6.4	<u>324,514</u>	<u>297,674</u>
Non-current liabilities			
Long-term financial debt	6.5	2,376	—
Provision for employee severance indemnities		1,101	1,187
Deferred tax liabilities		9,540	13,423
Provisions for risks and charges	6.6	3,019	3,045
Total non-current liabilities		<u>16,036</u>	<u>17,655</u>
Current liabilities			
Trade and other payables		214,855	249,558
Short-term financial debt	6.5	258	—
Short-term portion of long-term financial debt	6.5	899	—
Other current liabilities		10,019	5,004
Total current liabilities		<u>226,031</u>	<u>254,562</u>
TOTAL LIABILITIES AND EQUITY		<u>566,581</u>	<u>569,891</u>

(The accompanying notes are an integral part of these Unaudited Interim Carve-out Financial Statements)

INTERIM STATEMENT OF CASH FLOWS

(in Euro thousands)	Nine months ended September 30,	
	2019	2018
Profit before income taxes	27,160	36,245
Depreciation and amortization	15,040	11,615
Impairment losses on current assets	3,086	5,000
Results from associates accounted for using the equity method	228	—
Employee provisions, other provisions and other non-cash items	(1,819)	—
Change in trade receivables	(21,085)	3,263
Change in inventories	4,353	1,815
Change in trade payables	(36,948)	(85,013)
Change in other assets and liabilities	900	2,295
Income taxes paid	(8,178)	(10,867)
Cash flows (used) by operating activities	(17,263)	(35,647)
(Investments) disinvestments in intangible assets	(7,373)	(5,805)
(Investments) disinvestments in property, plant and equipment	(3,287)	(4,012)
Change in restricted bank deposits	26,105	(2,119)
Acquisitions, net of cash and cash equivalents	(1,251)	—
Payments for investments accounted for using the equity method	(3,430)	—
Cash flows (used) generated by investment activities	10,764	(11,936)
Repayments of long-term financial debt	(51)	—
Net change in short-term financial debt	258	—
Contribution from shareholders	6,702	47,583
Cash flows generated by financial activities	6,909	47,583
Increase in cash and cash equivalents	410	—
Liquidity at the start of the period	—	—
Liquidity at the end of the period	410	—

(The accompanying notes are an integral part of these Unaudited Interim Carve-out Financial Statements)

INTERIM STATEMENT OF CHANGES IN EQUITY

(in Euro thousands)	<u>Note</u>	<u>Total Equity</u>
Balance as of December 31, 2017		<u>259,484</u>
Net profit for the period		26,632
Other comprehensive income		—
<i>Total comprehensive income for the period</i>		26,632
Contribution from shareholders		47,583
Balance as of September 30, 2018	6.4	<u>333,699</u>

(in Euro thousands)	<u>Note</u>	<u>Total Equity</u>
Balance as of December 31, 2018		<u>297,674</u>
Net profit for the period		20,138
Other comprehensive income		—
<i>Total comprehensive income for the period</i>		20,138
Contribution from shareholders		6,702
Balance as of September 30, 2019	6.4	<u>324,514</u>

1. General information

On July 30, 2019, Sisal Group S.p.A. (“**Sisal Group**”) and Banca 5 S.p.A. (“**Banca5**”), entered into an investment agreement (the “**Investment Agreement**”) relating to the creation of a corporate partnership in the retail and digital payment services (the “**Gallo Investment**”). Upon the completion of the Gallo Investment, (i) Sisal Group and Banca5 will own 70% and 30% of the share capital of SisalPay S.p.A. (hereinafter the “**Company**”, or the “**Issuer**”), respectively and (ii) the Issuer shall own the entire share capital of TelCo and PayCo (as defined below), to which the respective business will be contributed.

This process will be carried out through the transfer of:

- the business comprising assets through which the Sisal Group carries out the activity of payment services and services ancillary thereto, as well as other contracts and legal relationships of the Sisal Group pertaining to such activities and services and the business of Sisal S.p.A. and Sisal Point S.p.A. consisting of, inter alia, assets, contracts and legal relationships for the performance of payment services (collectively, the “**Sisal Payments Business**” or the “**Payments Business**”). The shares issued following the contribution of the Payments Business to SisalPay S.p.A. (hereinafter “**PayCo**”) and Sisal Pay Servizi S.p.A. (hereinafter “**TelCo**”) will be in turn contributed and sold to the Issuer in exchange for 70% of the share capital of the Issuer.
- the business consisting of, inter alia, assets, contracts and legal relationships through which Banca5 carries out its payment services and services ancillary thereto (collectively, the “**Banca5 Contributed Assets**”). The shares issued following the contribution of the Banca5 Contributed Assets to PayCo and TelCo will be in turn contributed and sold to the Issuer in exchange for 30% of the share capital of the Issuer.

The Payments Business Unaudited Interim Carve-out Financial Statements for the nine months ended September 30, 2019 and 2018 (hereafter the “**Unaudited Interim Carve-Out Financial Statements**”) have been prepared for the purpose of inclusion in the offering memorandum to be prepared in connection with the issuance of senior secured notes by Sisal Pay (i) to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act (“**Rule 144A**”) in reliance on Rule 144A and (ii) to non-US persons outside the United States in offshore transactions in reliance on Regulation S.

2. Summary of accounting policies

2.1. Basis of preparation

These Unaudited Interim Carve-Out Financial Statements have been prepared following IAS 34, ‘Interim financial reporting’ which governs interim financial reporting. IAS 34 permits a significantly lower amount of information to be included in interim financial statements from what is included for annual financial statements by International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union (hereafter “**IFRS**”), given that the entity has prepared its financial statements compliant with IFRS for the previous financial year. The Unaudited Interim Carve-Out Financial Statements should be read in conjunction with the Sisal Payments Business Carve-out Financial Statements for the years ended December 31, 2018, 2017 and 2016 (the “**Carve-out Financial Statements**”).

The Unaudited Interim Carve-out Financial Statements include the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in shareholders’ equity and the illustrative notes. These data were prepared based on the historical economic-financial data included in condensed consolidated interim financial statements at and for the nine months period ended September 30, 2019 and 2018 of the Sisal Group.

The Unaudited Interim Carve-out Financial Statements were prepared in Euro, which is the currency of the main economic environment in which the Payments Business operate. All amounts listed in this document are presented in thousands of euro, unless otherwise stated.

The Unaudited Interim Carve-out Financial Statements were approved by the board of directors on November 25, 2019.

2.2. Criteria for the preparation of the Unaudited Interim Carve-out Financial Statements

The Unaudited Interim Carve-out Financial Statements were prepared for the purpose of presenting the assets, liabilities, revenues and expenses of Sisal Group that are directly or indirectly attributable to the Payments Business.

The criteria applied by the Company's management to prepare the Unaudited Interim Carve-out Financial Statements are the same as those used to prepare the Carve-out Financial Statements, except for the items resulting from the application of IFRS 16. In this respect, items relating to the recently acquired QFS business, have been directly allocated to the Payments Business. However, certain shared right-of-use assets used jointly by the Payments Business and other divisions of the Sisal Group, as well as relating lease liabilities, have not been included in the Unaudited Interim Carve-out Financial Statements in their entirety. More in detail, a portion of the depreciation of these assets was attributed to the Payments Business based on specific drivers (e.g. proportion of the Payments Business's costs to the total costs of the Sisal Group) and accounted for as costs for services.

Please also note that certain valuation processes, specifically more complex processes such as the determination of any impairment losses for non-current assets, are usually performed fully only in conjunction with the preparation of annual financial statements, when all necessary information is available, except in cases when the presence of impairment indicators requires an immediate assessment of any impairment losses.

2.3. Accounting policies

The accounting principles and criteria applied to prepare these Unaudited Interim Carve-out Financial Statements are consistent with those adopted to prepare the Carve-out Financial Statements, which should be consulted for more information, except for:

- Taxes on income which, in the interim periods, are accrued using the tax rate that would be applicable to expected total annual profit or loss;
- Adoption of the new standard IFRS 16 "Leases", which replaces the previous IAS 17 and introduces a single accounting model for the lessee. The new standard requires lessees to recognise a liability and the right-of-use asset during the lease term, except for short-term leases and low-value assets, if they choose to apply such exemptions. Please refer to the paragraph 2.2 above for further details about the adoption of IFRS 16 in the context of the Unaudited Interim Carve-Out Financial Statements.

2.4. Accounting Standards, Amendments and Interpretations applicable and adopted for the first time

Since January 2019, the following accounting standards, amendments and interpretations have been endorsed by the European Union and adopted by the Payments Business:

- Annual Improvements to IFRS Standards 2015-2017 Cycle;
- Amendments to IAS 19: Plan Amendment Curtailment or Settlement;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- IFRS 16 Leases.

Except for IFRS 16, as previously explained in the paragraph 2.2, no significant impacts have been identified from the application of these standards and amendments.

2.5. Accounting standards not yet applicable as not yet endorsed by the European Union

As of the date of approving these Interim Carve-out Financial Statements, the following standards and amendments had not yet been endorsed by the EU.

Standard/amendment	Endorsed by EU	Effective date
<i>IFRS 17 Insurance Contracts</i>	NO	Years beginning on or after 1 January 2022
<i>Amendments to References to the Conceptual Framework in IFRS Standards</i>	NO	Years beginning on or after 1 January 2020
<i>Amendment to IFRS 3 Business Combinations</i>	NO	Years beginning on or after 1 January 2020
<i>Amendments to IAS 1 and IAS 8: Definition of Material</i>	NO	Years beginning on or after 1 January 2020

3. Use of estimates

The preparation of the Unaudited Interim Carve-out Financial Statements and accompanying notes requires the development of estimates and assumptions by the management of the Payments Business that have an impact on the value of assets and liabilities in the financial statements and the respective disclosures. Actual results for the accounting items for which the abovementioned estimates and assumptions were used could differ from those shown in the financial statements to recognize the effects of the occurrence of the events requiring the use of estimates.

The estimates and assumptions applied by the Company’s management to prepare the Unaudited Interim Carve-out Financial Statements are the same as those used to prepare the Carve-out Financial Statements.

4. Significant events occurred during the period

In July 2019, the Payments Business carried out the acquisition of Qui!Financial Services S.p.A. (hereinafter “QFS”), for a consideration of €1,550 thousand. Net assets acquired amounting to €3,370 thousand at the acquisition date.

In this respect, “Other income” line item includes a gain of €1,819 thousand, provisionally accounted for in connection with the acquisition.

5. Notes to the Statement of comprehensive income

5.1. Revenues

Revenues are primarily linked to the sale/distribution of telephone top-ups, the sale/distribution of TV card top-ups and also revenues from collection and payment services.

The following table sets forth a breakdown of Revenues:

(in Euro thousands)	Nine months ended September 30,	
	2019	2018
Telco	22,445	23,483
Bill payments	95,760	56,706
Prepaid cards	4,350	28,192
Merchant services	31,636	30,885
Other products	612	427
Total	<u>154,803</u>	<u>139,693</u>

5.2. Purchases of materials, consumables and merchandise

The following table sets forth a breakdown of Purchases of materials, consumables and merchandise:

(in Euro thousands)	Nine months ended September 30,	
	2019	2018
Material purchases	959	1,351
Spare parts purchases	181	305
Sundry materials purchases	500	119
Warehousing	27	54
Change in inventories	132	(211)
Total	1,799	1,618

5.3. Costs for services

The following table sets forth a breakdown of Costs for services:

(in Euro thousands)	Nine months ended September 30,	
	2019	2018
Marketing and commercial expenses	948	2,845
Other commercial initiatives	604	863
Other commercial services	336	276
Commercial services	1,888	3,984
Sales channel—Payment services	77,329	55,099
Consulting	5,412	1,319
Other	16,444	12,748
Other services	99,185	69,166
Total	101,073	73,150

Q3 2019 and Q3 2018 were marked by one-off events: the development of the digital payments business and the payments business segregation, which resulted in non-recurring cost for services of €3.7 million in Q3 2019 (as compared to non-recurring cost for services of €2.5 million in Q3 2018) and M&A transactions, mainly “Project Gallo” and others, which resulted in non-recurring costs for service of €3.5 million in Q3 2019 (as compared to € nil in Q3 2018).

5.4. Lease and rent expenses

The following table sets forth a breakdown of lease and rent expenses:

(in Euro thousands)	Nine months ended September 30,	
	2019	2018
Building leases	74	741
Other rentals and operating leases	43	475
Total	117	1,216

As a result of the adoption of IFRS 16, lease and rent expenses for the nine months ended September 30, 2019 relate to low value rents and short-term rents.

5.5. Personnel costs

The following table sets forth a breakdown of Personnel costs:

(in Euro thousands)	Nine months ended September 30,	
	2019	2018
Salaries and wages	6,654	6,971
Social security contributions	2,213	2,160
Personnel costs capitalized	(2,416)	(1,341)
Employee severance indemnities	566	571
Other personnel costs	24	49
Total	7,041	8,410

Q3 2018 were marked by two main one-off events that resulted in increased personnel costs: the digital payments launch and the payment business segregation which required a higher number of resources allocated to the Sisal Payments Business and resulted in non-recurring personnel costs of €1.8 million for the nine months ended September 30, 2018 and of €nil for the nine months ended September 30, 2019.

5.6. Other operating costs

The following table sets forth a breakdown of Other operating costs:

(in Euro thousands)	Nine months ended September 30,	
	2019	2018
Other taxes and duties	154	259
Gifts and donations	155	211
Sundry operating costs	997	1,969
Total	1,306	2,439

5.7. Amortization, depreciation, provisions, impairment losses and reversals

The following table sets forth a breakdown of Amortization, depreciation, provisions, impairment losses and reversals of the value of property, plant and equipment and intangible assets:

(in Euro thousands)	Nine months ended September 30,	
	2019	2018
Amortization of intangible assets	8,780	7,146
Depreciation of property, plant and equipment	6,260	4,469
Impairment losses on current assets	3,086	5,000
Total	18,126	16,615

5.8. Income taxes

The following table sets forth a breakdown of Income taxes:

(in Euro thousands)	Nine months ended September 30,	
	2019	2018
Current taxes	8,178	10,867
Deferred tax assets and liabilities	(1,156)	(1,254)
Total	7,022	9,613

6. Notes to the Statement of Financial Position

6.1. Property, plant and equipment

The composition and changes in this item are as follows:

(in Euro thousands)	Land and Buildings	Industrial equipment	Total property, plant and equipment
Net Amount As of December 31, 2018	<u>417</u>	<u>32,726</u>	<u>33,143</u>
Investments	—	6,043	6,043
Depreciation, amortization	(50)	(6,210)	(6,260)
Change in carve-out perimeter	—	192	192
Net Amount As of September 30, 2019	<u>367</u>	<u>32,751</u>	<u>33,118</u>

The Industrial equipment net amount as of September 30, 2019 includes right-of-use assets amounting to €2,756 thousand, as a result of new lease contracts.

6.2. Intangible assets

The composition and changes in this item are as follows:

(in Euro thousands)	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar	Other intangible assets	Total Intangible assets
Net Amount As of December 31, 2018	<u>9,361</u>	<u>29,117</u>	<u>35,899</u>	<u>74,377</u>
Investments	7,018	327	28	7,373
Depreciation, amortization	(5,724)	(1,537)	(1,519)	(8,780)
Change in carve-out perimeter	948	6	51	1,005
Net Amount As of September 30, 2019	<u>11,603</u>	<u>27,913</u>	<u>34,459</u>	<u>73,975</u>

6.3. Investments accounted for using the equity method

The following table sets forth the movements in Investments accounted for using the equity method for the nine months ended September 30, 2019.

(in Euro thousands)	Total Investments accounted for using the equity method
Net Amount As of December 31, 2018	—
Investments	3,430
Net loss	(228)
Net Amount As of September 30, 2019	<u>3,202</u>

Investments accounted for using the equity method relate to the associate Mycicero Srl.

6.4. Equity

As explained above, the Payments Business is fully integrated in the Sisal Group and, except for the portion related to the recent acquisition of QFS, does not have its own cash accounts. The movements recorded in Contribution from shareholders in the nine months ended September 30, 2018 and 2019 reflect the cash absorbed by the Payments Business including cash used for business operations and investment activities.

6.5. Financial debt

The following table sets forth a breakdown of long-term financial debt as of September 30, 2019:

(in Euro thousands)	<u>As of September 30,</u> <u>2019</u>	<u>As of December 31,</u> <u>2018</u>
<i>Long-term financial debt</i>		
Lease liabilities	2,166	—
Bank loans	<u>210</u>	—
Total Long-term financial debt	<u>2,376</u>	—
<i>Short-term financial debt</i>		
Bank overdrafts	<u>258</u>	—
Total short-term financial debt	<u>258</u>	—
<i>Short-term portion of long-term financial debt</i>		
Lease liabilities	590	—
Bank loans	<u>309</u>	—
Total short-term portion of long-term financial debt	<u>899</u>	—
Total	<u>3,533</u>	—

6.6. Provisions for risks and charges

The changes in this item are the following:

(in Euro thousands)	<u>Provision for risks and</u> <u>other charges</u>	<u>Provisions for risk and charges</u>
As of December 31, 2018	<u>3,045</u>	<u>3,045</u>
Change in carve-out perimeter	257	257
Net provision	—	—
Usage	<u>(283)</u>	<u>(283)</u>
As of September 30, 2019	<u>3,019</u>	<u>3,019</u>

7. Related party transactions

There are no related party transactions to represent.

8. Significant events occurring after the end of the period

There are no material subsequent event to highlight.

Independent auditor's report

To the board of directors of Sisal Group SpA

Report on the Audit of the Carve-out Financial Statements

Opinion

We have audited the carve-out financial statements for the years ended December 31, 2018, 2017 and 2016 (the “**Carve-out Financial Statements**”) of the Sisal Group SpA’s payments business (the “**Payments Business**”), which comprise the statement of financial position as of December 31, 2018, 2017 and 2016, the statement of comprehensive income, the statement of cash flow and the statement of changes in equity for the years then ended and related notes.

In our opinion, the Carve-out Financial Statements present fairly, in all material respects, the financial position of the Payments Business as of December 31, 2018, 2017 and 2016 and the result of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union (“**IFRS**”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Carve-out Financial Statements* section of this report.

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

Independence

We are independent of Sisal Group SpA (the “**Company**”) pursuant to the regulations and standards on ethics and independence of the Code of Ethics for Professional Accountants (IESBA Code) issued by the International Ethics Standards Board for Accountants that are relevant to the audit of the Carve-out Financial Statements.

Emphasis of Matter - Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to the fact that, as described in Note 1 to the Carve-out Financial Statements, the Payments Business has not operated as a separate entity during the years presented. The Carve-out Financial Statements are, therefore, not necessarily indicative of results that would have occurred if the Payments Business had been a separate stand-alone entity during the years presented.

PricewaterhouseCoopers SpA

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The Carve-out Financial Statements are prepared by management of the Company in connection with a proposed global offering of senior secured floating rate notes of Sisal Pay SpA which include a placement in reliance upon Regulation S of the US Securities Act of 1933 as amended (the “Act”) to non-U.S. persons outside the United States of America and a private placement reserved to institutional investors in the United States of America, in accordance with Rule 144A of the Act. As a result, the Carve-out Financial Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the Carve-out Financial Statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of the Carve-out Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Carve-out Financial Statements, management is responsible for assessing the Payments Business’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Carve-out Financial Statements

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

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

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



- evaluate the overall presentation, structure and content of the Carve-out Financial Statements, including the disclosures, and whether the Carve-out Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Milan, 29 November 2019

PricewaterhouseCoopers SpA

Andrea Alessandri
(Partner)

**Sisal Group Payments Business Carve-out
Financial Statements for the years ended
December 31, 2018, 2017 and 2016**

STATEMENT OF COMPREHENSIVE INCOME

(in Euro thousands)	Note	Successor		Successor	Predecessor
		Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
		2018	2017	2016	2016
Revenues	5.1	190,378	182,854	16,626	163,442
Other income		444	228	—	15
Total revenues and income		190,822	183,082	16,626	163,457
Purchases of materials, consumables and merchandise . . .	5.2	2,530	2,318	247	1,887
Cost for services	5.3	107,181	99,669	11,647	91,180
Lease and rent expenses	5.4	1,652	1,539	175	1,221
Personnel costs	5.5	12,988	11,053	1,255	9,106
Other operating costs	5.6	3,389	2,508	52	2,627
Amortization, depreciation, provisions, impairment losses and reversals	5.7	21,678	14,948	1,058	9,717
Operating profit (EBIT)		41,404	51,047	2,192	47,719
Finance income and similar		—	—	—	—
Finance expenses and similar		—	—	—	—
Profit before income taxes		41,404	51,047	2,192	47,719
Income taxes	5.8	10,614	13,691	606	13,213
Profit for the year		30,790	37,356	1,586	34,506
Other comprehensive income:					
Actuarial gains (losses) on employees' defined benefit plans		—	—	—	—
Tax effect		—	—	—	—
Total comprehensive profit for the year		30,790	37,356	1,586	34,506

(The accompanying notes are an integral part of these Carve-out Financial Statements)

STATEMENT OF FINANCIAL POSITION

(in Euro thousands)	Note	As of December 31,		
		2018	2017	2016
Non-current assets				
Property, plant and equipment	6.1	33,143	21,905	8,588
Goodwill	6.2	308,379	308,379	308,379
Intangible assets	6.3	74,377	73,847	74,075
Other non-current assets	6.4	4,436	5,030	4,269
Total non-current assets		<u>420,335</u>	<u>409,161</u>	<u>395,311</u>
Current assets				
Inventories	6.5	6,303	4,788	2,959
Trade receivables	6.6	103,003	125,488	110,254
Restricted bank deposits	6.7	34,667	—	—
Cash and cash equivalents		—	—	—
Other current assets	6.8	5,583	1,498	951
Total current assets		<u>149,556</u>	<u>131,774</u>	<u>114,164</u>
TOTAL ASSETS		<u>569,891</u>	<u>540,935</u>	<u>509,475</u>
EQUITY				
Net equity	6.9	297,674	259,484	275,364
Total equity		<u>297,674</u>	<u>259,484</u>	<u>275,364</u>
Non current liabilities				
Provision for employee severance indemnities		1,187	1,100	1,130
Deferred tax liabilities	6.10	13,423	15,175	16,228
Provisions for risks and charges	6.11	3,045	2,496	1,399
Total non current liabilities		<u>17,655</u>	<u>18,771</u>	<u>18,757</u>
Current liabilities				
Trade and other payables	6.12	249,558	259,135	211,352
Other current liabilities	6.13	5,004	3,545	4,002
Total current liabilities		<u>254,562</u>	<u>262,680</u>	<u>215,354</u>
TOTAL LIABILITIES AND EQUITY		<u>569,891</u>	<u>540,935</u>	<u>509,475</u>

(The accompanying notes are an integral part of these Carve-out Financial Statements)

CASH FLOW STATEMENT

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Profit before income taxes	41,404	51,047	2,192	47,719
Depreciation and amortization	15,488	9,215	544	4,988
Impairment losses on current assets	5,589	4,200	514	4,729
Employee provisions, other provisions and other non-cash items	688	1,533	—	—
Change in trade receivables	16,896	(19,434)	(2,539)	(27,928)
Change in inventories	(1,515)	(1,829)	161	1,772
Change in trade payables	(9,577)	47,783	1,060	11,663
Change in other assets and liabilities	(2,084)	(2,231)	27	290
Income taxes paid	(12,366)	(14,744)	(653)	(14,222)
Cash flows generated by operating activities	54,523	75,540	1,306	29,011
(Investments) disinvestments in intangible assets	(10,059)	(5,990)	—	(2,030)
(Investments) disinvestments in property, plant and equipment ..	(17,197)	(16,314)	—	(1,507)
Change in restricted bank deposits	(34,667)	—	—	—
Cash flows used generated by investment activities	(61,923)	(22,304)	—	(3,537)
Contribution from / (to) shareholders	7,400	(53,236)	(1,306)	(25,474)
Cash flows (used) generated by financial activities	7,400	(53,236)	(1,306)	(25,474)
Increase (decrease) in cash and cash equivalents	—	—	—	—
Liquidity at the start of the year	—	—	—	—
Liquidity at the end of the year	—	—	—	—

(The accompanying notes are an integral part of these Carve-out Financial Statements)

STATEMENT OF CHANGES IN EQUITY

<u>Predecessor</u>	<u>Notes</u>	<u>Total equity</u>
Balance as of January 1, 2016		45,303
Profit for the year		34,506
Other comprehensive income		—
<i>Total comprehensive income for the period</i>		<u>34,506</u>
Balance as of November 30, 2016		79,809
<u>Successor</u>		
Balance as of March 2, 2016		—
Profit for the year		1,586
Other comprehensive income		—
<i>Total comprehensive income for the period</i>		<u>1,586</u>
Contribution from shareholders		<u>273,778</u>
Balance as of December 31, 2016	6.9	275,364
Profit for the year		37,356
Other comprehensive income		—
<i>Total comprehensive income for the period</i>		<u>37,356</u>
Contribution to shareholders		<u>(53,236)</u>
Balance as of December 31, 2017	6.9	259,484
Profit for the year		30,790
Other comprehensive income		—
<i>Total comprehensive income for the period</i>		<u>30,790</u>
Contribution from shareholders		<u>7,400</u>
Balance as of December 31, 2018	6.9	297,674

(The accompanying notes are an integral part of these Carve-out Financial Statements)

1. General information

Introduction

On July 30, 2019, Sisal Group S.p.A. (“**Sisal Group**”) and Banca 5 S.p.A. (“**Banca5**”), entered into an investment agreement (the “**Investment Agreement**”) relating to the creation of a corporate partnership in the retail and digital payment services (the “**Gallo Investment**”).

The Investment Agreement provides, among others, the following corporate steps:

- SisalPay S.p.A. (hereinafter “**PayCo**”) and Sisal Pay Servizi S.p.A. (hereinafter “**TelCo**”) will receive by way of contribution (a) the business comprising the segregated assets through which the Sisal Group carries out the activity of payment services and services ancillary thereto, as well as other contracts and legal relationships of the Sisal Group pertaining to such activities and services and (b) the business of Sisal and Sisal Point S.p.A. consisting of, *inter alia*, assets, contracts and legal relationships for the performance of payment services (collectively, the “**Sisal Group Payments Business**” or the “**Payments Business**”);
- PayCo and TelCo will receive by way of contribution the business consisting of, *inter alia*, assets, contracts and legal relationships through which Banca5 carries out its payment services and services ancillary thereto (collectively, the “**Banca5 Contributed Assets**” or the “**Banca5 Payments Business**”);
- part of the shares held by Sisal Group and Banca5 in PayCo and TelCo will be sold by Sisal Group and Banca5 to SisalPay Group S.p.A. (“**SisalPay**” or the “**Issuer**”) and the remaining part will be contributed to the Issuer by Sisal Group and Banca5. More in details:
 - Sisal Group and Banca5 are expected to contribute part of their investment in TelCo and PayCo to the Issuer in an estimated aggregate amount of €214.0 million (hereinafter the “**Equity Contribution**”) comprised of (a) a portion of the share capital of PayCo and TelCo held by Banca5, having an estimated value of €64.0 million and (b) a portion of the share capital of TelCo held by Sisal Group, having an estimated value of €150.0 million;
 - the remaining shares held by Sisal Group and Banca5 in PayCo and TelCo after the Equity Contribution will be sold by Sisal Group and Banca5 to the Issuer (hereinafter the “**Gallo Sale**”) for a total amount of €786.0 million of which €600.0 million relating to Sisal Group (the “**Sisal Group Total Consideration**”) and 186.0 million relating to Banca5 (the “**Banca5 Total Consideration**”). With regards to the above total amount of €786.0 million, upon completion of the Gallo Sale:
 - €500.0 million of the consideration owed to Sisal Group will be paid with the net proceeds of the Offering,
 - €100.0 million owed to Sisal Group will remain outstanding (the “**Sisal Group DPP**”),
 - €186.0 million owed to Banca5 will remain outstanding (the “**Banca5 DPP**” and, together with the Sisal Group DPP, the “**DPP**”).

Hereinafter the “Equity Contribution”, the “Gallo Sale” and the “Offering” are collectively referred to as the “**Transactions**”.

Upon the completion of the Transactions, (i) Sisal Group and Banca5 will own 70% and 30% of the Issuer’s share capital, respectively; and (ii) the Issuer shall own the entire share capital of PayCo and TelCo. It should be noted that none of the above transactions has been completed as the date of approval by the Issuer’s board of directors of this document; the execution of the above mentioned transactions is expected by the end of 2019.

Purpose of the Carve-out Financial Statements

This document was prepared for presenting the assets, liabilities, revenues and expenses of the Payment Business for the three-years period from 2016 to 2018 for the purpose of inclusion in the offering memorandum to be prepared in connection with the issuance of senior secured notes by SisalPay (i) to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act (“**Rule 144A**”) in reliance on Rule 144A and (ii) to non-US persons outside the United States in offshore transactions in reliance on Regulation S.

It should be considered that:

- until November 30, 2016, Sisal Group was controlled by Gaming Invest S.à.r.l. (“**Gaming Invest**”), a company indirectly owned by the funds managed by Apax, Permira and Clessidra and by Rodolfo Molo and Malvina Molo, as well as certain former executives;

1. General information (continued)

- on December 1, 2016 (the “**Acquisition Date**” for accounting purposes), the CVC Fund VI completed the acquisition of Sisal Group (the “**Acquisition**”), through Schumann S.r.l. (formerly named Debussy S.r.l.), a company established on March 2, 2016 and subsequently transformed into a joint stock company. In 2017, Schumann S.p.A. was merged into Sisal Group.

This document presents the following financial information:

- a) with regard to the period from January 1, 2016 to November 30, 2016, income statement and cash flow data of the Payments Business directly or indirectly under the control of the funds managed by Apax, Permira and Clessidra groups and by Rodolfo Molo and Malvina Molo as well as certain former executives i.e., the “**Predecessor**”;
- b) with regard to i) the period from March 2, 2016 to December 31, 2016 and ii) the years ended December 31, 2017 and 2018 the statement of financial position, income statement and cash flow data of the Payments Business indirectly owned by CVC Fund VI, i.e. the “**Successor**.” Please note that for the period from March 2, 2016 to November 30, 2016, Schumann S.p.A. did not report any significant costs and revenues, assets and liabilities in its statement of financial position and income statement.

Please note that in the statement of comprehensive income, the statement of changes in shareholders’ equity, the statement of cash flows and, whereas applicable, in the notes, the financial information for the period from January 1, 2016 to November 30, 2016 are separated from the financial information for the period from December 1, 2016 to December 31, 2016 and for the years ended December 31, 2017 and 2018 by a “**black line**” for the purposes of clearly separating the financial information when the Payments Business was controlled directly or indirectly by the Predecessor from the financial information when the Payments Business was controlled directly or indirectly by the Successor.

The financial information referred to items a) and b) above were collectively defined as the “**Carve-out Financial Statements**”.

It should be noted that the Payments Business was not part of the group headed by the Successor during the periods preceding the Acquisition Date. Hence, had the assets and liabilities included in the Payments Business actually been owned by the Successor before the Acquisition Date, the results produced would not have been necessarily the same as those presented in the Carve-out Financial Statements. Consequently, these data do not represent the financial position and actual results of the Payments Business and should not be viewed as prospective data.

Furthermore, the Carve-out Financial Statements have been prepared to present the net assets, financial position and results of operations of the Payments Business as if the Payments Business had been operating as a stand-alone entity controlled by Sisal Group during the years under examination. However, if the Payments Business had been performed as a stand-alone entity during the years under examination, the net assets, financial position and results of operations could have been different from those presented in the Carve-out Financial Statements.

The purpose of the Carve-out Financial Statements is to present the comprehensive income statement, financial position and cash flow data of the Payments Business for the periods described in paragraphs a) and b) above. These data were prepared based on the historical economic-financial data included in:

- the consolidated financial information for the period from January 1, 2016 to November 30, 2016 of Sisal Group S.p.A.;
- the consolidated financial statements of Schumann S.p.A. (subsequently merged into Sisal Group S.p.A.) for the period from March 2, 2016 (the date of establishment) to December 31, 2016 and for the years ended December 31, 2017 and 2018.

The Carve-out Financial Statements were approved by the board of directors on November 25, 2019.

2. Summary of accounting policies

2.1. Basis of preparation

The Carve-out Financial Statements were prepared in accordance with the IFRS international accounting principles, which include all International Financial Reporting Standards (IFRS), all International Accounting Standards (IAS) and all interpretation published by the International Financial Reporting Interpretations Committee (IFRIC), previously Standing Interpretations Committee (SIC), which at the date of approval of the Carve-out Financial Statements, had been endorsed by the European Union in accordance with the procedure set forth in EC Regulation No. 1606/2002 of the European Parliament and European Council of July 19, 2002, and in accordance with the specific carve-out criteria explained below.

The Carve-out Financial Statements include the statement of financial position, the statement of comprehensive income, the statement of cash flows and the accompanying notes for the three-years period from 2016 to 2018.

The Carve-out Financial statements were prepared based on the going concern assumption, as there were no financial, operational or other indicators suggesting difficulties about the ability of the Payments Business to meet their obligations in the foreseeable future and specifically over the next 12 months. A description of the modalities deployed to manage financial risks is provided below, in Note 3 “Information about financial risks.”

The Carve-out Financial Statements were prepared in Euro, which is the currency of the main economic environment in which the Payments Business operate. All amounts listed in this document are presented in thousands of euro, unless otherwise stated.

The format of the Carve-out Financial Statements and the relative classification criteria adopted by the Payments Business, within the framework of the options provided by IAS 1 – Presentation of financial statements are presented below:

- the statement of financial position uses a format classifying the assets and liabilities according to current and non-current;
- the statement of comprehensive income, which classifies costs according to their nature, includes, besides the profit or loss for the year, other non-owner changes in equity;
- the statement of cash flows is prepared by recognizing cash flows from operating activities according to the “indirect method”.

The presentation formats used, as specified above, are those that best represent the operating performance, financial position and cash flow of the Payments Business.

2.2. Criteria for the preparation of the Carve-out Financial Statements

The Carve-out Financial Statements were prepared for the purpose of presenting the assets, liabilities, revenues and expenses of Sisal Group and its subsidiaries that are directly or indirectly attributable to the Payments Business, as described earlier in these Notes. The allocation of assets, liabilities, revenues and expenses to the Payments Business is based on the allocation criteria summarized below.

The estimates used in the preparation of the Carve-out Financial Statements are consistent with those used to prepare the historical consolidated financial statements of Sisal Group. Moreover, the Carve-out Financial Statements were prepared based on information available on the dates when the consolidated financial statements of Sisal Group were prepared. Consequently, the Carve-out Financial Statements do not include the effects of events that became known after the abovementioned dates.

Please note that, for the purpose of preparing the Carve-out Financial Statements, whenever a direct allocation of the assets, liabilities, revenues and expenses of the Payments Business could not be determined, the carve-out economic and financial data were prepared by allocating the amounts of Sisal Group in accordance with specific allocation criteria summarized below.

2.2. Criteria for the preparation of the Carve-out Financial Statements (continued)

The allocation criteria applied in the preparation of the Carve-out Financial Statements for the main line items of the statement of financial position and of the income statement are summarized below.

Statement of financial position

- property, plant and equipment and intangible assets specifically attributed to the Payments Business have been directly allocated to the Payments Business. However, certain shared assets used jointly by the Payments Business and other divisions of Sisal Group, such as the headquarters, the IT structures and electronic office equipment have not been included in the assets that will be actually transferred to the Payments Business, and therefore have not been included in the Carve-out Financial Statements in their entirety. In this respect, a portion of the depreciation and amortization of these assets was attributed to the Payments Business based on specific drivers (e.g. proportion of Payments Business's costs to the total costs of Sisal Group) and accounted for as costs for services;
- goodwill was allocated to the Payments Business as already specifically attributed in the Sisal Group's consolidated financial statements;
- inventories and the corresponding impairment provisions were directly allocated to the Payments Business based on the inventories attributable to the Payments Business;
- trade receivables and other current receivables were specifically attributed to the Payments Business. The corresponding allowance for doubtful accounts was allocated consistent with the respective impaired receivable;
- trade payables and other current payables were specifically attributed to the Payments based on cost center, except for certain items, not specifically attributed to the Payments Business's, for which specific parameters were used to determine the Payments Business portion (e.g. proportion of Payments Business's costs to the total costs of Sisal Group).
- payables and receivables with employees that could not be directly allocated among the Payments Business and other divisions, as well as the corresponding severance benefits, were allocated based on the proportion of the personnel expenses attributable to the Payments Business compared with the total for Sisal Group;
- current tax assets and liabilities and deferred tax assets and liabilities were specifically recomputed;
- the provision for risks and charges was allocated based on a specific analysis of the type of hedged risk and, consequently, allocated considering the risks attributable to the Payments Business.

Please note that:

- equity is the difference between the assets and liabilities allocated to the Payments Business as per the allocation criteria described above;
- the carved-out reporting entity is not typically required to present earnings per share (EPS) information.

Statement of Comprehensive income

Expenses and revenues were allocated based on the information that could be gleaned from analytical accounting data by division or cost center and general accounting data, except for certain items shared by the Payments Business and the other divisions (e.g. overhead costs and merchant services), for which specific parameters were used to determine the contribution of the Payments Business Branch, such as number of transactions, FTE, percentage of server utilization, revenues or combined driver based on revenues, business unit contribution and headcount.

2.3. Accounting policies

A brief description of the most significant accounting policies and principles used in the preparation of the Carve-out Financial Statements is provided below.

Property, Plant and Equipment

Property, plant and equipment are stated at acquisition or production costs including directly chargeable incidental expenses necessary to bring the asset to use. Cost comprises the finance expenses directly attributable to the acquisition, construction or production of the asset. Cost also includes the expected costs of dismantling and removing the asset and restoring it to its original condition if a contractual obligation exists.

2.3. Accounting policies (continued)

The expenses incurred for ordinary and/or cyclical maintenance and repairs are charged directly to the income statement in the year incurred. The capitalization of costs inherent to the expansion, modernization or improvement of the structural elements owned or used by third parties is made solely to the extent that they meet the conditions for being classified separately as an asset or part of an asset under the component approach method.

The estimated useful life by class of property, plant and equipment is the following:

<u>Class of property, plant and equipment</u>	<u>Useful life in years</u>
Buildings	33
Industrial and other equipment	3-8

Leased assets

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Payments Business, are initially recognized as assets of the Payments Business at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities. Such assets are depreciated according to the criterion and rates indicated previously, unless the lease term is shorter than the useful life represented by those rates and there is no reasonable certainty of transfer of ownership of the leased asset on expiry of the lease, in which case the depreciation period is represented by the lease term.

Leases where the lessor substantially retains all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Intangible assets

Intangible assets are non-monetary assets which are without physical substance, identifiable, controllable and have the capacity to produce future economic benefits. Such assets are initially recognized at purchase and/or construction cost, including directly attributable expenses to prepare the asset for use. Interest expenses, if any, during and for the development of intangible assets are considered part of the acquisition cost. In particular, the following intangible assets can be identified in the Payments Business.

(a) Goodwill

Goodwill is recognized as an intangible asset with an indefinite useful life. It is recognized initially at cost, as described previously, and subsequently tested for impairment at least annually. The reversal of a previous goodwill impairment loss is not permitted.

(b) Other intangible assets with a finite useful life

Intangible assets with a finite useful life are recognized at cost, as described previously, net of accumulated amortization and impairment losses, if any. Amortization starts when the asset is available for use and is charged systematically over the residual period of benefit, that is, over the estimated useful life. The estimated useful life for the various classes of intangible assets is as follows:

<u>Class of intangible assets</u>	<u>Useful life in years</u>
Patent rights and intellectual property	3-5
Software user licenses	Period of utilization on a straight-line basis
Retail network and services contract network	11-20
Sisal brand	20

The costs relating to the development of new products and sales channels, particularly with reference to software (for example, the management of online payment services), are also capitalized. In accordance with IFRS, such costs are capitalized since it is believed that the estimated future economic benefits linked to the receipts from services, also online, are able to sustain the amount capitalized.

2.3. Accounting policies (continued)

Impairment of property, plant and equipment and intangible assets

(a) Goodwill

As mentioned previously, goodwill is tested for impairment annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired.

To test for impairment, goodwill is allocated to the Cash Generating Unit (“CGU”) monitored by management. An impairment loss on goodwill is recognized when the carrying amount exceeds the recoverable amount. The recoverable amount of the CGU to which goodwill is allocated is the higher of fair value less costs to sell and its value in use, intended as the present value of future cash flows estimated for the asset in question. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate before taxes that reflects current market assessments of the time value of money, proportionate to the investment period, and the risks specific to the asset. If the impairment loss is higher than the carrying amount of goodwill allocated to the CGU, the excess is applied to the other assets of the CGU in proportion to their carrying amount.

The carrying amount of an asset should not be reduced below the highest of:

- the fair value of the asset less costs to sell;
- the value in use, as defined above;
- zero.

The reversal of a previous goodwill impairment loss is not permitted.

(b) Property, plant and equipment and intangible assets with a finite useful life

At every closing date, the management assesses whether there are any indications of impairment of property, plant and equipment and intangible assets. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, trend in market interest rates and the cost of capital used to evaluate investments.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount and any impairment loss is recorded in the income statement. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use, the latter being the present value of future cash flows estimated for the asset in question. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate before taxes that reflects current market assessments of the time value of money, proportionate to the investment period, and the risks specific to the asset. For assets that do not generate largely independent cash flows, the management estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the carrying amount of the cash generating unit exceeds the recoverable amount, an impairment loss is recognized in the income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash generating unit and then only applied to the other assets of the cash generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset is re-recognized in the income statement, up to the carrying amount that would have been recorded had no impairment loss been recognized and if normal amortization/depreciation been applied.

Trade receivables and other financial assets

Trade receivables and other financial assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Trade receivables and other financial assets are included in current assets, except for those with a contractual due date beyond twelve months after the date of the Carve-out Financial Statements, which are classified as non-current assets.

2.3. Accounting policies (continued)

Impairment losses on receivables are recognized according to the expected credit loss method, in accordance with the provisions of standard IFRS 9. In particular, the reduction in value of trade receivables and on contract assets is performed through the simplified approach, which requires the estimation of loss expected throughout the life of the receivables at the time of initial recognition and in subsequent valuations. For each segment of customers, the estimation is mainly carried out through the determination of the average expected irrecoverability, based on statistical and historical indicators, possibly adjusted using prospective elements. For some categories of receivables characterized by distinctive risk elements specific valuations are, however, carried out on individual credit positions.

If in subsequent periods the reasons for the impairment cease to exist, the asset value is reinstated up to the amount that would have been recognized had amortized cost been applied.

Financial assets, relating to non-derivative financial instruments, with fixed or determinable payments and fixed maturity dates, which the Payments Business intends and has the ability to hold until maturity are classified as “hold to collect” assets.

Such assets are measured at amortized cost using the effective interest method, adjusted by impairment losses, if any. Whenever there are impairment losses, the same principles as described above for loans and receivables are applied.

Inventories

The inventories of virtual and scratch top-up cards for telephone and television content are stated at the weighted average cost of the purchase prices.

Cash and cash equivalents

Where applicable, cash and cash equivalents include cash and available bank deposits and other forms of short-term investments, with original due dates equal to or less than three months. Cash and cash equivalents are recorded, according to their nature, at their nominal amount or at amortized cost.

Restricted bank deposits are separately reported from ordinary cash and cash equivalents since they are mainly related to liquidity deriving from funds received from customers in compliance with the directive known as PSD2, as part of the services rendered in its role capacity of payment institute.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Sisal Group Payments Business prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Employee benefits

Short-term benefits are represented by salaries and wages, social security contributions, indemnities in lieu of holidays and incentives in the form of bonuses payable in the twelve months subsequent to the date of the Carve-out Financial Statements. Such benefits are recognized as components of personnel costs in the period in which their services are rendered.

Post-employment benefits are divided into two categories: defined contribution plans and defined benefit plans.

In defined contribution plans, contributory costs are charged to the income statement as they occur, based on the relative nominal value.

In defined benefit plans, which include severance indemnity due to employees regulated by art. 2120 of the Civil Code (“TFR”), the amount of the benefit to be paid is quantifiable only after termination of employment, and

2.3. Accounting policies (continued)

associated with one or more factors such as age, the years of service and compensation. Therefore, the relative cost is charged to the statement of comprehensive income based on actuarial computations. The liability recorded in the Carve-out Financial Statements for defined benefit plans corresponds to the present value of the obligation at the reporting date. The obligations for defined benefit plans are determined annually by an independent actuary using the projected unit credit method.

The present value of defined benefit plans is determined by discounting future cash flows at an interest rate equal to high-quality corporate bonds issued in Euro which take into account the period of the relative pension plan.

Starting from January 1, 2007, Finance Law 2007 and the relative implementing decrees introduced amendments concerning TFR employee severance indemnity. The amendments include the decision of employees as to the destination of their accruing indemnity. In particular, new flows of TFR can be directed by the employee either to pre-chosen pension funds or retained in the Payments Business. In the case of external pension funds, the payment of the defined contribution will be made to the fund and starting from such date the new amounts accrued have the nature of defined contribution funds not subject to actuarial measurement.

Starting from January 1, 2013, following the adoption of IAS 19—Employee Benefits, changes in actuarial gains and losses are recognized in other statement of comprehensive income items.

Provisions for risks and charges

Provisions for risks and charges are set up to cover losses or liabilities whose existence is certain or probable but which at the end of the reporting period are uncertain as to amount or as to the date on which they will arise. Provisions are recognized only when there is a current obligation (legal or constructive) for a future outflow of resources deriving from a past event and it is probable that the outflow will be necessary to fulfil the obligation. This amount represents the best estimate of the present value of expenditures required to settle the obligation. If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, using a rate which reflects market conditions, the change in the time value of money and the risks specific to the obligation. The increase in the provision due to the cost of money over time is recognized as interest expense.

Recognition of revenues

The method for recognising revenues, based on standard IFRS 15, is divided into five steps:

- the identification of the contract with the customer: the standard's provisions are applicable to each individual contract, except in the cases where the standard itself requires the entity to consider several contracts jointly and consequently provides for their relative recognition;
- the identification of the separate performance obligations, or contractual promises to transfer goods and/or services contained in the contract;
- the determination of the transaction price. In case of variable compensation, this must be estimated by the entity to the extent in which it is highly probable that when the uncertainty associated with the variable compensation is subsequently resolved it does not cause a significant downward adjustment of the amount of cumulative revenues recognised;
- the allocation of the transaction price to the separate performance obligations identified, on the basis of the relative stand-alone sale price of each product or service;
- the recognition of revenue at the time and/or to the extent in which the relative separate performance obligation is satisfied.

Revenues are recognized initially at the fair value of the consideration received.

The revenues accrued by the Payments Business in the resale of telephone top-ups and television content are recognized in an amount equal to the difference between the sale price and the nominal cost of the cards. The cost relating to the purchase thereof is therefore recognized as an adjustment to the gross revenue recorded, operating the Payments Business as an “agent”.

2.3. Accounting policies (continued)

In the case of contracts in which different separate performance obligations are identified, the allocation of transaction prices to the identified performance obligations will be made on the basis of the relative stand-alone sales prices of each good or service included in the contract.

Cost of goods purchased and services performed

Purchases of goods and the performance of services are recognized in the income statement on an accrual basis.

Income taxes

Income taxes are allocated on the basis of an estimate of the tax expense for the year according to current laws. The corresponding liability is shown under “Taxes payable”.

Deferred tax assets and liabilities are recognized on the temporary differences between the carrying amount of an asset or a liability in the Carve-out Financial Statements and its tax base, except for first-time recognition of goodwill and for those differences related to investments in associates when the reversal of such differences is under the control of the Payments Business and it is probable that they will not reverse in the reasonably foreseeable future.

Deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority, there is a legally enforceable right of offset and settlement of the net balance is expected. If the net amount is an asset it is shown as “deferred tax assets” and if a liability as “deferred tax liabilities”. When the effects of a transaction are credited or charged directly to equity, the related current and deferred taxes are also recognized directly in equity.

Deferred tax assets and liabilities are computed based on tax rates that are expected to apply in the period in which the asset is recovered or settled to the extent that such rates have been approved at the date of the Carve-out Financial Statements.

Expenses, if any, in connection with litigation with the tax authorities for the portion relating to the evasion of taxes and the corresponding penalties is recorded in “income taxes”.

2.4. Standards and interpretations issued but not yet effective

Accounting standards not yet applicable as not yet endorsed by the European Union

As of the date of approving these Carve-out Financial Statements, the following standards and amendments had not yet been endorsed by the EU.

<u>Standard/amendment</u>	<u>Endorsed by EU</u>	<u>Effective date</u>
<i>IFRS 17 Insurance Contracts</i>	NO	Years beginning on or after 1 January 2022
<i>Amendments to References to the Conceptual Framework in IFRS Standards</i>	NO	Years beginning on or after 1 January 2020
<i>Amendment to IFRS 3 Business Combinations</i>	NO	Years beginning on or after 1 January 2020
<i>Amendments to IAS 1 and IAS 8: Definition of Material</i>	NO	Years beginning on or after 1 January 2020

2.4. Standards and interpretations issued but not yet effective (continued)

Accounting standards, amendments and interpretations endorsed by the European Union but not yet adopted by the Payments Business

As of the date of approving these Carve-out Financial Statements, the following standards and amendments had been endorsed by the EU, but not yet adopted by the Payments Business:

<u>Standard/amendment</u>	<u>Description</u>	<u>Effective date</u>
<i>IFRS 16</i>	<p>On January 13, 2016 the IASB published the new accounting standard IFRS 16 “Leases”, which establishes the principle for the recognition, valuation and presentation of lease contracts for both parties involved in this type of contracts, the tenant or lessee and the lessor.</p> <p>The new standard, which replaces the previous IAS 17 standard and its relative interpretations, introduces a single accounting model for the lessee. There are, however, no significant impacts on the accounting treatment of leases by the lessor. For lease contracts that fulfil the requirements of the new standard, IFRS 16 requires the recognition in the statement of financial position of a financial liability, represented by the actual value of future payments, counterbalanced by the entry in the assets of the “right of use of the leased asset”.</p>	Years beginning on or after 1 January 2019
<i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i>	<p>On 12 December 2017, the IASB published amendments to four standards, relating specifically to the following:</p> <p><u>IFRS 3—“Business Combinations”</u>: obtaining control of a business classified as a joint operation shall be accounted for as a business combination achieved in stages and the previously held interest in the joint operation shall be remeasured at fair value on the date control is acquired;</p> <p><u>IFRS 11—“Joint Arrangements”</u>: in the event of obtaining joint control of a business classified as a joint operation, the previously held interest in the joint operation should not be remeasured at fair value;</p> <p><u>IAS 12—“Income Taxes”</u>: the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognized;</p> <p><u>IAS 23—“Borrowing Costs”</u>: if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.</p> <p>Potential impacts on the Group financial statements are under review.</p>	Years beginning on or after 1 January 2019
<i>Amendments to IAS 19: Plan Amendment, Curtailment or Settlement</i>	<p>On 7 February 2018 the IASB published the amendment to IAS 19 to make certain amendments regarding “Employee Benefits”.</p> <p>The amendments require an entity to: use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling. The Group does not expect there to be any financial impact as a result of the entry into force of such standard.</p>	Years beginning on or after 1 January 2019

2.4. Standards and interpretations issued but not yet effective (continued)

Standard/amendment	Description	Effective date
<i>Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures</i>	On 12 October 2017 the IASB published amendments to IAS 28 to clarify the application of IFRS 9 “Financial Instruments” to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The Group does not expect there to be any financial impact as a result of the entry into force of such standard.	Years beginning on or after 1 January 2019
<i>IFRIC 23 Uncertainty over Income Tax Treatments</i>	On 7 June 2017 the IASB published IFRIC 23 “Uncertainty over Income Tax Treatments”. The interpretation clarifies how the recognition and measurement requirements of IAS 12 should be applied where there is uncertainty over income tax treatments. In such event, the entity should recognise and measure deferred and current income tax assets and liabilities applying the requirements of IAS 12 based on the taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates determined by applying IFRIC 23. The Group does not expect there to be any financial impact as a result of the entry into force of such standard.	Years beginning on or after 1 January 2019
<i>Amendments to IFRS 9: Prepayment Features with Negative Compensation</i>	On 12 October 2017 the IASB published the amendment to IFRS 9 to address certain matters regarding prepayable financial assets with negative compensation. The Group does not expect there to be any financial impact as a result of the entry into force of such standard.	Years beginning on or after 1 January 2019

2.5. Adoption of the new standards IFRS 9 and IFRS 15

IFRS 15 “Revenue from contracts with customers”

The regulatory provisions of IFRS 15 “Revenue from Contracts with Customers” and “Clarifications to IFRS 15” issued by the IASB respectively on September 11, 2015 and April 12, 2016, were endorsed by Regulations 2016/1905 and 2017/1987, issued by the European Commission on September 22, 2016 and October 31, 2017. The provisions of the standard are effective from January 1, 2018.

The main issues covered by the standard, reported below, were analyzed with reference to revenues for the year:

- (i) identification of the performance obligations and allocation of the transaction price to the same;
- (ii) identification of timings to satisfy the performance obligations (over time or at a point in time);
- (iii) valuation of the supply of goods and/or services as principal or agent;
- (iv) valuation of any presence of significant financial components;
- (v) at the time of recognition of the revenue, evaluation of the probability that the company will receive the compensation in exchange of the provision/service rendered to the customer.

No significant impacts were identified from the application of IFRS 15 on Carve-out Financial Statements.

IFRS 9 “Financial Instruments”

By regulation no. 2016/2067, issued by the European Commission on November 22, 2016, the regulatory provisions of IFRS 9—Financial Instruments, issued by the IASB on July 24, 2014, were endorsed, together with the related Basis for Conclusions and Application Guidance, replacing all previous versions of the standard issued. The provisions of these documents will replace those contained in IAS 39—“Financial Instruments: Recognition and Measurement”.

2.5. Adoption of the new standards IFRS 9 and IFRS 15 (continued)

The new provisions: (i) amend the classification categories for financial assets and envisage that this classification is based on contractual cash flows of the asset and on the company’s business model; (ii) also eliminate the compulsory unbundling of derivatives embedded in the financial assets; (iii) identify a new impairment model using forward-looking data with a view to earlier recognition of impairment losses on receivables than in the “incurred loss” model, which postpones recognition of the loss to the time of the loss event in reference to financial assets measured at amortized cost, to financial assets designated at fair value in other comprehensive income, receivables on leases, and assets deriving from contracts and certain commitments to disburse loans and financial guarantees; (iv) introduce a substantial review of the qualification of hedging transactions to guarantee that these are aligned with the risk management strategies of the companies and founded on a more principle-based approach. The provisions of the standard are effective from January 1, 2018.

No significant impacts were identified from the application of IFRS 9 on Carve-out Financial Statements.

3. Information about financial risks

The Payments Business is exposed to: liquidity risk, credit risk and capital risk.

The risk management strategy of the Payments Business focuses on minimizing the potential adverse effects on the Payments Business’s financial performance. As far as considered necessary, certain types of risk are mitigated by using derivative instruments. Risk management is centralized in the treasury function which identifies, assesses and hedges financial risks, in close cooperation with the operating units of the Payments Business, particularly with the risk management function. The treasury function provides guidelines for monitoring risk management, just as it provides guidelines for specific areas such as interest rate risk, foreign exchange rate risk and the use of derivative and non-derivative instruments.

Liquidity risk

Liquidity risk is the risk of not being able to fulfil present or future obligations owing to insufficient available funds. The Payments Business manages this risk by seeking to establish a balance between outflows of cash and the sources of short-term and long-term debt and the distribution of maturities of medium- and long-term debt over time. In particular, a prudent management of liquidity risk implies maintaining a sufficient level of cash and the availability of funds obtainable through an adequate amount of lines of credit.

Set out below are the cash flows expected in future years for the repayment of financial liabilities subdivided by repayment date as of December 31, 2018, 2017 and 2016.

The following tables set forth the expected future cash flows related to financial liabilities outstanding as of December 31, 2018, 2017 and 2016.

<u>As of December 31, 2018</u> <u>(in Euro thousands)</u>	<u>Balance as</u> <u>for Financial</u> <u>Statement</u>	<u>Less than 1</u> <u>year</u>	<u>Between 1</u> <u>and 5 years</u>	<u>More than 5</u> <u>years</u>	<u>Total</u> <u>contractual</u> <u>cash flows</u>
Trade and other payables	249,558	249,558	—	—	249,558
Other current liabilities	5,004	5,004	—	—	5,004
Total	254,562	254,562	—	—	254,562

<u>As of December 31, 2017</u> <u>(in Euro thousands)</u>	<u>Balance as</u> <u>for Financial</u> <u>Statement</u>	<u>Less than 1</u> <u>year</u>	<u>Between 1</u> <u>and 5 years</u>	<u>More than 5</u> <u>years</u>	<u>Total</u> <u>contractual</u> <u>cash flows</u>
Trade and other payables	259,135	259,135	—	—	259,135
Other current liabilities	3,545	3,545	—	—	3,545
Total	262,680	262,680	—	—	262,680

<u>As of December 31, 2016</u> <u>(in Euro thousands)</u>	<u>Balance as</u> <u>for Financial</u> <u>Statement</u>	<u>Less than 1</u> <u>year</u>	<u>Between 1</u> <u>and 5 years</u>	<u>More than 5</u> <u>years</u>	<u>Total</u> <u>contractual</u> <u>cash flows</u>
Trade and other payables	211,352	211,352	—	—	211,352
Other current liabilities	4,002	4,002	—	—	4,002
Total	215,354	215,354	—	—	215,354

3. Information about financial risks (continued)

Credit risk

Credit risk is the risk of economic loss arising from the failure to collect a receivable. Credit risk encompasses the direct risk of default and the risk of a deterioration of the creditworthiness of the counterparty.

Credit positions of material significance are evaluated on an individual basis. Where objective evidence exists that they are uncollectible, in whole or in part, specific write-downs are recognised. The amount of the write-down is based on an estimate of the recoverable cash flows and timing of those cash flows.

Trade receivables amounting to Euro 103,003 thousand as of December 31, 2018 (Euro 125,488 thousand and Euro 110,254 thousand as of December 31, 2017 and 2016, respectively) are shown net of the allowance for doubtful accounts amounting to Euro 24,158 thousand (Euro 20,688 thousand and Euro 22,297 as of December 31, 2017 and 2016, respectively).

More in detail, the loss allowance as of December 31, 2018, 2017 and 2016 and was determined as follows:

<u>As of December 31, 2018</u> <u>(in Euro thousands)</u>	<u>Not past due</u>	<u>Past due 1-90</u> <u>days</u>	<u>Past due 91-180</u> <u>days</u>	<u>Past due over</u> <u>180 days</u>	<u>Total</u>
Expected loss rate (%)	0.0%	36.1%	44.3%	86.3%	19.0%
Gross carrying amount—trade receivables . . .	<u>97,340</u>	<u>2,046</u>	<u>1,297</u>	<u>26,478</u>	<u>127,161</u>
Total loss allowance	<u>—</u>	<u>738</u>	<u>575</u>	<u>22,845</u>	<u>24,158</u>
<u>As of December 31, 2017</u> <u>(in Euro thousands)</u>	<u>Not past due</u>	<u>Past due 1-90</u> <u>days</u>	<u>Past due 91-180</u> <u>days</u>	<u>Past due over</u> <u>180 days</u>	<u>Total</u>
Expected loss rate (%)	0.0%	29.2%	46.8%	79.9%	14.2%
Gross carrying amount—trade receivables . . .	<u>118,202</u>	<u>2,396</u>	<u>1,326</u>	<u>24,252</u>	<u>146,176</u>
Total loss allowance	<u>—</u>	<u>699</u>	<u>620</u>	<u>19,369</u>	<u>20,688</u>
<u>As of December 31, 2016</u> <u>(in Euro thousands)</u>	<u>Not past due</u>	<u>Past due 1-90</u> <u>days</u>	<u>Past due 91-180</u> <u>days</u>	<u>Past due over</u> <u>180 days</u>	<u>Total</u>
Expected loss rate (%)	0.0%	24.5%	32.4%	84.5%	16.8%
Gross carrying amount—trade receivables . . .	<u>102,822</u>	<u>3,114</u>	<u>1,849</u>	<u>24,766</u>	<u>132,551</u>
Total loss allowance	<u>—</u>	<u>763</u>	<u>599</u>	<u>20,935</u>	<u>22,297</u>

Capital risk

The objective of the Payments Business in the management of capital risk is principally that of guaranteeing returns to the shareholders and ensuring benefits to the other stakeholders while protecting going concern.

The size of the debt was decided at the time the new private equity fund became shareholder on the basis of the assessment of the Payments Business’s capacity to generate a steady profit and financial flows sufficient to repay the debt and settle the related expenses but also provide cash flows from operating and investing activities for the development of the business.

Measurement of financial instruments

The following tables show financial instruments recognised on the face of the statement of financial position and their measurement:

<u>(in Euro thousands)</u>	<u>Carrying amount as of December 31, 2018</u>			
	<u>FVTOCI</u>	<u>FVTPL</u>	<u>Amortised cost</u>	<u>Total</u>
Financial assets				
Trade receivables	—	—	103,003	103,003
Restricted Bank Deposits	—	—	34,667	34,667
Financial liabilities				
Trade payables and other payables	—	—	249,558	249,558

3. Information about financial risks (continued)

(in Euro thousands)	Carrying amount as of December 31, 2017			
	FVTOCI	FVTPL	Amortised cost	Total
Financial assets				
Trade receivables	—	—	125,448	125,448
Financial liabilities				
Trade payables and other payables	—	—	259,135	259,135
Carrying amount as of December 31, 2016				
(in Euro thousands)	FVTOCI	FVTPL	Amortised cost	Total
Financial assets				
Trade receivables	—	—	110,254	110,254
Financial liabilities				
Trade payables and other payables	—	—	211,352	211,352

Fair value measurement

The fair value of financial instruments listed in an active market is based on the market prices at the balance sheet date. The fair value of instruments not listed in an active market is determined using valuation techniques based on a series of methods and assumptions connected with market conditions at the balance sheet date.

The classification of financial instruments based on a hierarchy that reflects the significance of the inputs in the determination of fair value is the following:

- Level 1: Fair value based on inputs that are quoted prices (unadjusted) on active markets for identical financial instruments;
- Level 2: Fair value based on measurement methods referring to variables observable on active markets;
- Level 3: Fair value based on measurement techniques referring to unobservable market variables.

There were no assets and liabilities that are measured using the fair value method as of December 31, 2018, 2017 and 2016.

4. Use of estimates

Estimate and assumptions are revised periodically and the effects of any changes are immediately recognized in profit or loss.

Allocation criteria

As mentioned in the preceding section of these Notes, the allocation to the Carve-out Financial Statements of economic and financial data common to multiple divisions was based on estimates developed by Sisal Group’s management, derived, for the most part, from a series of operational and general accounting information. It is thus important to keep in mind that any change or revision of the allocation criteria could have a significant impact on the Carve-out Financial Statements.

The preparation of the Carve-out Financial Statements requires that management apply accounting standards and methods which, under certain circumstances, are based on difficult subjective measurements and estimates based on past experience and on assumptions considered, at various times, to be reasonable and realistic in terms of the respective circumstances. The use of such estimates and assumptions affects the amounts reported in the Carve-out Financial Statements (the statement of financial position, the statement of comprehensive income and the statement of cash flows) and also disclosure. Actual results for those areas requiring management judgment or estimates may differ from those recorded in the Carve-out Financial Statements due to the occurrence of events and the uncertainties which characterize the assumptions and conditions on which the estimates are based.

Below are briefly described the areas that require greater subjectivity of management in making estimates and for which a change in the conditions of the underlying assumptions may have a significant impact on the Carve-out Financial Statements.

4. Use of estimates (continued)

Goodwill

In accordance with IFRS goodwill is tested for impairment at least annually or more frequently if there is any indication that the goodwill may be impaired. The recoverable amount is determined on the basis of the calculation of the value in use. This calculation requires the use of estimates that depend on factors which may vary over time and influence the assessments made by the directors. Further information on the impairment test is disclosed in Note 6.2.

Depreciation of property, plant and equipment and amortization of intangible assets

The cost of property, plant and equipment and intangible assets is depreciated/amortized on a straight line basis over the estimated useful life of each asset. The economic useful life of these assets is determined at the time of purchase, based on historical experience for similar assets, market conditions and expected future events which may affect them, such as technological changes. The effective economic useful life may, therefore, be different from its estimated useful life. Each year the Payments Business assesses the technological and business segment developments, any contractual and legislative changes related to utilization of the assets and their recovery values are reviewed in order to update the residual useful life. Such updating may modify the depreciation/amortization period and consequently the annual rate and charge for current and future periods.

Impairment loss/reversal of fixed assets

Non-current assets are periodically tested for impairment and where indicators of difficulty in recovery are present an impairment loss is recorded as a deduction from the relative net carrying amount. The existence of such indicators can be verified through subjective valuations, based on information available within the Payments Business or externally and on historical experience. Moreover, in the presence of a potential impairment, this is determined by suitable impairment tests. The correct identification of the factors, indicating a potential impairment and the estimates to determine the loss, may depend on conditions which vary over time, affecting the assessments and estimates. Similar considerations regarding the existence of indicators and the use of estimates in the application of valuation techniques can be found in the valuations to be made in the event of the reversal of impairment losses charged in previous periods.

Deferred tax assets

Deferred tax assets are recorded on the basis of expectations of future taxable income. The assessment of expected future taxable income for the purpose of recognizing deferred tax assets depends on factors which may vary over time and may have significant effects on the measurement of this item.

Provisions for risks

The Payments Business accrues in these provisions the probable liabilities relating to litigations and controversies with staff, suppliers, and third parties and in general expenses arising from any commitments. The quantification of such allocations involves assumptions and estimates based on presently available knowledge of factors which may vary over time. Thus, the final outcomes may be significantly different from those considered during the preparation of the Carve-out Financial Statements.

Provision for impairment of receivables

Impairment losses on receivables are recognised in the Carve-out Financial Statements according to the expected credit loss method, in accordance with the provisions of IFRS 9. In particular, the impairment on trade receivables and on contract assets is carried out through the simplified approach, which provides for estimating the expected loss throughout the life of the receivable at the time of the initial recognition and in the subsequent valuations. For each client segment, the estimate is carried out mainly through the determination of the average expected non-collectability, based on historical-statistical indicators, which may be adjusted using prospective elements. For some categories of receivables characterised by peculiar risk elements, instead, specific valuations are carried out on the individual credit positions.

5. Notes to Statement of Comprehensive Income

5.1. Revenues

Revenues are primarily linked to the sale/distribution of telephone top-ups, the sale/distribution of TV card top-ups and also revenues from collection and payment services.

The following table sets forth a breakdown of Revenues:

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Telco	31,300	35,853	3,723	37,509
Bill payments	80,241	69,949	5,855	61,325
Prepaid cards	37,669	37,220	3,112	30,665
Merchant services	40,312	39,096	3,614	33,499
Other products	856	736	322	444
Total	190,378	182,854	16,626	163,442

5.2. Purchases of materials, consumables and merchandise

The following table sets forth a breakdown of Purchases of materials, consumables and merchandise:

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Material purchases	2,001	1,426	142	1,272
Spare parts purchases	442	611	57	376
Sundry materials purchases	289	383	13	166
Warehousing	73	29	—	25
Change in inventories	(275)	(131)	35	48
Total	2,530	2,318	247	1,887

5.3. Costs for services

The following table sets forth a breakdown of Costs for Services:

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Marketing and commercial expenses	5,380	3,093	211	1,562
Other commercial initiatives	1,372	860	154	1,879
Other commercial services	480	414	139	168
Commercial services	7,232	4,367	504	3,609
Sales channel – Payment services	77,529	73,313	6,944	70,264
Consulting	3,324	3,290	1,287	1,244
Other miscellaneous services	19,096	18,699	2,912	16,063
Other services	99,949	95,302	11,143	87,571
Total	107,181	99,669	11,647	91,180

2018 was marked by two main one-off events: the digital payments launch and the payments business segregation, which resulted in non-recurring cost for services of €6.5 million (as compared to non-recurring cost for services €1.5 million for 2017).

5.4. Lease and rent expenses

The following table sets forth a breakdown of Lease and rent expenses:

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Building leases	992	881	82	698
Other rentals and operating leases	660	658	93	523
Total	1,652	1,539	175	1,221

5.5. Personnel costs

The following table sets forth a breakdown of Personnel costs:

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Salaries and wages	11,112	8,080	717	6,512
Social security contributions	3,104	2,484	188	2,034
Personnel cost capitalized	(2,231)	(298)	(3)	(149)
Employee severance indemnities	729	589	37	517
Other personnel costs	274	198	316	192
Total	12,988	11,053	1,255	9,106

2017 and 2018 were marked by two main one-off events that resulted in increased personnel costs: the digital payments launch and the payment business segregation which required an higher number of resources allocated to the Sisal Payments Business and resulted in non-recurring personnel costs of €3.2 million in 2018 and of €1.8 million in 2017.

5.6. Other operating costs

The following table sets forth a breakdown of Other operating costs:

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Other taxes and duties	307	336	35	276
Gifts and donations	325	54	3	391
Sundry operating costs	2,757	2,118	14	1,960
Total	3,389	2,508	52	2,627

5.7. Amortization, depreciation, provisions, impairment losses and reversals

The following table sets forth a breakdown of Amortization, depreciation, provisions, impairment losses and reversals of the value of property, plant and equipment and intangible assets:

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Amortization of intangible assets	9,529	6,218	318	2,917
Depreciation of property, plant and equipment	5,959	2,997	226	2,071
Impairment losses on current assets	5,589	4,200	514	4,729
Allocations and releases to provisions for risks and charges	601	1,533	—	—
Total	21,678	14,948	1,058	9,717

5.8. Income taxes

The following table sets forth a breakdown of Income taxes:

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Current taxes	12,366	14,744	653	14,222
Deferred tax assets and liabilities	(1,752)	(1,053)	(47)	(1,009)
Total	10,614	13,691	606	13,213

The following table sets forth a reconciliation between the income tax expense recorded in the Carve-out Financial Statements and the theoretical tax charge, calculated on the basis of the theoretical tax rate:

(in Euro thousands)	Successor		Successor	Predecessor
	Year ended December 31,		Period from March 2 to December 31,	Period from January 1 to November 30,
	2018	2017	2016	2016
Profit (loss) before income taxes	41,404	51,047	2,192	47,719
Nominal tax rate	24%	24%	27.5%	27.5%
Theoretical tax using the nominal tax rate	9,937	12,251	603	13,123
40% super-depreciation of property, plant and equipment	(1,003)	(708)	—	—
Other changes	44	(32)	(115)	(2,473)
IRES tax	8,978	11,511	488	10,650
IRAP tax	1,636	2,180	118	2,563
Total effective tax expense	10,614	13,691	606	13,213

6. Notes to Statement of Financial Position

6.1. Property, plant and equipment

The composition and changes in this item are as follows:

(in Euro thousands)	<u>Land and Buildings</u>	<u>Plant and equipment</u>	<u>Industrial equipment</u>	<u>Assets under construction and other</u>	<u>Total property, plant and equipment</u>
Predecessor					
Net Amount As of January 1, 2016	—	—	<u>9,378</u>	—	<u>9,378</u>
Investments	—	—	2,033	—	2,033
Depreciation	—	—	(2,071)	—	(2,071)
Disposals	—	—	(526)	—	(526)
Net Amount As of November 30, 2016	—	—	<u>8,814</u>	—	<u>8,814</u>
Successor					
Net Amount As of March 2, 2016	—	—	—	—	—
Change in Carve out perimeter	—	—	8,814	—	8,814
Depreciation	—	—	(226)	—	(226)
Net Amount As of December 31, 2016	—	—	<u>8,588</u>	—	<u>8,588</u>
Investments	264	—	16,589	—	16,853
Depreciation	(31)	—	(2,966)	—	(2,997)
Disposals	—	—	(539)	—	(539)
Net Amount As of December 31, 2017	<u>233</u>	—	<u>21,672</u>	—	<u>21,905</u>
Investments	250	—	17,320	—	17,570
Depreciation	(66)	—	(5,893)	—	(5,959)
Disposals	—	—	(373)	—	(373)
Net Amount As of December 31, 2018	<u>417</u>	—	<u>32,726</u>	—	<u>33,143</u>

6.2. Goodwill

Goodwill amounted to Euro 308,379 thousand as of December 31, 2018 and remained stable compared to December 31, 2017 and 2016.

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for impairment annually or more frequently if specific events or circumstances arise leading to the presumption of such impairment. For the purposes of the impairment test, goodwill must be allocated to CGUs, or groups of CGUs. The Payments Business corresponds to a Cash Generating Unit (CGU) to which the goodwill has been allocated (the “Payments Business CGU”). The cash flows were measured to determine the recoverable value, equal to the value in use of the CGUs identified by applying the discounted cash flows method.

The impairment test was performed by using the five-year cash flow projections approved by management of Sisal Group on the basis of growth rates differentiated according to the historical trends of the various products and related reference markets. The growth rate used to estimate cash flows beyond the explicit projected period was determined on the basis of market data and information available to management according to reasonable projections of estimated sector growth in the long-term and is equal to 0%. The rate used to discount cash flows to present value is equal to a WACC of 7.8% (7,7% and 8,3% as of December 31, 2017 and 2016 respectively), derived from the weighted average cost of capital of 10.6% (inclusive of a Market Risk Premium of 9.0%) and the after-tax cost of debt of 5.1%.

The recoverable amount of the Payments Business CGU as of December 31, 2018 is higher than the relative carrying amount.

6.3. Intangible assets

The composition and changes in this item are as follows:

(in Euro thousands)	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights:	Other intangible assets	Intangible assets in progress and advances	Total Intangible assets
Predecessor					
Net Amount As of January 1, 2016	1,890	72	4,645	—	6,607
Investments	2,031	—	—	—	2,031
Amortization	(1,480)	(50)	(1,387)	—	(2,917)
Disposals	(1)	—	—	—	(1)
Net Amount As of November 30, 2016	2,440	22	3,258	—	5,720
Successor					
Net Amount As of March 2, 2016	—	—	—	—	—
Change in Carve out perimeter	2,440	31,731	40,222	—	74,393
Depreciation, amortization	(2)	(15)	(301)	—	(318)
Net Amount As of December 31, 2016	2,438	31,716	39,921	—	74,075
Investments	5,268	690	—	44	6,002
Amortization	(2,474)	(1,733)	(2,011)	—	(6,218)
Disposals	(12)	—	—	—	(12)
Net Amount As of December 31, 2017	5,220	30,673	37,910	44	73,847
Investments	9,701	362	—	—	10,063
Amortization	(5,602)	(1,916)	(2,011)	—	(9,529)
Disposals	(2)	(2)	—	—	(4)
Reclassifications	44	—	—	(44)	—
Net Amount As of December 31, 2018	9,361	29,117	35,899	—	74,377

6.4. Other non-current assets

Other non-current assets amounted to Euro 4,436 thousand as of December 31, 2018 (Euro 5,030 thousand and Euro 4,269 thousand as of December 31, 2017 and 2016, respectively).

The item mainly comprises receivables from tax authorities requested for refund.

6.5. Inventories

The following table sets forth a breakdown of Inventories:

(in Euro thousands)	As of December 31,		
	2018	2017	2016
Top-up and scratch cards	194	315	220
Virtual top-ups	5,541	4,197	2,545
Materials, auxiliaries and consumables	5,735	4,512	2,765
Rolls of paper for terminals	145	125	100
Spare parts (repairs)	173	135	84
Spare parts (consumables)	250	16	10
Finished goods and merchandise	568	276	194
Total	6,303	4,788	2,959

6.6. Trade receivables

The following table sets forth a breakdown of Trade receivables:

(in Euro thousands)	As of December 31,		
	2018	2017	2016
Receivable from points of sale	95,930	117,339	102,051
Trade receivables from third parties	1,411	863	771
Doubtful receivables	29,820	27,974	29,729
Provision for impairment of trade receivables	(24,158)	(20,688)	(22,297)
Total	103,003	125,488	110,254

There are no foreign currency denominated trade receivables and the analysis by geographical area is not significant as all receivables are from domestic operators.

The changes in the provision for impairment of receivables are as follow:

(in Euro thousands)	Provision for impairment of trade receivables
Predecessor	
As of 1 January, 2016	19,879
Net provision	4,729
Usage	(2,591)
As of November 30, 2016	22,017
Successor	
As of March 2, 2016	—
Change in Carve out perimeter	22,017
Net provision	514
Usage	(234)
As of December 31, 2016	22,297
Net provision	4,200
Usage	(5,809)
As of December 31, 2017	20,688
Net provision	5,589
Usage	(2,119)
As of December 31, 2018	24,158

6.7. Restricted Bank Deposits

Restricted bank deposits amount to Euro 34,667 thousand as of December 31, 2018 (zero as of December 31, 2017 and 2016) and mainly include the balances deriving from funds received from customers in compliance with the so-called PSD II directive, in relation to services rendered in its role of Payment Institute. PSD II, in force from January 1, 2018, requires to segregate liquidity deriving from funds received from customers. As such, starting from 2018, in the preparation of financial statements, such liquidity is isolated from ordinary cash and cash equivalent.

6.8. Other current assets

This item is composed as follows:

(in Euro thousands)	As of December 31,		
	2018	2017	2016
Other receivables from tax authorities	3,236	834	291
Prepaid expenses	644	608	609
Other receivables from third parties	1,636	—	—
Other receivables from employees	67	56	51
Total	5,583	1,498	951

6.9. Equity

As explained above, the Payments Business is fully integrated in the Sisal Group and does not have its own cash accounts or borrowings. The movements recorded in Contribution from shareholder/ (to) shareholders in the period from March 2, 2016 to December 31, 2016 and in the years ended December 31, 2017 and 2018 reflect the cash absorbed by the Payments Business including cash used by business operations and investment activities.

6.10. Deferred tax assets and liabilities

The following table sets forth a breakdown in Deferred tax assets and liabilities:

(in Euro thousands)	As of December 31,		
	2018	2017	2016
Deferred tax assets	4,748	4,010	3,971
Deferred tax liabilities	(18,171)	(19,185)	(20,199)
Net amount	(13,423)	(15,175)	(16,228)

Net changes in tax assets and liabilities are summarized in the following table:

(in Euro thousands)	Deferred tax assets and liabilities
Predecessor	
Net Amount as of December 31, 2016	<u>2,313</u>
Charge/release to income statement	1,009
Charge/release to statement of comprehensive income	—
Net Amount as of November 30, 2016	<u>3,322</u>
Successor	
Net Amount as of March 2, 2016	<u>—</u>
Charge/release to income statement	47
Charge/release to statement of comprehensive income	—
Change in Carve out perimeter	(16,275)
Net Amount as of December 31, 2016	<u>(16,228)</u>
Charge/release to income statement	1,053
Charge/release to statement of comprehensive income	—
Net Amount as of December 31, 2017	<u>(15,175)</u>
Charge/release to income statement	1,752
Charge/release to statement of comprehensive income	—
Net amount as of December 31, 2018	<u>(13,423)</u>

6.11. Provisions for risks and charges

The changes in this item are the following:

(in Euro thousands)	<u>Provision for risks and other charges</u>
Predecessor	
As of January 1, 2016	<u>1,564</u>
Net provision	—
Usage	<u>(165)</u>
As of November 30, 2016	<u>1,399</u>
Successor	
As of March 2, 2016	—
Net provision	—
Usage	—
Change in Carve out perimeter	<u>1,399</u>
As of December 31, 2016	<u>1,399</u>
Net provision	1,533
Usage	<u>(436)</u>
As of December 31, 2017	<u>2,496</u>
Net provision	601
Usage	<u>(52)</u>
As of December 31, 2018	<u>3,045</u>

6.12. Trade payables and other payables

This item is composed as follows:

(in Euro thousands)	<u>As of December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Payables to suppliers	33,830	24,845	9,386
Payables to partners for services	215,728	234,290	201,966
Total	<u>249,558</u>	<u>259,135</u>	<u>211,352</u>

6.13. Other current liabilities

This item is composed as follows:

(in Euro thousands)	<u>As of December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Payables to employees	2,128	1,686	1,624
Other current liabilities	1,187	474	496
Payables to social security agencies	1,303	1,046	1,021
Other taxes payable	386	339	861
Total	<u>5,004</u>	<u>3,545</u>	<u>4,002</u>

7. Related party transactions

There are no related party transactions to report.

8. Significant events occurring after the end of the year

There are no material subsequent event to highlight.

It should be noted that the company terminated the contract with PostePay in October 2018.