Redsys,

Servicios de

Procesamiento, S.L.

Annual Accounts
31 December 2017

Directors' Report
2017

(With Independent Auditor's Report Thereon)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

KPMG Auditores, S.L.

Paseo de la Castellana 259 C
28046 Madrid

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Auditor's Report on the Annual Accounts issued by an Independent Auditor

To the shareholders of Redsys Servicios de Procesamiento, S.L.

Opinion

We have audited the annual accounts of Redsys Servicios de Procesamiento, S.L. (the Company), which comprise the balance sheet at 31 December 2017, the income statement, the statement of changes in equity, the statement of cash flows and the notes thereto for the year ended at that date.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity situation and financial position of the Company at 31 December 2017, and its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting standards (described in note 2 to this report) and, in particular, the accounting principles and criteria contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing standards regulating the audit of accounts in Spain. Our responsibilities under these standards are further described in the Auditor's Responsibility for the audit of the annual accounts section of our report.

We are independent of the Company in accordance with the ethical requirements, including independence, that are relevant to our audit of the annual accounts in Spain, as required by standards regulating the audit of accounts in Spain. In this regard, we have not rendered services other than the audit of accounts and no situations or circumstances have arisen that have compromised the necessary independence, in accordance with the aforementioned regulatory standards.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were considered the most significant risks of material misstatement in our audit of the annual accounts for the current period. These risks were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

Revenue recognition

The Company has generated its revenue mainly through rendering payment processing services to its associated companies. This revenue is recorded in line with the established rates. We have identified as a risk of material misstatement in our audit the proper recording of revenue, in accordance with prevailing regulations.

As part of our procedures, in the context of our audit, we have gained an understanding of the processes associated to revenue recognition as well as the internal control environment and the key controls comprised therein. In addition, we have performed analytical reviews of the income accrued throughout the year. We have also obtained external confirmations of a sampling of the balances receivable and invoices issued during 2017.

Other information: Directors' report

Other information exclusively comprises the 2017 directors' report, the preparation of which is the responsibility of the directors of the Company and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the directors' report. Our responsibility in terms of the directors' report, in accordance with the standards regulating the audit of accounts in Spain, consists of assessing and reporting on the consistency of the directors' report with the annual accounts, based on the knowledge we obtained of the entity during the course of our audit of these accounts, without including any information other than the evidence gathered during the course of our work. Furthermore, our responsibility consists of assessing and reporting on whether the content and presentation of the directors' report complies with the prevailing standards. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

On the basis of the work undertaken, as described in the previous paragraph, the information contained in the directors' report is consistent with the annual accounts for 2017 and the content and presentation complies with the standards applicable thereto.

Directors' responsibility for the annual accounts

The directors are responsible for preparing the accompanying annual accounts in such a way as to present fairly the equity situation, financial position and results of the Company, in accordance with the financial reporting standards applicable to the entity in Spain, and of the internal controls they deem necessary to enable the annual accounts to be prepared free from material misstatement due to fraud or error.

In preparing these annual accounts, the directors are responsible for assessing the Company's capacity to continue as a going concern, disclosing, where applicable, matters relating to the Company's continuity and accounting on a going concern basis unless the directors intend to liquidate the company or cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance that the annual accounts as a whole are free from material misstatement, due to fraud or error, and issue an audit report containing our opinion thereon. Reasonable assurance is a high level of assurance but not a guarantee that an audit conducted in accordance with the standards regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, we design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our auditor's 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.

- We 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 entity's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- We conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors 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 the audit.

From the significant risks communicated to the directors of Redsys Servicios de Procesamiento, S.L., we determined those matters that were of most significance in the audit of the annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

KPMG Auditores, S.L.

On the Spanish Official Register of Auditors ("ROAC") with No. S0702

Julio Álvaro Esteban

On the Spanish Official Register of Auditors ("ROAC") with No. 01661

19 April 2018

Redsys Servicios de Procesamiento, S.L.

Annual Accounts

31 December 2017

Directors' Report

2017

(With Independent Auditor's Report Thereon)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.

Balance Sheets

at 31 December 2017 and 2016

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ASSETS	Note	2017	2016
NON-CURRENT ASSETS		102,857,851	124,593,776
Intangible assets	6	4,892,126	5,644,085
Property, plant and equipment	7	89,006,769	110,583,048
Non-current investments in Group companies and associates	9	3,015,000	2,530,000
Non-current investments		889,746	1,080,264
Loans to third parties	11	529,939	721,155
Other financial assets			
Security deposits	10	359,807	359,109
Deferred tax assets	19	5,054,210	4,756,379
CURRENT ASSETS		34,468,756	22,322,894
Inventories	12	82,815	103,493
Goods for resale		82,815	103,493
Trade and other receivables	11	21,404,851	13,560,719
Trade receivables		18,699,476	10,294,878
Trade receivables from Group companies and associates		2,923	-
Other receivables		24,089	491,062
Personnel		215,673	221,732
Current tax assets	20	2,462,690	2,476,866
Public entities, other		-	76,181
Current investments	11	63	-
Other financial assets		63	-
Prepayments for current assets		2,643,603	1,814,289
Cash and cash equivalents	13	10,337,424	6,844,393
Cash		10,337,424	6,844,393
TOTAL ASSETS		137,326,607	146,916,670

The accompanying notes form part of the annual accounts for 2017.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.

Balance Sheets

at 31 December 2017 and 2016

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

EQUITY AND LIABILITIES	Note	2017	2016
EQUITY		50,750,050	41,449,357
Capital and reserves	14	50,701,097	41,381,595
Share capital		5,814,880	5,814,880
Share premium		197,038	197,038
Reserves		35,369,677	26,189,899
Profit for the year		9,319,502	9,179,778
Grants, donations and bequests received		48,953	67,762
LIABILITIES		86,576,557	105,467,313
NON-CURRENT LIABILITIES		26,837,613	49,028,794
Non-current provisions		787,116	7,570,646
Long-term employee benefits	17	632,264	7,415,794
Other provisions	18	154,852	154,852
Non-current payables		26,050,497	41,458,148
Loans and borrowings	16	25,639,310	40,939,448
Other financial liabilities	15 and 16	411,187	518,700
CURRENT LIABILITIES		59,738,944	56,438,519
Current provisions	17 and 18	9,450,292	896,711
Current payables		19,986,200	19,254,691
Loans and borrowings	16	19,878,688	19,150,352
Other financial liabilities	15 and 16	107,512	104,339
Trade and other payables	16	29,972,452	36,287,117
Suppliers		24,993,343	32,257,782
Suppliers, Group companies and associates		738,227	346,368
Other payables		256,388	244,623
Personnel		2,312,708	2,202,965
Public entities, other		1,671,786	1,235,379
Prepayments for current assets		330,000	-
TOTAL EQUITY AND LIABILITIES		137,326,607	146,916,670

The accompanying notes form part of the annual accounts for 2017.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.
Income Statements for the years ended
31 December 2017 and 2016
(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

	Note	2017	2016
CONTINUING OPERATIONS			
Revenues	21.a	180,152,812	169,435,490
Sales		189,413	170,275
Services rendered		179,963,399	169,265,215
Supplies	21.c	(186,438)	(131,285)
Merchandise used		(165,760)	(126,142)
Raw materials and consumables used		(20,678)	(5,143)
Other operating income	21.b	7,708,757	13,592,483
Non-trading and other operating income		7,708,757	13,592,483
Personnel expenses	21.d	(34,978,447)	(33,615,864)
Salaries and wages		(25,821,844)	(23,948,558)
Employee benefits expense		(7,692,645)	(6,981,139)
Provisions		(1,463,958)	(2,686,167)
Other operating expenses	21.e	(85,707,831)	(85,369,503)
External services		(85,214,555)	(84,860,751)
Taxes		(213,447)	(413,099)
Losses, impairment and changes in provisions for commercial transactions		(279,829)	(95,653)
Amortisation and depreciation	6 and 7	(55,667,034)	(54,401,570)
Provision surpluses		-	1,431,000
Impairment and losses on disposal of fixed assets		(811,549)	(637,102)
Impairment and losses	6 and 7	(81,826)	(12,650)
Losses on disposal and other	21.f	(729,723)	(624,452)
RESULTS FROM OPERATING ACTIVITIES		10,510,270	10,303,649
Finance income		25,392	7,552
Finance costs		(462,046)	(569,103)
Exchange losses		7,886	(3,653)
Net finance cost	22	(428,768)	(565,204)
Profit before income tax		10,081,502	9,738,445
Income tax	20	(762,000)	(558,667)
PROFIT FROM CONTINUING OPERATIONS		9,319,502	9,179,778
PROFIT FOR THE YEAR	14.3	9,319,502	9,179,778

The accompanying notes form part of the annual accounts for 2017.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.
A) Statements of Recognised Income and Expense for the years ended
31 December 2017 and 2016

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

	2017	2016
Profit for the year	9,319,502	9,179,778
Income recognised directly in equity		
Grants, donations and bequests received	(18,809)	(21,888)
Total recognised income and expense	9,300,693	9,157,890

A) Statement of Total Changes in Equity
for the year ended
31 December 2017

	Registered share capital	Share premium	Reserves	Profit for the year	Grants, donations and bequests received	Total
Balance at 31 December 2016	5,814,880	197,038	26,189,899	9,179,778	67,762	41,449,357
Adjusted balance at 1 January 2017	5,814,880	197,038	26,189,899	9,179,778	67,762	41,449,357
Total recognised income and expense	-	-	-	9,319,502	(18,809)	9,300,693
Other changes in equity	-	-	9,179,778	(9,179,778)	-	-
Balance at 31 December 2017	5,814,880	197,038	35,369,677	9,319,502	48,953	50,750,050

B) Statement of Total Changes in Equity
for the year ended
31 December 2016

	Registered share capital	Share premium	Reserves	Profit for the year	Grants, donations and bequests received	Total
Balance at 31 December 2015	5,814,880	197,038	18,455,523	7,734,376	89,650	32,291,467
Adjusted balance at 1 January 2016	5,814,880	197,038	18,455,523	7,734,376	89,650	32,291,467
Total recognised income and expense	-	-	-	9,179,778	(21,888)	9,157,890
Other changes in equity	-	-	7,734,376	(7,734,376)	-	-
Balance at 31 December 2016	5,814,880	197,038	26,189,899	9,179,778	67,762	41,449,357

The accompanying notes form part of the annual accounts for 2017.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.

Statements of Cash Flows for the years ended
31 December 2017 and 2016

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

	2017	2016
Cash flows from operating activities		
Profit for the year before tax	10,081,502	9,738,445
Adjustments for:	58,685,288	55,932,845
Amortisation and depreciation (+)	55,667,034	54,401,570
Impairment (+/-)	81,826	12,650
Change in provisions (+/-)	1,770,051	332,622
Proceeds from disposals of fixed assets	729,723	624,452
Finance income (-)	(25,392)	(7,552)
Finance costs (+)	462,046	569,103
Changes in operating assets and liabilities	(15,396,286)	(1,274,694)
Inventories (+/-)	20,678	5,143
Trade and other receivables (+/-)	(7,844,132)	(2,206,167)
Other current assets (+/-)	(829,377)	(673,782)
Trade and other payables (+/-)	(6,314,665)	1,886,716
Other current liabilities (+/-)	(107,513)	(290,661)
Other non-current assets and liabilities (+/-)	(321,277)	4,057
Other cash flows used in operating activities	(762,000)	(558,667)
Income tax received (-/+)	(762,000)	(558,667)
Other cash flows from operating activities	52,608,504	63,837,929
Cash flows from investing activities		
Payments for investments (-)	(34,719,949)	(67,964,259)
Group companies and associates	(485,000)	-
Intangible assets	(2,036,753)	(4,186,960)
Property, plant and equipment	(32,198,196)	(63,777,299)
Proceeds from sale of investments (+)	191,914	158,014
Property, plant and equipment	-	-
Other financial assets	191,914	158,014
Cash flows used in investing activities	(34,528,035)	(67,806,245)
Cash flows from financing activities		
Proceeds from and payments for equity instruments	(18,809)	(21,888)
Grants, donations and bequests received	(18,809)	(21,888)
Proceeds from and payments for financial liability instruments	(14,568,629)	9,870,216
Issue/Redemption and repayment of Bonds and other marketable securities and other payables	(14,568,629)	9,870,216
Cash flows from financing activities	(14,587,438)	9,848,328
Net increase/decrease in cash and cash equivalents	3,493,031	5,880,012
Cash and cash equivalents at beginning of year	6,844,393	964,381
Cash and cash equivalents at year end	10,337,424	6,844,393

The accompanying notes form part of the annual accounts for 2017.

REDSYS SERVICIOS DE PROCESAMIENTO, S.L.

Notes to the Annual Accounts

31 December 2017

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

1. General Information

1.1. Incorporation, name and statutory activity

Redsys Servicios de Pago, S.L.- Sociedad Unipersonal was incorporated under Spanish law on 20 May 2010 before the Madrid notary Mr. Manuel González-Meneses García-Valdecasas, with number 787 of his protocol, as Redsys Servicios de Pago, S.L.- Sociedad Unipersonal. The Company's registered office is located at Calle Gustavo Fernández Balbuena, no. 15, Madrid. On 28 May 2010 the Company was entered on the Madrid Mercantile Register under volume 27,802, sheet 70, section 8, page M-566434, entry no.

1. On 25 May 2010 the Company's name was changed from Redsys Servicios de Pago, S.L.- Sociedad Unipersonal to Redsys Servicios de Procesamiento, S.L.- Sociedad Unipersonal (hereinafter, Redsys or the Company). This change in name was recorded in a public deed by the notary Mr. Manuel González-Meneses García-Valdecasas, with number 824 of his protocol, together with the corresponding correction of the Company's deed of incorporation, and was entered on the Madrid Mercantile Register, under volume 27,802, sheet 73, section 8, page M-501052, entry no 2 on 31 May 2010.

As a result of the merger and spin-off transactions executed by public deed on 1 April 2011, the Company ceased to be a solely owned company, due to the transfer of all the shares held by the Company's sole shareholder to the shareholders of Servired, Sociedad Española de Medios de Pago, S.A. and Redes y Procesos, S.A. (see notes 1.2 and 14).

As set forth in article 2 of its by-laws, the Company's statutory activity comprises the following:

(i) The development and provision of processing services in businesses engaged in the issue and acquisition of any systems or means of payment available in the market (including credit, debit, payment and prepaid cards), as well as the provision of any support or auxiliary services forming part of the payment cycle.

(ii) The development of the information technology relating to the means of payment and associated electronic services, as well as the launch of new products and services based on new technologies and their adaptation to the requirements of the payment means and systems market.

(iii) The provision of operating and IT services related to the use of credit and debit cards or other means of payment.

(iv) Advisory and consultancy services on IT systems and operating processes.

(v) The design and development of computer software for credit and debit card operations, electronic funds transfers and services to financial institutions for the provision by the latter of electronic and automatic banking and other similar services to their customers.

(vi) Advisory services on the purchase and sale, adaptation and conversion of ATMs and other similar payment issuing systems, point of sale terminals and cash registers and the corresponding connections with computers and IT or data processing centres and on the study, analysis, investigation and verification of security breaches affecting the traffic of documentation and the electronic transfer of funds and the implementation of fraud prevention systems therein.

(vii) The provision of services relating to computer network connectivity and the expedition of requests for authorisation of transactions, and data transfers relating to the operations mentioned herein; the recording, stamping and IT processing of the operations carried out with the means of payment and products indicated in this section.

The legal regime applicable to the Company as a result of its activity is, in general terms, Royal Legislative Decree 1/2010 of 2 July 2010 approving the Revised Spanish Companies Act (hereinafter, the Spanish Companies Act or SCA) which repeals previous applicable legislation.

1.2. Merger by absorption of Servicios para Medios de Pago, S.A.U. by Servired, Sociedad Española de Medios de Pago, S.A.; spin-off of the branch of activity to Redsys, Servicios de Procesamiento, S.L.U. and subsequent merger with Redes y Procesos, S.A.- REDY

On 26 May 2010 the governance bodies of Servicios para Medios de Pago, S.A.U. (hereinafter, Sermepa) and Redsys approved the merger and partial spin-off agreed by Servired Sociedad Española de Medios de Pago, S.A. (hereinafter, Servired), Sermepa and Redsys.

Servired's shareholders ratified the aforementioned merger and spin-off transaction at their general meeting held on 22 July 2010. During the aforementioned general meeting, Servired's shareholders agreed that Redy should be absorbed by Redsys in a merger transaction.

On 14 March 2011, in the second stage of this process, the National Competition Commission issued a ruling authorising the economic concentration operation consisting of the merger between Redsys Servicios de Procesamiento, S.L.U. and Redes y Procesos, S.A., which constituted a condition precedent of the merger of Servicios para Medios de Pago, S.A.U. with Servired, Sociedad Española de Medios de Pago, S.A. and of the partial spin-off of the latter to Redsys Servicios de Procesamiento, S.L.U.

On 29 March 2011 the Ministry of Economy and Finance ratified this authorisation, and the merger and spin-off transactions were executed in a public deed on 1 April 2011, thereby concluding the process in which Servicios para Medios de Pago, S.A.U., Servired, Sociedad Española de Medios de Pago, S.A., Redsys Servicios de Procesamiento, S.L.U. and Redes y Procesos, S.A. were engaged.

2. Basis of Presentation

a) True and fair view

The annual accounts have been prepared on the basis of the accounting records of the Company and in accordance with prevailing legislation and the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the amendments thereto included in Royal Decree 602/2016, to give a true and fair view of the equity and financial position and the results of operations and cash flows.

These annual accounts have been authorised for issue by the Company's directors and are expected to be approved by the shareholders at their general meeting with no modifications. The annual accounts for 2016 were approved by the shareholders at the general meeting held on 21 June 2017.

The figures disclosed in the annual accounts are expressed in Euros.

b) Mandatory accounting principles

All mandatory accounting principles having a significant effect on the annual accounts have been applied.

c) Critical issues regarding the valuation and estimation of uncertainties

Preparation of the annual accounts requires the Company to make certain estimates and judgements concerning the future. These are evaluated constantly and based on historical experience and other factors, including expectations of future events that are considered reasonable given the current circumstances.

The resulting accounting estimates will, by definition, seldom equal actual results. At 31 December 2017 and 2016 there are no estimates or judgements that present significant risk of a material adjustment to the carrying amounts of assets and liabilities in the subsequent reporting period.

d) Correction of errors

The preparation of the annual accounts for 2017 and 2016 did not entail the correction of any significant errors.

e) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2017 include comparative figures for 2016, which formed part of the annual accounts approved by shareholders at the annual general meeting held on 21 June 2017. In certain cases, the Company has opted to omit captions for which no data is available at 31 December 2017 or 31 December 2016.

f) Going concern

At 31 December 2017 and 2016 the Company has negative working capital. The Company's directors have prepared the annual accounts for 2017 and 2016, respectively, on a going concern basis as they understand there to be no factors that might challenge this assumption, considering, in this regard, the Company's results, the nature of its customers (financial institutions) and their solvency, and its financial capacity, which includes credit facilities with available balances, as indicated in note 16.

g) Changes in accounting criteria

No significant changes were made to the accounting criteria in 2017 compared with those applied in 2016.

3. Accounting Principles

The main accounting policies applied in the preparation of these annual accounts are as follows:

a) Intangible assets

Intangible assets are initially measured at cost or cost of production. Following initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. The Company assesses whether the useful life of each intangible asset is finite or indefinite.

Intangible assets with finite useful lives are amortised systematically based on their estimated useful life and their residual value. Amortisation methods and periods are reviewed at each year end and adjusted prospectively, as required. At a minimum, the Company tests for any indications of impairment at the end of each reporting period, and where impairment is identified, estimates the recoverable amounts and recognises the corresponding impairment.

Repairs that do not extend the useful lives of the assets and maintenance costs are recognised in the income statement for the year in which they are incurred.

Intangible assets comprise the following:

- Computer software licences acquired from third parties that are capitalised on the basis of the costs incurred to acquire and prepare the licences for the use of a specific program. These costs are amortised over the estimated useful lives of the assets (between 1.5 and 3.08 years). Computer software maintenance costs are charged as expenses when incurred.

- The future leases for the rights to use the point of sale terminals (POS) acquired by Sermepa during 2003, 2004, 2005 and 2006 and included in the Company's balance sheet as a result of the merger and spin-off transactions described in note 1.2 are reflected at cost less accumulated amortisation and the impairment losses recognised and are included in other intangible assets. Amortisation of these assets is recognised on a straight-line basis over a period of five years. At 31 December 2017 and 2016 these assets are fully amortised.

b) Property, plant and equipment

Property, plant and equipment are measured at cost of acquisition or production, less accumulated depreciation and any impairment losses recognised.

The cost of self-constructed assets is calculated by adding the direct or indirect costs attributable to these assets to the acquisition price of the consumables used.

Costs incurred to extend, modernise or improve property, plant and equipment are only recorded as an increase in the value of the asset when the capacity, productivity or useful life of the asset is increased and it is possible to ascertain or estimate the carrying amount of the assets that have been replaced in inventories.

The cost of major repairs is capitalised and depreciated over their estimated useful life, while recurring maintenance costs are charged to the income statement during the year in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically on a straight-line basis over the estimated useful lives of the assets based on the actual decline in value due to operation and use. Estimated useful lives are as follows:

	Estimated years of useful life
Technical installations, equipment and furniture	2 - 10
Other property, plant and equipment:	
Information technology equipment	1.8 - 4
Motor vehicles	5 – 7

In 2011 the Company acquired POS in use that were accounted for at cost of acquisition and recognised the POS transferred from Sermepa by virtue of the merger and spin-off transactions described in note 1.2 in its balance sheet. In 2011 these assets were subject to depreciation on a straight-line basis over their remaining useful lives (4.75 years), taking into account the original date of acquisition of each POS.

In 2013 the Company re-estimated the useful lives of these assets and as a result of the technical analysis performed by experts this value was changed to 4.58 years, taking the original date of acquisition of each POS into account. This useful life is not defined by the wear and tear to which the different components of the terminal may be exposed, but rather by the technical characteristics which, depending on each model and its design requirements, limit their potential for adaptation and the possible use of new computer software.

In 2016 the Company re-estimated the useful lives of these assets and as a result of the technical analysis performed by experts this value was changed to 4 years, taking the original date of acquisition of each POS into account. This useful life is not defined by the wear and tear to which the different components of the terminal may be exposed, but rather by the technical characteristics which, depending on each model and its design requirements, limit their potential for adaptation and the possible use of new computer software. The change in useful life of these items let to increased depreciation totalling Euros 6,232,509 for the year.

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

When an asset's carrying amount exceeds its estimated recoverable amount, the carrying amount is written down immediately to the recoverable amount. The Company recognises the corresponding provisions for impairment of property, plant and equipment as a result of the enduring impairment thereof.

Gains and losses on the sale of property, plant and equipment are calculated as the difference between the consideration received and the carrying amount, and are recognised in the income statement.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as current if they are due to mature within 12 months after the reporting date. Otherwise, they are classified as non-current. Loans and receivables are recognised in loans to third parties, loans to companies and trade and other receivables.

These financial assets are initially measured at fair value, including directly attributable transaction costs, and are subsequently carried at amortised cost, recognising accrued interest at the effective interest rate, which is the discount rate that matches the instrument's carrying amount with all estimated cash flows to maturity. Nevertheless, trade receivables falling due in less than one year are recognised at their nominal amount on both initial recognition and subsequent measurement, provided that the effect of not discounting the cash flows is immaterial.

At least at the reporting date, the necessary impairment losses are recognised when there is objective evidence that not all the amounts receivable will be collected.

The impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate upon initial recognition. Impairment losses are recognised and reversed in profit or loss.

d) Held-to-maturity investments

Held-to-maturity investments are debt securities with fixed or determinable payments and fixed maturity traded on an active market and that Company management has the positive intention and ability to hold to maturity. If the Company were to sell a significant portion of its held-to-maturity financial assets, the entire category would be reclassified as available for sale. These financial assets are classified as non-current assets, except those which mature within 12 months after the reporting date, which are classified as current assets.

e) Non-current investments in Group companies and associates

Investments in Group companies, associates and jointly controlled entities are initially recognised at cost, which is equivalent to the fair value of the consideration given, including transaction costs, and are subsequently measured at cost net of any accumulated impairment.

f) Security deposits

At 31 December 2017 and 2016 non-current investments include the security deposits extended to lease the offices in which the Company carries out its activity. The Company considers that the nominal amount of this asset is similar to its fair value and does not update it as the financial effect is not considered significant.

g) Inventories

Inventories are measured at the lower of cost and net realisable value. When the cost of inventories exceeds net realisable value, materials are written down to net realisable value and an expense is recognised in the income statement. The previously recognised valuation adjustment is reversed against profit or loss when the circumstances that previously caused inventories to be written down no longer exist.

Cost is measured as the weighted average cost. The net realisable value is the estimated selling price in the Company's normal business operations less costs to sell.

h) Equity

The Company's share capital is represented by ordinary shares.

The Company does not hold any own shares. Where applicable, the cost of issuing new shares is recognised directly in equity as a decrease in reserves.

The consideration paid by the Company to acquire own shares, including any incremental costs directly attributable to the transaction, is deducted from equity until the shares are cancelled, reissued or disposed of. If these shares are subsequently sold or reissued, any amount received, net of any incremental costs directly attributable to the transaction, is recognised in equity.

i) Debts and payables

This category includes trade and non-trade payables. These borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the reporting date.

These payables are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently carried at amortised cost using the effective interest method. The effective interest rate is the discount rate that matches the instrument's carrying amount with the expected future flow of payments to the maturity date of the liability.

Nevertheless, trade payables falling due in less than one year that have no contractual interest rate are recognised at their nominal amount on both initial recognition and subsequent measurement, provided that the effect of not discounting the cash flows is immaterial.

j) Grants received

Repayable grants are recognised as liabilities until they meet the conditions to be considered as non-refundable grants, whereas non-refundable grants are recognised as income directly in equity on a systematic and rational basis in line with the expenses derived from the grant. Non-refundable grants received from shareholders are recognised directly in equity.

Consequently, a grant is considered non-refundable when there is a specific award agreement for the grant, all of the conditions of award have been met and there are no reasonable doubts that it will be received.

Monetary grants are measured at the recognition-date fair value of the sum received, whilst non-monetary grants are accounted for at the recognition-date fair value of the item received.

Non-refundable grants relating to the acquisition of intangible assets, property, plant and equipment and investment property are recognised as income for the year in

proportion to the amortisation and depreciation of those assets or when the assets are disposed of, impaired or derecognised. Non-refundable grants relating to specific expenses are recognised in the income statement in the same year that the expenses are incurred and those grants awarded to offset operating losses are recognised in the year they are awarded, except when they are earmarked to offset future operating losses in which case they are recognised in the relevant year.

k) Current and deferred taxes

The income tax expense for the year comprises current tax and deferred tax.

The current and deferred tax expense is recognised in the income statement. However, the tax effect of items recognised directly in equity is recorded in equity.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, pursuant to the tax laws that have been enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are calculated using the liability method on the basis of the temporary differences that arise between the tax base of assets and liabilities and their carrying amount. However, deferred taxes are not recognised if they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income. Deferred tax assets or liabilities are measured pursuant to the tax laws and tax rates that have been enacted or substantially enacted at the reporting date and are expected to be applicable when the corresponding deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are recognised provided that it is probable that sufficient taxable income will be generated against which the temporary differences can be offset.

Deferred tax assets and liabilities are recognised for temporary differences which arise in investments in subsidiaries, associates and joint ventures, except when the Company is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary difference will reverse in the foreseeable future.

l) Long-term employee benefits

The Company classifies pension plan commitments as defined contribution plans or defined benefit plans, based on their nature. Defined contribution plans are those in which the Company undertakes to make contributions of a specified amount to a separate entity (such as an insurance company or a pension fund), provided that there is no legal, contractual or constructive obligation to make additional contributions were the separate entity to be unable to meet the commitments undertaken. Plans other than defined contribution plans are considered as defined benefit plans.

- Defined contribution plans

  For defined contribution plans, the Company pays contributions into pension insurance plans managed publicly or privately on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company is not obliged to make any additional payments. Contributions are recognised as employee benefits when they accrue. Contributions paid in advance are recognised as an asset where a cash reimbursement or a reduction in future payments is available.

  The Company recognises a liability for contributions to be made when, at year end, unpaid contributions accrued exist.

  The Company's defined contribution plan has been arranged with Ahorro Madrid IX, a fund managed by Bankia Pensiones, S.A., E.G.F.P.

- Defined benefit plans

  The difference between the present value of committed remuneration and the fair value of the plan assets, as well as any previously unrecognised past service costs, is recognised in the balance sheet. If this difference gives rise to an asset, its measurement should not exceed the present value of the economic benefits that could be available to the Company in the form of direct refunds or lower future contributions, plus, where applicable, the portion of unrecognised past service costs yet to be taken to profit and loss.

  All changes to these amounts are recognised in the income statement, except:

  - Actuarial gains and losses, which are recognised directly in equity as reserves.

  - The amount that cannot be recognised as an asset, as it exceeds the present value of the economic benefits that could be available to the Company in the form of refunds or lower future contributions, plus the portion of unrecognised past service costs yet to be taken to profit or loss, which is recognised directly as reserves.

Past service costs arising from a new defined benefit plan or an improvement in the terms of the existing plan are recognised as an expense in the income statement as follows:

- Irrevocable rights are recognised immediately.

- Revocable rights are recognised on a straight-line basis over the average period remaining until they vest, unless an asset arises, in which case they are recognised immediately.

The Company has the following defined benefit commitments:

a) Those employees transferred from Sermepa (excluding management personnel) are entitled to one month's salary for each 10-year period worked for the Company.

b) Certain members of management personnel transferred from Sermepa are entitled to one year's salary upon their retirement. These commitments have been externalised through an insurance contract with Vidacaixa, S.A. de Servicios y Reaseguros.

c) The Company has contracted a collective annuity insurance policy to cover the pension commitments undertaken with certain members of management personnel transferred from Redy.

d) Personnel contracted before 8 March 1980 by Sistema 4B, S.A., and who currently form part of the Company's headcount, are entitled to a supplementary pension in the event of retirement, death or permanent disability. These commitments have been externalised through insurance contracts taken out with Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.

e) Additionally, the Company has contracted an annual insurance policy to cover the death and permanent disability benefits of serving employees included in a number of different agreements.

- Mixed plans

In addition to the plans detailed above, the Company has a specific commitment with a member of its management personnel. This plan is classed as mixed because it includes a defined contribution system for retirement, while the death and permanent disability benefits for this executive are classified as defined benefits. The Company has taken out a life insurance policy to cover these commitments.

m) Provisions and contingent liabilities

Liabilities of a clearly specified nature and which, at the reporting date, are of an undetermined amount or whose settlement date is unknown, are recognised as provisions when the Company has a legal or contractual obligation, or a constructive or tacit obligation deriving from a valid expectation it has itself created, with respect to third parties.

Provisions are measured at the reporting date, based on information available at any given time, at the present value of the best estimate of the amount required to settle the obligation or transfer it to a third party. Any adjustments arising from the discounting of the provision are recognised as a finance cost when accrued.

Provisions expiring within one year are recognised under current liabilities and are not discounted if the financial effect is immaterial.

Possible obligations arising from past events, the materialisation of which is conditional on the occurrence or non-occurrence of one or more future events beyond the Company's control, are considered contingent liabilities. Contingent liabilities are not recognised, but are instead disclosed in the notes to the annual accounts, where applicable.

n) Classification of assets and liabilities as current and non-current

Assets and liabilities are classified as current and non-current in the balance sheet. Assets and liabilities are classified as current when: they are linked to the Company's normal operating cycle and they are expected to be realised, sold, consumed or settled within this period; they are different to the former but are expected to mature or be disposed of or realised within a maximum of one year, or; they are held for trading or comprise cash and cash equivalents to be used within a 12-month period.

The normal operating cycle of the Company is less than one year for all activities.

o) Revenue recognition

Revenue is recognised at the fair value of the consideration receivable and reflects the amounts to be collected for goods handed over and services rendered in the ordinary course of the Company's activities, less returns, rebates, discounts and value added tax.

The Company recognises revenue when the amount can be reliably estimated, it is probable that the future economic benefits will flow to the Company and the specific conditions are met for each of the activities, as described below. The Company does not consider that revenue can be measured reliably until all of the contingencies relating to the sale have been resolved.

i) Revenue from the rendering of services: The Company renders operating and IT services related to the use of credit and debit cards and other means of payment; the administration and management of terminals; services related to computer network connectivity and the expedition of requests for authorisation of transactions; data transfers; and the recording, stamping and IT processing of operations carried out for financial institutions. The revenue recognised on the rendering of services does not include the taxes levied on these transactions. Revenue from the rendering of services is generally recognised during the period in which the services are provided.

ii) Interest received:: Interest income is recognised using the effective interest method. When a receivable is impaired, the Company writes the carrying amount down to the recoverable amount, discounting estimated future cash flows at the original effective interest rate of the instrument, and carries the discount as a reduction in interest received. Interest received on impaired loans is recognised using the effective interest method.

p) Leases

Leases in which, upon inception, the Company assumes substantially all the risks and rewards incidental to ownership are classified as finance leases, otherwise they are classified as operating leases. The Company has only entered into operating leases at 31 December 2017 and 2016.

- Operating leases

  Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lease's benefit.

q) Foreign currency transactions

The figures disclosed in the annual accounts are expressed in Euros, the Company's functional and presentation currency.

Foreign currency transactions are translated at the exchange rate prevailing at the transaction date. Foreign currency gains and losses arising on the settlement of these transactions and the translation into Euros of monetary assets and liabilities denominated in foreign currencies at the closing exchange rate are recognised in profit or loss, unless they are deferred in equity, as in the case of qualifying cash flow hedges and qualifying hedges of net investments in foreign operations.

r) Related-party transactions

In general, transactions between Group companies are initially recognised at fair value. If the agreed price is not the fair value, the difference is recognised based on the economic reality of the transaction. Subsequently, measurement is carried out in accordance with the applicable legislation.

s) Business combinations

- General criteria applicable to business combinations between companies that do not form part of the same group (merger between Redsys Servicios de Procesamiento, S.L.U. and Redes y Procesos, S.A.).

  Business combinations carried out since 1 January 2010 are recognised by applying the acquisition method established in Recognition and Measurement Standard 19 of the Spanish General Chart of Accounts amended by Royal Decree 602/2016, which approves the standards for the preparation of consolidated annual accounts and amends the Spanish General Chart of Accounts.

  The Company has applied the acquisition method for these business combinations.

  The acquisition date is the date on which the Company obtains control of the acquiree.

  The cost of the business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

  The cost of a business combination excludes any payments that do not form part of the consideration given in exchange for the acquiree. Acquisition costs are recognised as an expense when incurred.

  The costs of issuing equity and liability instruments are recognised using the measurement criteria applicable to these transactions.

  Assets acquired and liabilities assumed are recognised at their acquisition-date fair value. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured.

  With the exception of lease contracts, the assets acquired and liabilities assumed are classified and designated for subsequent measurement based on contractual agreements, economic terms, accounting and operating policies and any other conditions that exist at the acquisition date.

  Any excess of the cost of the business combination over the assets acquired net of the liabilities assumed is recognised as goodwill.

- Criteria applicable to business combinations between companies that form part of the same group (merger of Servicios para Medios de Pago, S.A.U. with Servired, Sociedad Española de Medios de Pago, S.A. and partial spin-off of the latter to Redsys Servicios de Procesamiento, S.L.U.).

  The assets and liabilities constituting the acquiree, including the amounts deferred in recognised income and expense, have been measured at the amount at which they were recognised in the individual annual accounts of the contributing company prior to the transaction. The difference between the values applied to the assets and liabilities and the amount of the capital increase and the share premium has been recognised as an adjustment to the share premium.

  The transaction date for accounting purposes is the date on which the transaction is carried out.

4. Financial Risk Management

4.1. Financial risk factors

The Company's activities are exposed to various financial risks: market risk (including interest rate risk and currency risk), credit risk and liquidity risk. The Company's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on its profits.

Risks are managed by the Company's Treasury Department, which identifies, evaluates and mitigates financial risks in accordance with policies approved by the Company's Financial Management, which issues global risk management policies as well as policies for specific issues such as interest rate risk, liquidity risk, the use of derivative and non-derivative instruments and the investment of cash surpluses.

a) Market risk

i) Currency risk

The Company operates almost exclusively in the Eurozone and virtually all its debts are denominated in Euros. As such, its exposure to currency risk is practically zero.

ii) Cash flow and fair value interest rate risks

As the Company's only significant interest-bearing assets are those generated by its own treasury, revenues and cash flows from operating activities are not significantly affected by fluctuations in market interest rates. Surplus cash flows are invested in risk-free assets during the period that the surplus is maintained.

Interest rate risk arises from non-current borrowings. Borrowings at variable interest rates expose the Company to cash flow interest rate risks. Fixed-interest borrowings expose the Company to fair value interest rate risks. During 2017 and 2016 the Company's non-current borrowings essentially comprised variable-interest loans (see note 16) and interest-free loans (see note 15).

b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as trade receivables, including outstanding receivables and committed transactions.

At 31 December 2016 and 2015 the Company had the following balances receivable:

- Tax recoverable from the taxation authorities,
- Trade receivables,
- Other receivables for outstanding invoices,
- Amounts receivable from financial institutions on investments and cash accounts, and
- Loans granted to personnel.

c) Liquidity risk

The Company applies a prudent policy to cover its liquidity risks, based on having sufficient cash and marketable securities as well as sufficient financing through credit facilities to settle market positions. Given the dynamic nature of its underlying business, the Company's Treasury Department aims to be flexible with regard to financing through drawdowns on committed credit facilities.

Company management monitors the forecasts regarding its liquidity reserve (which comprises available balances in credit facilities (see note 16) and cash and cash equivalents (see note 13) based on expected cash flows.

Based on the budgets prepared by the Company, the Company expects to have sufficient liquidity reserves to carry out its activity in 2018.

4.2. Estimating fair value

The fair value of financial instruments traded on an active market (such as securities held for trading or available for sale) is based on the market prices at the reporting date. The market price used for financial assets is the current buying price.

The fair value of financial instruments not traded on an active market is determined using valuation techniques. The Company uses various different methods and makes assumptions based on market conditions existing at each reporting date.

The carrying amounts of trade receivables and payables are assumed to be similar to their fair values. For financial reporting purposes, the fair value of financial liabilities is estimated by discounting contractual future cash flows at the current market interest rate available to the Company for similar financial instruments.

5. Analysis of Financial Instruments

5.1. Analysis by category

At 31 December 2017 and 2016 the carrying amount of each financial instrument category defined in the Recognition and Measurement Standard on financial instruments is disclosed in notes 9, 10, 11, 13 and 16 of these annual accounts.

5.2. Analysis by maturity

Details at 31 December 2017 and 2016 of financial instruments with fixed or determinable maturities, by year of maturity, are as follows:

	2017		2016	
	Maturing in 2017	Maturing in subsequent years	Maturing in 2016	Maturing in subsequent years
Financial and trade credit and other receivables (note 11)	21,404,914	529,939	13,560,719	721,155
Security deposits (note 10)	-	359,807	-	359,109
Financial, trade and other payables (note 16)	49,958,653	26,050,497	55,541,808	41,458,148

5.3. Credit ratings of financial assets

At 31 December 2017 and 2016 the credit ratings of financial assets which have not yet matured and which have incurred impairment losses can be determined based on the credit ratings assigned by external bodies or using historical loan default rates, as follows:

- Loans and receivables

	2017	2016
Customers with A1 rating	-	-
Customers with A2 rating	-	3,225,304
Customers with A3 rating	638,014	-
Customers with Aa2 rating	-	5,334
Customers with Baa1 rating	4,648,835	596,139
Customers with Baa2 rating	2,875,892	1,755,999
Customers with Baa3 rating	1,878,993	2,022,511
Customers with Ba1 rating	168,849	-
Customers with Ba2 rating	5,445	1,057,663
Customers with Ba3 rating	14,581	6,555
Customers with B1 rating	-	1,839
Customers with B3 rating	-	9,023
Customers with Caa1 rating	-	-
Customers with Caa3 rating	-	53,116
Unrated customers	11,174,305	4,827,236
	21,404,914	13,560,719

(*) note: customers and debtors with external credit ratings (Moody's)

The table above includes the following amounts at 31 December 2017 and 2016:

	2017	2016
Current investments	63	-
Trade receivables	18,699,476	10,294,878
Trade receivables from Group companies and associates	2,923	-
Other receivables	24,089	491,062
Personnel	215,673	221,732
Current tax assets	2,462,690	2,476,866
Public entities, other	-	76,181
	21,404,914	13,560,719

- Cash and cash equivalents

	2017	2016
Institutions with A3 rating	17,519	154,064
Institutions with Baa1 rating	2,349,458	8,389
Institutions with Baa2 rating	2,273,649	803,593
Institutions with Baa3 rating	5,671,976	-
Institutions with Ba1 rating	7,916	5,865,842
Unrated institutions	16,906	12,505
	10,337,424	6,844,393

(*) note: institutions with external credit ratings (Moody's)

6. Intangible assets

At 31 December 2017 and 2016 details of intangible assets and movement during the years then ended were as follows:

	Computer software	Rights to use POS terminals	Advances on fixed assets	Total
Cost at 31 December 2015	23,897,221	2,784,864	171,558	26,853,643
Additions	3,809,594	-	377,366	4,186,960
Disposals	-	-	-	-
Cost at 31 December 2016	27,706,815	2,784,864	548,924	31,040,603
Additions	1,805,967	-	230,786	2,036,753
Disposals	-	-	-	-
Transfers	548,924	-	(548,924)	-
Cost at 31 December 2017	30,061,706	2,784,864	230,786	33,077,356
Accumulated amortisation at 31 December 2015	(20,243,897)	(2,784,864)	-	(23,028,761)
Additions	(2,367,757)	-	-	(2,367,757)
Disposals	-	-	-	-
Accumulated amortisation at 31 December 2016	(22,611,654)	(2,784,864)	-	(25,396,518)
Additions	(2,788,712)	-	-	(2,788,712)
Disposals	-	-	-	-
Accumulated amortisation at 31 December 2017	(25,400,366)	(2,784,864)	-	(28,185,230)
Accumulated impairment at 31 December 2017 and 2016	-	-	-	-
Carrying amount at 31 December 2016	5,095,161	-	548,924	5,644,085
Carrying amount at 31 December 2017	4,661,340	-	230,786	4,892,126

At 31 December 2017 fully amortised intangible assets in use total Euros 23,975,870 (Euros 22,555,115 at 31 December 2016).

7. Property, plant and equipment

At 31 December 2017 and 2016 details of property, plant and equipment and movement during the years then ended were as follows:

	Point of sale terminals (POS)	Technical installations and machinery	Other installations, equipment and furniture	Information technology equipment	Motor vehicles	Under construction and advances	Total
Cost at 31 December 2015	219,159,580	389,017	720,609	24,010,754	10,200	-	244,290,160
Additions	58,785,310	-	67,511	4,466,719	-	457,761	63,777,301
Disposals	(12,613,043)	-	(6,083)	(180,407)	-	-	(12,799,533)
Cost at 31 December 2016	265,331,847	389,017	782,037	28,297,066	10,200	457,761	295,267,928
Additions	30,876,310	1,279	121,886	1,193,826	-	4,895	32,198,196
Disposals	(16,362,001)	(659)	(10,416)	(940,077)	-	-	(17,313,157)
Transfers	-	-	-	457,761	-	(457,761)	-
Cost at 31 December 2017	279,846,156	389,637	893,507	29,008,576	10,200	4,895	310,152,971
Accumulated amortisation at 31 December 2015	(117,736,062)	(304,852)	(453,523)	(17,353,697)	(10,200)	-	(135,858,334)
Additions	(49,011,190)	(37,221)	(57,887)	(2,927,515)	-		(52,033,813)
Disposals	11,773,636	-	5,780	117,604	-	-	11,897,020
Accumulated amortisation at 31 December 2016	(154,973,616)	(342,073)	(505,630)	(20,163,608)	(10,200)	-	(175,995,127)
Additions	(49,491,520)	(17,042)	(63,219)	(3,306,541)	-	-	(52,878,322)
Disposals	15,580,504	659	7,219	910,444	-	-	16,498,826
Accumulated amortisation at 31 December 2016	(188,884,632)	(358,456)	(561,630)	(22,559,705)	(10,200)	-	(212,374,623)
Accumulated impairment at 31 December 2015	(8,677,103)	-	-	-	-	-	(8,677,103)
Additions	(2,857,961)	-	-	-	-	-	(2,857,961)
Disposals	2,845,311	-	-	-	-	-	2,845,311
Accumulated impairment at 31 December 2016	(8,689,753)	-	-	-	-	-	(8,689,753)
Additions	(975,942)	-	-	-	-	-	(975,942)
Disposals	894,116	-	-	-	-	-	894,116
Accumulated impairment at 31 December 2017	(8,771,579)	-	-	-	-	-	(8,771,579)
Carrying amount at 31 December 2016	101,668,478	46,944	276,407	8,133,458	-	457,761	110,583,048
Carrying amount at 31 December 2017	82,189,945	31,181	331,877	6,448,871	-	4,895	89,006,769

At 31 December 2017 the cost of fully depreciated property, plant and equipment in use totals Euros 111,022,472 (Euros 89,294,017 at 31 December 2016).

The Company has taken out insurance policies to cover the risk of damage to its property, plant and equipment. Company management considers the coverage of these policies to be sufficient.

8. Operating Leases

The Company leases the building in which it carries out its activity, as well as the use of several computer software programs, under operating leases.

The most significant lease contracts are as follows:

Lease	Renewal date	Penalties
C/ Francisco Sancha, 12 (Madrid)	30 June 2018	Termination of contracts in case of breach
Computer software programs with IBM	30 June 2019	Termination of contracts in case of breach

The most significant operating lease payments recognised as an expense in 2017 and 2016 are as follows:

	2017	2016
Lease payments - office building	2,641,261	2,620,231
Lease payments - IBM computer software	835,337	836,007
	3,476,598	3,456,238

Non-cancellable minimum future annual lease payments at 31 December 2017 and 2016 are as follows:

	2017	2016
Less than one year	2,620,482	4,805,598
One to five years	1,010,758	-

9. Non-Current Investments in Group Companies and Associates

At 31 December 2017 and 2016 details of investments in equity instruments of Group companies and associates are as follows:

	2017	2016
Cost		
Equity Instruments	3,015,000	2,530,000
Impairment		
Equity Instruments	-	-
	3,015,000	2,530,000

On 10 June 2014, the Company acquired a 44% shareholding in Chip Card, S.A., through the acquisition of 9,400 shares with a par value of Euros 60.10 each.

On 5 February 2017 the Company formalised the purchase of 100% of the shares of Havasoft Consultoría Informática, S.L. totalling Euros 485,000.

Details of interests in Group companies at 31 December 2017 and 2016 are as follows:

Company and registered office	Legal entity	Activity	Interest in share capital Direct (%)
Chip Card, S.A.	Corporation	Advisory services and assistance for memory card based systems.	44%
Havasoft Consultoría Informática, S.L.	Private limited company	IT advisory and consultancy services	100%

	Chip Card, S.A (*)		Havasoft Consultoría Informática, S.L.
	2017	2016	2017
Total assets	3,301,613	2,963,236	367,558
Share capital	1,295,816	1,295,816	3,010
Reserves and share premium	1,524,259	1,394,316	76,990
Profit for the year	218,208	129,942	170,218

(*) Audited in 2017 and 2016

10. Security deposits

Details of security deposits at 31 December 2017 and 2016 are as follows:

	2017	2016
Security deposits - buildings	359,807	359,109

11. Loans and receivables

Details of loans and receivables at 31 December 2017 and 2016 are as follows:

	2017	2016
Non-current loans and receivables		
- Non-current loans to personnel	529,939	721,155
Current investments		
- Other financial assets	63	-
Current loans and receivables		
- Trade receivables	18,699,476	10,294,878
- Trade receivables, group companies	2,923	-
- Other receivables	24,089	491,062
- Current loans to personnel	163,823	158,293
- Salary advances	51,850	63,439
- Current tax assets (note 20)	2,462,690	2,476,866
- Public entities, other	-	76,181
	21,404,851	13,560,719

At 31 December 2017 and 2016 current tax assets include income tax recoverable for 2016 and 2015 amounting to Euros 1,406, 014 and Euros 1,349,034, respectively.

The carrying amounts of loans and receivables are denominated in Euros at 31 December 2017 and 2016.

Details of public entities, other at 31 December 2017 and 2016 are as follows:

	2017	2016
Public entities, other		
-Taxation authorities, VAT recoverable	-	76,181

The Company's maximum exposure to credit risk at the reporting date is the fair value of the receivables in each of the aforementioned categories, which does not differ significantly from their carrying amount.

During 2017 and 2016 impairment amounting to Euros 279,829 and Euros 95,653, respectively, was recognised on trade receivables, as circumstances led the Company to consider this necessary (see Note 21.e).

12. Inventories

Details of inventories at 31 December 2017 and 2016 are as follows:

	2017	2016
Office materials	7,539	8,070
POS components	12,225	17,133
Remote banking components	63,051	78,290
	82,815	103,493

The fair value of these assets does not differ significantly from their carrying amount.

The change in inventories during 2017 and 2016 is due to the following:

	2017	2016
Opening balance	103,493	108,636
Change in inventories (note 21.c)	(20,678)	(5,143)
Closing balance	82,815	103,493

13. Cash and cash equivalents

Details at 31 December 2017 and 2016 are as follows:

	2017	2016
Cash in hand and at banks	10,337,424	6,844,393

At 31 December 2017 and 2016 cash in hand and at banks essentially reflects the balances held in current bank accounts, which bear interest at market rates.

At 31 December 2017 and 2016 these balances are not subject to any restrictions. At 31 December 2017 and 2016all the balances in this item are denominated in Euros, except for an amount of Euros 3,866 denominated in Pounds Sterling at 31 December 2017 (Euros 697 at 31 December 2016).

14. Capital and reserves

14.1. Share capital and share premium

At 31 December 2017 and 2016 the Company's share capital comprises 456,069 shares with a par value of Euros 12.75 each, numbered correlatively from 1 to 456,069, both inclusive, subscribed and fully paid.

The shares are not securities and are not represented through certificates or book entries. All shares have the same rights and there are no statutory restrictions on their transfer.

Companies which hold an interest of at least 10% in the share capital of the Company at 31 December 2017 and 2016 are as follows:

	2017		2016	
Company	Number of shares	Percentage ownership	Number of shares	Percentage ownership
Caixabank	91,213	19.99%	83,587	18.33%
Banco Bilbao Vizcaya Argentaria	91,212	19.99%	90,398	19.82%
Bankia	72,691	15.94%	66,396	14.56%
Banco Santander	61,690	13.53%	80,102	17.56%
	316,806	69.45%	320,483	70.27%

The share premium is freely distributable.

14.2. Reserves

In accordance with article 274 of the Spanish Companies Act of 2 July 2010, companies must transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to at least 20% of share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. This reserve may be used to increase share capital.

Details of reserves at 31 December 2017 and 2016 are as follows:

	2017	2016
Legal reserve	1,162,976	1,162,976
Other reserves	34,206,701	25,026,923
	35,369,677	26,189,899

14.3. Profit for the year

The proposed distribution of profit for 2017 that the directors will submit for the approval of

the shareholders at their general meeting is as follows:

Basis of allocation	
Profit for the year	9,319,502
Distribution	
Legal reserve	-
Voluntary reserves	8,471,740
Capitalisation reserve	847,762
	9,319,502

The distribution of profit for the year ended 31 December 2016, approved by the shareholders at their annual general meeting held on 21 June 2017, was as follows:

Basis of allocation	
Profit for the year	9,179,778
Distribution	
Legal reserve	-
Voluntary reserves	8,477,622
Capitalisation reserve	702,156
	9,179,778

15. Grants received

At 31 December 2017 the Company's liabilities include a balance of Euros 518,699 for interest-free loans received from the Ministry of Industry/Spanish Centre for the Development of Industrial Technology, which were recognised in the Company's balance sheet as a result of the merger and spin-off transactions described in note 1.2.

The breakdown by maturity is as follows:

	2017	2016
2017	-	104,339
2018	107,512	107,513
2019	110,783	110,783
2020	114,152	114,152
2021	74,642	74,642
2022	42,318	42,318
2023	34,127	34,127
2024	35,165	35,165
	518,699	623,039
	(Note 16)	(Note 16)

16. Debts and payables

Details of debts and payables at 31 December 2017 and 2016 are as follows:

	Non-current		Current	
	2017	2016	2017	2016
Loans and borrowings	25,639,310	40,939,448	19,878,688	[illegible]
Other financial liabilities	411,187	518,699	107,512	[illegible]
Suppliers	-	-	24,993,343	[illegible]
Suppliers, Group companies and associates	-	-	738,227	[illegible]
Other payables	-	-	256,388	[illegible]
Salaries payable	-	-	2,312,708	[illegible]
Public entities, other	-	-	1,671,786	[illegible]
	26,050,497	41,458,147	49,958,652	[illegible]

Details of other financial liabilities at 31 December 2017 and 2016 are as follows:

	Non-current		Current	
	2017	2016	2017	2016
Grants (note 15)	411,187	[illegible]	107,512	[illegible]
	411,187	[illegible]	107,512	[illegible]

Details of other balances payable to public entities at 31 December 2017 and 2016 are as follows:

	2017	2016
Public entities, other		
Taxation authorities, VAT payable	347,827	-
- Taxation authorities, withholding tax on salaries	710,402	698,233
- Taxation authorities, capital gains tax	824	-
- Social security payables	612,733	537,146
	1,671,786	1,235,379

Given the nature of the items included under debts and payables, their value is not expected to be significantly affected by exposure to fluctuations in interest rates.

The carrying amount of current and non-current payables does not significantly differ from their fair value, as the effect of discounting is immaterial.

At 31 December 2017 and 2016 the Company holds the following credit facilities, as well as non-current loans:

	2017		2016	
	Limit	Drawn down	Limit	Drawn down
Variable rate:				
- Maturing in more than one year	[illegible]	25,639,310	40,939,448	40,939,448
- Maturing within one year	[illegible]	19,878,688	32,018,561	19,150,352
	[illegible]	45,517,998	72,958,009	60,089,800

In 2017 the Company contracted a loan totalling Euros 3,000,000, which falls due on 6 October 2020, and six credit facilities amounting to Euros 9,000,000, Euros 6,000,000, Euros 1,500,000, Euros 1,000,000, Euros 1,000,000 and Euros 1,000,000, which fall due between 8 November 2018 and 11 November 2018.

In 2016 the Company contracted four loans totalling Euros 19,500,000, which fall due between 13 April 2018 and 8 November 2020, and four credit facilities amounting to Euros 12,000,000, Euros 4,500,000, Euros 3,500,000 and Euros 1,500,000, which fall due between 9 November 2017 and 11 November 2017.

With respect to Law 15/2010 of 5 July 2010, which amends Law 3/2004 of 29 December 2004 containing measures to combat late payments in commercial transactions, as developed in the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016, on disclosures in the notes to the annual accounts on the average supplier payment period in commercial transactions, it should be noted that:

This law prohibits, inter alia, agreements between parties to extend the payment period to suppliers, in response to the financial repercussions of the economic crisis in all sectors, which have led to an increase in defaults, late payments and the extension of deadlines for payment of past-due invoices, with a particularly severe effect on small and medium-sized enterprises due to their high dependence on short-term loans and the current low levels of liquidity in the economy.

In order to combat these difficulties the law stipulates a maximum payment period between companies of 60 calendar days from the date the goods are delivered or the services rendered. This law entered into force on 1 January 2013. Until that date a transitional regime was in force with longer maximum legal periods that will be adjusted progressively for those companies that had agreed longer payment periods.

Details of late payments to suppliers are as follows:

	2017	2016
	Days	
Average supplier payment period	44.76	43.42
Transactions paid ratio	46.30	45.76
Transactions payable ratio	21.21	23.02
	Amount	
Total payments made	97,102,149	99,577,593
Total payments outstanding	6,347,990	11,441,260

17. Current and Non-current Provisions

At 31 December 2017 and 2016 details of the provisions recognised by the Company are as follows:

	2017		2016	
	Non-current	Current	Non-current	Current
Provisions for employee benefits	632,264	8,250,000	7,415,794	-
Provisions for restructuring costs (note 18)	-	1,200,292	-	896,711
Provisions for other liabilities (note 18)	154,852	-	154,852	-
Total	787,116	9,450,292	7,570,646	896,711

a) Long-term employee benefits

At 31 December 2017 and 2016 details of the amounts recognised in the balance sheet for long-term employee benefits, as well as the corresponding charges to the income statement for 2017 and 2016, for the different types of commitments undertaken by the Company with its employees are as follows:

	2017	2016
Commitments recognised in the balance sheet for:		
- Long-term benefits	632,264	7,415,794
Charges to the income statement		
- Long-term benefits	1,466,470	2,808,865

In 2017 and 2016 movement in long-term employee benefits was as follows:

	2017	2016
Opening balance	7,415,794	[illegible]
Additions	14,588	[illegible]
Disposals	(48,118)	[illegible]
Transfers	(6,750,000)	-
Closing balance	632,264	[illegible]

At 31 December 2017 long-term employee benefits include the following amount:

- Euros 632,264 to cover the commitment to pay certain employees one month's salary for each 10-year period worked for the Company (Euros 665,794 at 31 December 2016) (see note 3.1). In 2017 the Company reversed a provision of Euros 48,118, with a credit to the income statement (in 2016 the Company released a provision of Euros 41,135) (see note 21.d)

In 2017, the Company reclassified in "current provisions" a provision for the variable remuneration agreed by the Company in 2014, to be paid to all Company personnel if certain global objectives are achieved. Its scope extends to 31 December 2017 and it will be paid to employees during the first quarter of 2018. In 2017 the Company recognised a provision of Euros 1,500,000, with a credit to the income statement (Euros 2,850,000 in 2016) (see note 21.d)

18. Other provisions

At 31 December 2017 and 2016 details of other provisions and movement during the years then ended are as follows:

	Provisions for restructuring costs	Other
At 31 December 2015	1,823,806	1,704,000
Additions	896,711	154,852
Applications and reversals	(1,823,806)	(1,704,000)
At 31 December 2016	896,711	154,852
Additions	1,315,171	-
Applications and reversals	(1,011,590)	-
At 31 December 2017	1,200,292	154,852

a) Provisions for restructuring costs

In 2017 Company management decided to make a number of employees redundant, due to the internal reorganisation of the Company, which had a particular impact on the structure of the departments in which these employees worked. Consequently, an agreement was reached in 2014 to pay these employees the corresponding severance. At 31 December 2017 the provision recognised to cover these payments is expected to be applied in its entirety in the first few months of 2018.

b) Other provisions

In 2016 the state taxation authorities issued an additional tax assessment following the inspection of income tax for 2012 and 2013, setting the penalty at Euros 154,852. The Company signed these assessments on a contested basis and presented objections in defence of its interests and therefore continues to recognise the provision for this penalty.

19. Deferred Tax

Details of deferred taxes at 31 December 2017 and 2016 are as follows:

	2017	2016
Deferred tax assets:		
- Temporary differences	5,054,210	4,756,379

Movement in deferred tax assets during 2017 and 2016 was as follows:

	Provisions	Other	Total
Balance at 31 December 2015	1,734,586	3,476,392	5,210,978
Additions	712,500	1,064,311	1,776,811
Disposals	(466,235)	(1,436,055)	(1,902,290)
Other movements	(126,902)	(202,218)	(329,120)
Balance at 31 December 2016	1,853,949	2,902,430	4,756,379
Additions	378,647	302,838	677,838
Disposals	(12,029)	(371,624)	(380,007)
Other movements	-	-	-
Balance at 31 December 2017	2,220,567	2,833,644	5,054,210

Other movements reflect the adjustments made to deferred tax assets due to differences between the provision for and the settlement of income tax in 2016 and 2015, respectively.

Other amounts of Euros 2,833,644 and Euros 1,300,463 in 2017 and 2016 respectively mainly comprise adjustments for accelerated depreciation.

20. Income Tax and Taxation

A reconciliation of net income and expenses for 2017 and 2016 with the taxable income for both years is as follows:

	2017	2016
Accounting profit before income tax	10,081,502	9,738,445
Permanent differences:		
Other items	5,146	(1,325,908)
Temporary differences:		
Provisions	1,466,470	3,986,443
Other items	(201,947)	(3,666,227)
	1,264,523	320,216
Taxable income	11,351,171	8,732,753
Reduction, capitalisation reserve	(847,762)	(702,156)
Tax payable	2,625,852	2,007,649
Deductions:		
Deductions	(1,287,838)	(949,080)
Donations	-	(1,845)
Net income tax	1,338,014	1,056,725
Recognised as:		
Deferred tax assets	257,395	(159,288)
Withholdings	-	(12,316)
Income tax	1,080,619	1,228,329
Withholdings and payments on account	(2,394,690)	(2,184,557)
Net amount recoverable (note 11)	(1,056,676)	(1,127,832)
- recognised as tax recoverable	1,056,676	1,127,832

The income tax expense for 2017 and 2016 has been calculated as follows:

	2017	2016
Taxable accounting income at 25%	2,309,721	1,927,595
Deductions	(1,229,103)	(950,925)
Adjustments for the difference between the provision for and the settlement of income tax, and the change in tax rate	(318,618)	(418,003)
	762,000	558,667

Current income tax is calculated by applying a rate of 25% to taxable income at 31 December 2017. Deductions applied in 2017 total Euros 1,229,103 (Euros 950,925 in 2016) and withholdings and payments on account in 2017 total Euros 2,394,690 (Euros 2,184,557 in 2016). The income tax recoverable from the taxation authorities for 2017 totals Euros 1,056,658 (Euros 1,127,832 in 2016).

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the currently established inspection period of four years has elapsed. The Company's directors and their tax advisors consider that no tax contingencies for significant amounts would arise in the event of a tax inspection as a result of possible different interpretations of the tax legislation applicable to the Company's operations.

On 28 February 2015 the taxation authorities informed the Company of the start of general verification and investigation proceedings in accordance with articles 141 and 145 of the General Tax Law and article 177 of the General Regulation for tax inspection and management actions and procedures and the development of common standards for tax application procedures. The inspections, which are for corporate income tax in 2012 and 2013, are partial and only encompass finance costs accrued on the financing of the distribution of dividends.

In 2016 the state taxation authorities issued an additional tax assessment and imposed a penalty of Euros 154,852 (see note 17). The Company presented objections in defence of its interests and, at the date of issuance of these annual accounts, no changes had been made.

21. Income and Expenses

A breakdown of the Company's revenues from continuing operations for 2017 and 2016 by category of activity is as follows:

	2017	2016
Segmentation by category of service		
Sales	189,413	170,275
Services rendered	179,963,399	169,265,215
	180,152,812	169,435,490

a) Revenue from the rendering of services is substantially generated by the Company activities described in note 1, which include the provision of comprehensive services for the use of customers' credit and debit cards, for which the Company invoices the banking institutions of the national and international market.

During 2017 and 2016 the Company established volume discounts as a percentage of gross turnover at a value exceeding a certain annual turnover. At 31 December 2017 this volume discount has been estimated at a total of Euros 10,194,479 (Euros 9,316,682 at 31 December 2016).

b) Other operating income - Non-trading and other operating income for 2017 includes an amount of Euros 1,816,996 charged to different telephone operators (Euros 3,771,899 in 2016). During 2017 the Company recognised Euros 1,655,346 under other operating expenses - external services to reflect remuneration paid to dealers for the business they had generated (Euros 2,454,025 in 2016) (see note 21.e).

c) Details of merchandise, raw materials and consumables used in 2017 and 2016 are as follows:

	2017	2016
Supplies:		
Change in inventories (note 12)	20,678	5,143
Raw materials and consumables used	165,760	126,142
	186,438	131,285

d) Details of personnel expenses during 2017 and 2016 are as follows:

	2017	2016
Salaries and wages	24,413,009	23,051,847
Provisions (note 17)	1,463,958	2,686,167
Severance accrued	1,408,835	896,711
Social Security payable by the Company	5,942,324	5,355,649
Other charges	1,750,321	1,625,490
	34,978,447	33,615,864

Provisions for 2017 include Euros 2,512 reflecting provision surpluses (Euros 122,698 at 31 December 2016).

The expense incurred for salaries and wages essentially reflects the salary payments settled in 2017 and 2016.

The average headcount for 2017 and 2016 and the final headcount disclosed by gender and category at 31 December 2017 and 2016 are as follows:

	2017				2016			
	Annual average	Male	Female	Total	Annual average	Male	Female	Total
Management	24	19	4	23	25	19	6	25
Level 1	5	1	3	4	6	2	3	5
Level 2	21	15	7	22	21	15	6	21
Level 3	277	239	71	310	232	172	68	240
Level 4	60	39	19	58	60	39	21	60
Level 5	128	57	78	135	120	49	73	122
Level 6	1	1	0	1	1	1	-	1
	516	371	182	553	465	297	177	474

The average number of Company employees with a disability rating of 33% or higher (or equivalent local rating) in 2017 and 2016, distributed by category, is as follows:

	Annual average	
	2017	2016
Administrative staff	2	2
	2	2

e) In 2017 and 2016 other operating expenses included the following items:

	2017	2016
Subcontracted work	33,875,216	32,253,445
Leases, repairs and maintenance	35,655,938	38,056,960
Office materials	40,676	37,985
Communications	11,721,325	10,507,623
Other expenses for external services	3,921,400	4,004,738
Taxes	213,447	413,099
Losses, impairment and changes in provisions for commercial transactions	279,829	95,653
	85,707,831	85,369,503

In 2017 other expenses for external services included an amount of Euros 1,655,346 reflecting remuneration paid to dealers for generating business, based on the number of transactions they had carried out during the year (Euros 2,454,025 in 2016).

f) Details of disposals of fixed assets included in the income statement for 2017 and 2016 are as follows:

	2017	2016
Property, plant and equipment		
Gains	27,228	2,243
Losses	(756,951)	(626,695)
	(729,723)	(624,452)

22. Net finance cost

Details of the net finance cost for 2017 and 2016 are as follows:

	2017	2016
Finance income from marketable securities and other financial instruments:		
- Other	25,392	7,552
Finance costs:		
- Payables to third parties	(443,397)	(540,056)
- Provision adjustments	-	(29,047)
- Other	(18,649)	-
	(462,046)	(569,103)
Exchange losses	7,886	(3,653)
Net finance cost	(428,768)	(565,204)

23. Directors' Remuneration

The board of directors accrued no remuneration during 2017 and 2016 and no balances are receivable from or payable to the directors, in their capacity as such.

During 2017 the Company has paid public liability insurance premiums amounting to Euros 130,150 (Euros 144,250 in 2016) for damage or loss caused by actions or omissions at the end of the year.

The Company has no pension obligations with former or current board members in their capacity as such. There are no other obligations or balances receivable from or payable to the members of the board of directors.

During 2017 and 2016 the total expense accrued to reflect the remuneration of the Chairman of the board of directors, in his capacity as the Company's general manager and not as chairman of the board of directors, amounted to Euros 645,214 and Euros 623,350, respectively, with Euros 583,280 and Euros 562,559, respectively, reflecting remuneration, and Euros 61,934 and Euros 60,791, respectively, representing contributions to a mixed insurance policy (savings and risk).

24. Senior Management Remuneration

During 2017 and 2016 the total expense accrued to reflect remuneration paid to senior management, including general management, amounted to Euros 906,427 and Euros 878,125 respectively, of which Euros 844,493 and Euros 817,334, respectively, reflect remuneration, Euros 61,934 and Euros 60,791, respectively, reflect contributions to a mixed insurance policy (savings and risk) and Euros 1,924 and Euros 1,832 reflect contributions to pension plans for 2017 and 2016, respectively.

At 31 December 2017 the Company has extended loans to senior management personnel amounting to Euros 89,926 (Euros 109,547 at 31 December 2016).

25. Related Party Transactions

(a) Information on the Company's Directors

Details of related parties in 2017 and 2016, and the nature of the Company's relationship with these parties, are as follows:

Parties	Nature of relationship
General Manager of the Company	Company Manager and Chairman of the Board of Directors since April 2011
Directors	Board members

The transactions carried out with related parties in 2017 and 2016 are as follows:

	2017	2016
Salaries (note 23)	(583,280)	(562,559)
Share premium (note 23)	(61,934)	(60,791)
Total expenses	(645,214)	(623,350)

Except as indicated in notes 23 and 24, at 31 December 2017 and 2016 the Company has no pension or life insurance obligations with former or current board members, nor has it extended any guarantees on their behalf.

At 31 December 2017 and 2016 the Company has not extended any advances to any members of the board of directors or senior management personnel.

(b) Related PartyTransactions

The most significant balances with related parties at 31 December 2017 and 2016 are as follows:

	2017	2016
Assets		
Suppliers, Group companies and associates (note 11)	2,923	-

	2017	2016
Liabilities		
Suppliers, Group companies and associates (note 16)	738,227	346,368

	2017	2016
Expenses		
Expenses from the rendering of services:	31,980	-

	2017	2016
Income		
Services rendered	3,704,363	3,528,641

26. Environmental Information

The Company considers that it substantially complies with the laws related to environmental protection (environmental laws). In 2017 and 2016 the Company did not make any significant investments of an environmental nature, nor did it make provision for environmental liabilities and charges, nor does it consider there to be any significant contingencies relating to the protection and improvement of the environment

27. Audit Fees

KPMG Auditores, S.L. are the auditors of the Company's accounts. Audit fees for the year ended 31 December 2017 amount to Euros 47,800, irrespective of the date of invoice (Euros 45,450 in 2016). The fees invoiced during 2017 for tax advisory services rendered by other entities affiliated with KPMG International amount to Euros 36,670 (Euros 35,048 for tax advisory services by other entities affiliated with KPMG International in 2016).

28. Conflicts of Interest of the Board of Directors

The directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

29. Events after the Reporting Period

Between 31 December 2017 and the date of authorising these annual accounts for issue no significant events have taken place that could have a significant effect thereon.

Directors' Report

2017

During 2017 the Company's activity levels have continued on an upward trend. Transaction processing is up by 17% with respect to the prior year, with a significant 41% increase in e-commerce processing. The proportion of "contactless" transactions is on the rise, with 51% of in-person purchases using this technology.

New technologies are making an increased contribution to the company's activity and payments via mobile device as well as purchases at mobile terminals are up slightly on both domestic and international transactions.

There has also been growth in new functionalities of existing services; all with an exceptional level of availability by the platform and the different operating channels.

Improving our service has been a basic mainstay of Redsys activity during 2017. During the year, plans already in progress have continued to be developed, enhancing quality terms and reviewing all interactions by Redsys with its customers.

Within the Technology areas, the following projects stand out in relation to the aforementioned improvement:

•Operation Improvement Plan

•Monitoring

•New Environments and Tests

The levels of operational availability of the company's essential services continue to be unbeatable, with the company's historical high reaching **99.999%.**

During 2016, Redsys created a tool for all **queries, incidents and operating Service orders** focused on improving the service rendered to Entities. This new tool has enabled the company to reduce incidents recorded by 13% in **2017** with respect to the prior year, with incidents involving an operational impact down by **5.8%**. This has enhanced customer perception of the quality of the service rendered.

Lastly, we highlight the work carried out to define the new Technology Plan aimed at defining activities that will enable updates to the Redsys technological platform in order to respond to service requirements in the ever-evolving digital payment landscape in the coming years.

Within the Operations area, we would highlight the following:

- During 2017 we migrated the Contact Centre to a new service provider, stabilising the service within less than three months, without impacting customers. Improved efficiency and service levels. Service Desk has been strengthened as a first-level response unit with a 70% resolution rate and an average of 80% under 4-hour resolution. A Personal Customer Service Model has been released for services that require it (Vending, PSP, etc.).

- A training plan has been developed with the EEs, enhancing knowledge of Redsys tools and services, through specific on-site courses and an e-learning platform.

- In the Interchange, Clearing and Settlement areas, a series of different projects have been undertaken enabling the quality of the service rendered to be enhanced, improving the match level of sessions and collection/payment reductions by 70%. New settlement models have also been introduced, based on the needs arising from new payment methods introduced (Alipay, JCB, etc.).

- In **Device Management** the following should be noted:

    - improved KPIs and SLAs have led to an improved service both in installations and in terminal repairs.
    - Terminal replacement schemes were carried out to comply with the contactless technology standard, reaching a coverage of 94% of terminals adapted to this technology.
    - The new business line associated to the vending sector has been consolidated.

- Culminating the functional and technical transformation process of the **Case-Flow Management** service, Redsys offers a series of services geared towards improving end customer care, facilitating the user experience and improving quality and incident resolution time. In this context, Redsys is currently equipped to offer a range of customised back-office payment services that goes beyond the reactive approach of traditional BPOs, integrating the rendering of these services in the processing value chain and customer care, ensuring that the services meet customers' actual needs. For instance, Redsys offers direct integration with end customers, through its Front Office, enabling it to significantly reduce resolution times, and also improve customer care quality and cut down on inefficiencies and the costs compared to traditional procedures.

- In the ATM service, the number of ATMs with Windows 7 O.S. has reached 5,700 units in 2017, bringing the total number of ATMs connected to the central system under this platform to over 60% of all ATMs using the Redsys application. Two new entities have been integrated with the Redsys application and work has progressed towards incorporating another two in early 2018.

  A number of different projects have been developed with the main aim of diverting transactions from branches to ATMs (deposits, payments, etc.), cutting down on operational costs (cash recycling) and securing technological development (transactions via mobile devices).

A new service has been launched for comprehensive ATM network monitoring, in order to centralise supervision in a single point and improve ultimate network availability. With this service, Redsys can offer a broad range of services for the ATM environment.

In conclusion, the activity indicators in terms of quality provided by the company and our customers' satisfaction has led to improvements with respect to last year throughout the entire company, proving our efficiency in this regard.

In addition to the aforementioned quality, another significant goal relates to efficiency, working on the different services to optimise activities with less added value, in order to free up resources for use in undertaking functional development and service improvement projects.

The company's efforts to secure ongoing improvement in productivity rates is key, and there has been a clear improvement in this regard compared to last year.

Growing activity, increased project revenue, improvements in incident management, continued perception of quality by our customers, expansion of the total number of terminals and efficient expenditure management have led to a higher accumulated turnover than last year by Euros 1.8 million, and the company's bank borrowings have been reduced by 24.3%.

As part of its growth process, the company has fully acquired **Havasoft**, a consultancy firm specialised in solutions for health insurance companies and online health services. By acquiring this entity, the Company is consolidating the Health area in services rendered to insurance companies and hospitals.

As part of the Company's commitment to regulatory and legal compliance, it has undergone a first audit of the Criminal Compliance Management System in place at the company, the results of which were satisfactory with no breaches detected.

The Company considers that it substantially complies with the laws related to **environmental** protection (environmental laws).

Financial risks are managed by the Company's Treasury Department, which identifies, evaluates and mitigates financial risks in accordance with policies approved by the Company's Financial Management, which issues global risk management policies as well as policies for specific issues such as interest rate risk, liquidity risk, the use of derivative and non-derivative instruments and the investment of cash surpluses. Cash / debt has been notably better than forecast in the original business plan.

Risk management is carried out by analysing market risk (currency risk, price risk and interest rate risk), credit risk and liquidity risk.

The Company did not acquire any **own shares** in 2017.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

The secretary to the Board of Directors of Redsys, Servicios de Procesamiento, S.L., Ms. Alicia Beatríz Muñoz Lombardia, hereby certifies that all the members of the Company's Board of Directors authorised the issue of and in witness thereof signed the accompanying annual accounts for the year ended 31 December 2017, which comprise the balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto and the directors' report for 2017, numbered from page 1 to 52, for the purposes of their verification by the auditors and their subsequent approval by the shareholders at the annual general meeting. They also hereby confirm that, to the best of their knowledge, the Annual Accounts prepared in accordance with applicable accounting principles, give a true and fair view of the equity, financial position and results, and that the Directors' Report provides a reliable analysis of the Company's performance, results and position, as well as a description of the main risks and uncertainties to which the Company is exposed. This certification has been signed by each of the members of the Company's Board of Directors.

Madrid, 21 March 2018

SECRETARY TO THE BOARD OF DIRECTORS

Signed: Alicia Beatriz Muñoz Lombardía

CHAIRMAN

Jesús Verde López

Oriol Borrell i Vilaseca

Luis Javier Blas Agüero

Juan Antonio Merino Cantos

José Carlos Orozco Tejero

Mediación y Diagnósticos, S.A.
Luis Félix Uriarte Extremiana

Inmogestión y Patrimonios, S.A.
Eva María Herranz Caro

Rural Informática, S.A
Ramón Carballás Varela

Javier Francisco Cuenca Carrión

Banco Sabadell
Adrià Galian i Valldeneu

Josep Gallach Patau