

Nets Denmark A/S

Annual Report 2017

Adopted at the Annual General Meeting
16 March 2018

Chairman of the AGM:

Louise Rubæk Andersen

Nets Denmark A/S
Lautrupbjerg 10
DK-2750 Ballerup
www.nets.eu
CVR no. 20 01 61 75

Key figures

(DKK million)	2017	2016	2015*	2014*	2013*
Income statement					
Revenue	6,480	6,215	5,706	5,573	5,535
Profit before depreciation, amortisation and impairment losses	2,081	1,848	1,454	1,243	1,200
Operating profit	1,586	1,398	1,220	1,059	987
Profit/loss from financial income and expenses, net	1	388	1,519	46	78
Net profit for the year	1,429	1,480	2,178	810	698
Balance sheet as at 31 December					
Total assets	13,280	11,597	10,453	7,024	8,224
Investment tangible assets	216	198	74	75	100
Investment intangible assets	313	301	1,680	187	69
Equity	5,165	4,041	3,936	2,720	2,526
Financial ratios (%)					
Operating margin	24	22	21	19	18
Liquidity ratio	130	119	126	111	80
Solvency ratio	39	35	38	39	31
Return on equity	31	37	65	31	36

*) Key figures for the years 2015 – 2013 have been restated due to the merger at 1 January 2017 of Nets Denmark A/S, Teller A/S, Teller Services ApS and Kortaccept Nordic AB. The restating is completed by using the aggregation method of the companies (proforma).

Management's Review

Business foundation Nets Denmark A/S' objects are to conduct business with payment and transmission of information, card and data service activities and other business related thereto as well as promote the development and use of a common infrastructure for the financial institutions.

Business model Nets Denmark create value by delivering payments and digital services that are used by thousands of merchants, hundreds of financial institutions, thousands of corporates and millions of consumers across the Nordic and Baltic regions, and that benefit communities and society as a whole.

Nets Denmark A/S has merged with affiliated company Teller A/S including Teller Services ApS and Kortaccept Nordic AB effective 1 January 2017. Nets Denmark A/S, Ballerup is the continuing company. The business in the Nordics and Baltics are carried out through branches. The Norwegian branch serves the market in Norway and is staffed as an independent unit with both sales, operations and other related functions. The other branches are sales offices.

Nets Denmark invest in, maintain and operate a considerable number of services critical to several national payment infrastructures, such as domestic debit card schemes, clearing systems, e-identity schemes and payment platforms, security, stability and high performance remain our top priorities.

As a leading provider of digital payment services and related technology solutions across the Nordic region, Nets Denmark sits at the centre of the digital payments ecosystem, and we operate a deeply entrenched network which connects merchants, financial institutions, corporate customers and consumers, enabling them to make and receive payments as well as, increasingly, utilise value-added services to help them improve their respective activities. Nets Denmark operates across the entire value chain from payment capture and authorisation through to processing, clearing and settlement.

Nets enables digital payments across all major channels – in person, online, and via a mobile device – and a large number of our services are used by a majority of consumers in Denmark and Norway, such as direct debit payments, card payments, digital authentication and invoice solutions. While we offer merchants acquiring solutions, point-of-sale terminals and e-commerce directly to the merchants, services delivered to the corporates, such as direct debit and invoicing solutions, are offered in close co-

operation with financial institutions. Other solutions, e.g. card payments and the national identity schemes NemID and BankID, are also offered in close co-operation with the financial institutions. In Denmark, we own some of our key services, such as Dankort and Betalingservice, while we in Norway operate similar services, including invoice solutions, direct debit payments and BankAxept card payments, on behalf of and in close co-operation with our customers.

Financial performance In 2017, Nets realised strong financial results through revenue growth and a significantly improved cost structure and continued to invest in secure and stable operations, flexible and scalable IT services and innovative solutions. Operating profit for the year was DKK 1,586 million, which is an increase of DKK 188 million (13%) compared to 2016.

On 2 November 2015, Visa Inc. and Visa Europa Ltd. (Visa Europa) announced that they had reached an agreement for Visa Inc. to acquire Visa Europe, and the deal closed on 21 June 2016. As part of the sale of the Nets Group in 2014, certain agreements were entered into about the future distribution of the proceeds, given that a sale of Visa Europe would take place. The fair value adjustments of the Visa shares is included in net profit for the year with DKK 81 million (in 2016 DKK 503 million). Of the value adjustments of Visa shares in Teller Branch Norway in 2016 DKK 185 million and belongs to Nets Denmark.

Net profit for the year was DKK 1,429 million, which is a decrease of DKK 51 million compared to 2016. The results are – for both years - positively affected by financial income of a non-recurring nature linked to Visa transaction. Net profit level was in line with expectations.

Nets Denmark operates in three main business segments:

- Merchant Services
- Financial & Network Services
- Corporate Services

and revenue increased by 4% compared to last year and amounted to DKK 6,480 million.

External and staff costs increased by DKK 33 million compared to 2016 and amounted to DKK 4,400 million. There are used significant resources to optimize operations and processes so Nets Denmark can handle increased transaction volumes efficiently in the future.

Equity amounted to DKK 5,165 million, which is equivalent to a solvency ratio of 39% compared to 35% ultimo 2016. Proposed dividends amounted to DKK 2,300 million, compared to DKK 1,462 million in 2016.

The Danish Payment Services Act requires that companies offering payment services must have authorisation from the Danish Financial Supervisory Authority to operate as a Payment Institution. Nets Denmark A/S has been approved as a Payment Institution, and the capital requirement in accordance with the rules of the Danish Financial Supervisory Authority has been calculated at DKK 467 million. Equity at 31 December 2017 amounted to DKK 5,165 million included proposed dividend at DKK 2,300 million.

Merchant Services

Merchant Services provides our merchant customers with payment acceptance solutions across channels (in store, online and mobile) and with the broadest range of payment methods in the Nordic region, including Visa, MasterCard, JCB, and local payment brands. Merchant Services is present across Nordic and Baltic countries and works with a broad set of value-adding partners across the region.

Merchant Services manages and simplifies merchants' payments flow. We enable merchants to accept payments, easily and without friction regardless of channels, receive the settlement in their bank account and get detailed reconciliation information and statistics, all in different currencies and frequencies depending on merchant needs and consumer preferences.

The acquiring revenue is primarily driven by a value-based fee per transaction with monthly subscription fees for additional services, while the terminal sales revenue is primarily driven by monthly subscription fees on terminals from rental fees, software fees and value-added services such as special support and/or payments from customers buying their terminals.

Financial & Network Services

Financial & Network Services provides processing services for issuers of payment cards, primarily banks, in the Nordic region as well as complementary services, including Consumer Management Services (CMS), Fraud & Dispute solutions, and Mobile Services.

The business segment also operates and/or processes the national debit card systems in Denmark and Norway, branded Dankort and BankAcept respectively. These schemes have been instrumental in the establishment of a modern Nordic electronic card payment infrastructure.

The growth in net revenue was supported by the underlying

growth in transactions. Reduced prices on processing of Visa/ Dankort transactions contributed negatively to the growth compared with 2016. The price reduction has, however, been partly offset by a higher number of processed transactions.

The growth in number of accounts under management on our CMS platform was solid, partly due to the on-boarding of new customers. The introduction of fraud prevention based on neural network technology in all major geographies has led to declining volumes in dispute handling.

The implementation revenue related to the development of mobile-based payment solutions was extraordinarily high in 2016, and its decrease in 2017 thus impacted growth negatively. Adjusting for all implementation revenue, the organic growth in 2017 would have been around 2 percentage points higher. Approximately 70% of Financial & Network Services' net revenue is related to the 5.7 billion processed transactions, which includes the two domestic debit card schemes in Denmark and Norway. Combined, the two domestic card schemes account for approximately 30% of net revenue.

Corporate Services

Corporate Services offers integrated e-bill services to corporates, enabling them to invoice their consumers electronically and automatically receive payments at due time, with the benefit of low churn. Consumers are provided with an overview of the invoices paid directly from their online bank. More than 90% of Danish households use the direct debit service to pay utility bills and other bills.

Corporate Services also offers national e-identity solutions in Denmark and Norway, used by 95% of Danes and 80% of Norwegians respectively.

Corporate social responsibility (CSR)

Please find the statutory statement on Corporate Social Responsibility description of this subject in the Management's review of the parent company, Nets A/S.

With respect to the statutory statement on social responsibility in accordance with section 99a of the Danish Financial Statements Act, please refer to the Management's Review of the parent company Nets A/S.

Report on gender composition of management

With respect to the gender composition of board members elected by the General Assembly as well as the policy for the under-represented gender on other managerial levels in accordance with the Danish Financial Statements Act section 99b, please refer to the Management's Review of the parent company, Nets A/S.

Risk management

Risk management is an integral part of our way of doing business at Nets Group and helps us understand and manage the uncertainties inherent in our strategy and the daily running of our business. Risk management is carried out jointly for the Group.

Risk management is an important discipline for executive management, business leaders and employees at all levels and has evolved as a discipline throughout 2017 to provide a clear and complete overview of all identified risks in the Group.

The Board of Directors of Nets A/S is responsible for the overall governance of the companies in Nets Group and oversees our risk landscape and approves strategies and policies within the areas of risk management, security, business continuity, merchant acquiring credit risk, treasury risk, anti-money laundering and competition law compliance.

The Board has appointed an Audit Committee which, among other tasks, monitors risk management strategies, policies, processes and methodology.

Risk Management facilitates the risk assessment process, provides domain expertise on selected risk areas and ensures that sufficient actions are taken to mitigate risk exposure. All assessments are performed in accordance with the requirements of the Risk Management Policy.

A “three lines of defence” model is implemented throughout the organisation and forms the basis for risk decision-making within Nets. The model is used to structure roles, responsibility and accountability for decision-making concerning risk and internal controls, and to ensure good collaboration between the three lines.

- **First line** – Business segments and Group units.
The business and group units perform the day-today risk-bearing activities and are responsible for identifying, assessing and treating risks within those activities. The business segments and group units are responsible for compliance with legal, contractual and regulatory requirements.
- **Second line** – Risk management.
The Risk Management function is responsible for defining policies, standards and procedures for risk-based decision-making, internal control and reporting. Risk Management facilitates the risk assessment process, maintains Nets’ enterprise-wide risk landscape and ensures that risk mitigation plans are progressing in the business segments

and group units.

• **Third line** – Independent assurance.

The third line is maintained by Nets' internal and external auditors, providing independent assurance concerning the risk and control functions performed by the first and second lines. Internal Systems Audit coordinates and performs the audit of the general IT controls in Nets, the IT-based user systems and applications and the IT systems offered for the exchange of data with the connected data centres and associated financial enterprises. Additionally, the core business processes in Nets and projects, which are important to Nets' customers or internally within Nets, are audited.

The risks described below are those currently considered the most material to our business.

The risks are the result of risk assessments and workshops within the different business segments and group units in Nets. Top management review the risks and prioritise, approve and follows up on mitigation actions. The mitigation to the risks set out below are examples described in summary form to further the understanding of the risk in question and how it may be mitigated.

The risks described below are not listed in any particular order of priority as to significance or probability.

Technology innovation

Global technology trends such as artificial intelligence, biometrics, blockchain, Internet of Things (IoT), virtual reality and robotics accelerate the development and implementation of new products, services and business models. These digital innovations and business models create new opportunities but could also potentially challenge the Group's existing business.

Industry & market transformation

New technologies (as described above) and regulations as well as new market entrants and/or alliances (as described below) drive an ever-increasing rate of competition and market transformation. Increased requirements from our customers in terms of functionalities, usability and innovation, requires us to remain proactive, without compromising on our high standards on security and quality.

E-commerce, mobile commerce and digital products (e.g. app stores, streaming, in-app) are expected to drive much of the new growth as consumers, merchants and corporates expect transparent, digitised and readily available services. Increased

competition could also result in an increased price pressure on services delivered by Nets.

Regulatory environment

The Group is subject to a wide array of laws and regulations in the jurisdictions in which it operates. Further, regulatory bodies across Europe, including the Nordic region, are placing the financial industry, payment institutions and providers of digital products and services under increased regulatory scrutiny. Privacy and financial crime prevention require significant resources while local regulators adapt and define clear requirements for market participants. GDPR and PSD2 are examples of areas in which Nets must ensure the requirements are being adhered to.

GDPR

As both a processor and controller of personal data, Nets must be able to demonstrate compliance with the requirements in the GDPR. The GDPR regulates the processing of personal data for data subjects within the EU. Before the new regulation enters into effect in May 2018, Nets must have implemented appropriate technical and organisational measures in order to meet the requirements of the GDPR and ensure the protection of the rights of the data subjects.

PSD2

In 2018, PSD2 will come into effect enabling third-party providers to access customers' bank accounts to extract account information and provide payment initiation. This will result in a new set of players coming to the market and increased competition.

Information security

Each day, Nets processes and stores large amounts of data related to the processing of financial transactions between millions of accounts in multiple countries. Due to the high value of such information assets and the systemic importance of our systems to the national financial infrastructures, Nets faces a constant threat from a number of different agents such as hacktivists, organised crime and nation states. Relevant security threats include social engineering such as phishing and spear-phishing, hacking, system malware and ransomware rendering data unreadable.

Stability and operations

Today, Nets operates several services critical to the national financial infrastructures in the Nordic countries, such as domestic debit card schemes, clearing systems, e-identity schemes and payment platforms. As these systems are critical for our customers, government organisations and authorities, stability has a high priority at Nets. Potential risk causes include insufficient

application deployment and testing, change implementation issues and errors and Distributed Denial of Service (DDoS) attacks.

Merchant acquiring

Fraud risk

Nets has a potential financial liability and could also suffer reputational damage for fraudulent digital payment transactions (fraudulent sales of goods and services, or customers who get defrauded). Failure to effectively manage this risk could increase Nets' chargeback liability and lead to fees from international card schemes. A chargeback normally occurs when a dispute between the merchant and the cardholder is not resolved in favour of the merchant, so the transaction is "charged back" to the merchant and the purchase price is credited or otherwise refunded to the cardholder. If Nets is unable to collect such amounts from the merchant's account, or if the merchant refuses or is unable to e.g. due to bankruptcy, then Nets will bear the losses. The risk of fraud-related chargebacks is greater in certain industries and especially within e-commerce.

Merchant credit risk exposure

Nets operates under licenses issued by the major international card schemes. A requirement to get these licenses is to take on the full financial responsibility (risk) for goods or services that are prepaid to the merchant by the cardholder (i.e. the merchant first charges the cardholder and only later delivers the product/service). If the merchant is not able or willing to deliver the prepaid goods or services, the amount paid will be charged-back from Nets by the card issuer. Nets will then rightly claim a refund from the merchant, but if the merchant is insolvent/bankrupt, the loss will be on Nets.

For further information please find the risk management description in the Management's review of the parent company Nets A/S.

Outlook for 2018

Nets' strategy is growth-oriented with an ambition to increase our customer focus, meet target market needs and create value to our customers, partners and deliver on stability, security and integrity.

Technology supports business segments across Nets by providing secure and stable operations while accommodating flexibility and scalability. Technology also helps accelerate time-to-market, thus helping our business units gain customer impact through strong delivery. Similarly, Operations helps our business units secure customer focus by providing easy and efficient end-to-end solutions for their customer processes, including digitised

processes that allow self-service.

As a result of these actions and improvements Nets Denmark expects a year with solid organic growth in revenue and operating profit at least in line with the increase achieved from 2016 to 2017.

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today considered and adopted the Annual Report of Nets Denmark A/S for the financial year 1 January – 31 December 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the Financial Statements give a true and fair view of the Company's financial position as at 31 December 2017 and of the results of the Company's operations for the financial year 1 January – 31 December 2017.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Ballerup, 16 March 2018

Executive Board

Jens Heurlin
CEO

Thomas Jul Pfeiffer

Board of Directors

Bo Nilsson
Chairman

Pia Jørgensen

Klaus Pedersen

Niels Ulrik Mortensen

Independent Auditor's report

To the Shareholder of Nets Denmark A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017, and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Nets Denmark A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial

Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

**Management's
Responsibilities for
the Financial
Statements**

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

**Auditor's
Responsibilities for
the Audit of the
Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark 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 financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate

in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Hellerup, 16 March 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Mikkel Sthyr
State Authorised Public Accountant
mne26693

Rasmus Friis Jørgensen
State Authorised Public Accountant
mne28705

Accounting policies

The annual report has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

The functional currency is Danish kroner (DKK).

The accounting policies used are consistent with last year.

Nets Denmark A/S, Ballerup, has merged with affiliated company Teller A/S including Teller Services ApS and Kortaccept Nordic AB effective 1 January 2017. Nets Denmark A/S, Ballerup is the continuing company. The merger was completed using the aggregating method, according to which assets and liabilities from the subsidiaries are included at book value. Consequently, the comparable numbers have been restated as 1 January 2016. The balance sheet does not reflect goodwill or badwill.

Pursuant to section 112 of the Danish Financial Statements Act, no consolidated financial statements have been prepared for Nets Denmark A/S and subsidiaries as the companies are included in the consolidated financial statements of Nets A/S, Lautrupbjerg 10, DK-2750 Ballerup.

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement is prepared as the Company is included in the consolidated financial statements of Nets A/S, Lautrupbjerg 10, 2750 Ballerup.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of the liabilities can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual financial statement item.

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the Annual Report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned. Equally, costs incurred to generate the year's earnings are recognised,

including depreciation, amortisation, impairment losses and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognised in the income statement.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

On recognition in the financial statements of subsidiaries with another functional currency than DKK, the income statements are translated at the exchange rates at the transaction date and the balance sheet items are translated at the exchange rates at the balance sheet date. The average exchange rate for the individual month is used as the exchange rate at the transaction date to the extent that this does not differ significantly. Exchange rate differences arisen when translating foreign subsidiaries' equity at the beginning of the year using the exchange rate at the balance sheet date and when translating income statements from average exchange rates at the transaction date to the exchange rate at the balance sheet date are recognised directly in equity.

On recognition of foreign branches which are integrated entities, monetary items are translated at the exchange rates at the balance sheet date. Non-monetary items are translated at the exchange rates at the acquisition date or at the date of any subsequent revaluation or impairment of the asset. Income statement items are translated at the exchange rates at the transaction date, although items derived from non-monetary items are translated at the historical exchange rates applying to the non-monetary items.

Income statement

Revenue

Nets Denmark earns revenue from its customers predominantly on a transactional basis and on a non-transactional basis:

Transaction-based revenue – includes revenue generated through a combination of (a) a fee per transaction processed (which represents the primary revenue model in the Corporate

Services and the Financial & Network Services segments) and (b) an ad valorem fee based on the value of transactions acquired (which represents the primary revenue model of the Merchant Services segment).

Non-transaction-based revenue – includes revenue generated through provision of subscription-based fees related to the sale and rental of point-of-sale (POS) and related solutions and fees related to the sale of value-added services and revenue from development projects across all three business segments.

Revenue from transaction service charges, transaction processing and similar services is recognised as revenue when services are performed.

Revenue from the sale of products is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of products is measured at the fair value of the consideration received or receivable, net of returns and allowances.

Rental income arising from leases of terminals is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature.

Revenues from services obligations to be provided over a period of time are initially deferred and then recognised on a straight-line basis over the period during which the services are provided.

Revenue is recognised as the gross amount excluding VAT, taxes and duties, interchange fees and processing fees and discounts in relation to the sale.

**External
Costs**

External costs incurred in generating the revenue for the year comprise IT operation, operating leases of software, external production costs, loss and fraud, development costs, maintenance and development costs that do not qualify for capitalisation, postage, envelopes and other costs incurred in distributing goods as well as marketing and other sales costs and administration costs and lease agreements.

Staff costs

Staff costs comprise wages and salaries and remuneration, pension contributions, social security costs and other salary-related costs.

The share option programme is accounted for on an accrual basis over the vesting period. Share options issued are measured at fair value at the date of granting times the probability of vesting.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value is fixed at the grant date. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The probabilities are adjusted at year-end. Nets A/S recognises the impact of adjustments to estimates, if any, in the income statement and in a corresponding adjustment to equity (change in proceeds) over the remaining vesting period. Adjustments relating to prior years are included in the income statement in the year of adjustment.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses comprise the year's depreciation on property, plant and equipment, amortisation of intangible assets and impairment losses.

Profit/loss from investments in subsidiaries and associates

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement after elimination of intra-group profits/losses.

Financial income and expenses

Financial income and expenses comprise interest income and expense, realised and unrealised exchange gains and losses on payables and transactions denominated in foreign currencies, etc.

Tax

Nets A/S and Danish subsidiaries are jointly taxed. The current Danish corporation tax allocated between the jointly taxed companies in proportion to their taxable income is recognised in the income statement. The tax saving as a result of losses is also refunded proportionately.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. The change in deferred tax liabilities is also recognised in the income statement.

Tax assets are recognised if they can be set off against deferred tax in other consolidated enterprises or if it is probable that it can be utilised in future earnings.

Current and deferred tax is computed at the tax rates applicable.

The Group's entities are taxed under the on-account tax scheme. Interest/refund relating to the tax payment is included in interest income and expense and similar items.

Balance sheet

Intangible assets

Customer agreements

Customer agreements acquired are measured at historical cost less accumulated amortisation and any impairment loss. Amortisation is calculated using the straight-line method to allocate the cost over estimated useful life, which is up to 15 years.

Goodwill

Goodwill represents the value of the current workforce and know-how and also the operational synergies expected from integration within the company. Goodwill is measured at historical cost less accumulated amortisation and any impairment loss. Amortisation is calculated using the straight-line method to allocate the cost over estimated useful life of 5-10 years.

Software

Capitalised software are amortised over their estimated useful lives of 3–7 years.

Development projects in progress

Development costs that are directly attributable to the design and testing of identifiable and unique projects including software products controlled by the company are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the asset so that it will be available for use
- Management intends to complete the asset and there is an ability to use or sell it
- The asset will generate probable future economic benefits
Expenditure attributable to the asset during its development can be reliably measured.

Costs associated with maintaining the assets are recognised as an expense as and when incurred.

Directly attributable costs that are capitalised as part of the assets include employee costs.

Development projects in progress are tested for impairment at least annually.

Property, plant and equipment

Property, plant and equipment are stated at their purchase price, including incremental expenses on acquisition less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on a straight-line basis over the

expected useful economic life of the assets concerned.

The estimated useful life for this purpose is:

Leasehold improvements	up to 10 years
Terminals	3 years
Plant and machinery	2-4 years
Tools and equipment	2-5 years

The useful life of property, plant and equipment is determined based on periodic assessments of actual useful life and the intended use for those assets.

Impairment losses

The carrying amount of intangible assets as well as property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. The carrying amount of impaired assets is reduced to the lower of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the anticipated net income from the use of the asset or group of assets.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured according to the equity method.

Investments in subsidiaries are measured at cost and subsequently at the proportionate share of the enterprises' net asset values calculated in accordance with the Parent Company's accounting policies minus or plus unrealised intra-group profits and losses and plus or minus any residual value of positive or negative goodwill.

Subsidiaries with a negative net asset value are measured at DKK 0, and any receivable is written down by the parent company's share of the negative net asset value to the extent that it is considered irrecoverable. If the negative equity value exceeds the receivable, the balance is recognised under 'Provisions' to the extent the parent company has a legal or constructive obligation to cover a deficit in the subsidiary.

Acquisitions of enterprises – other than intra-group mergers - are accounted for using the acquisition method, according to which the identifiable assets and liabilities acquired are measured at

their fair values at the date of acquisition. Provision is made for costs related to adopted and announced plans to restructure the acquired enterprise in connection with the acquisition. The tax effect of the restatement of assets and liabilities is taken into account.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of 5-15 years for customer agreements and 5-10 years for goodwill.

Any excess of the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition (negative goodwill), representing an anticipated adverse development in the acquired enterprises, is recognised in the balance sheet as deferred income and recognised in the income statement as the adverse development is realised. Negative goodwill not related to any anticipated adverse development is recognised in the balance sheet at an amount corresponding to the fair value of non-monetary assets. The amount is subsequently recognised in the income statement over the average useful lives of the non-monetary assets.

Goodwill and negative goodwill from acquired enterprises can be adjusted until the end of the year following the year of acquisition.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Goods for resale are measured at cost, comprising purchase price plus delivery costs.

Receivables

Receivables are measured at amortised cost and necessary provisions are made for bad debt losses based on an assessment of the individual receivables.

Prepayments and accrued income

Prepayments comprise costs incurred, including operating leases concerning subsequent financial years.

Visa shares

Listed shares are measured at the fair value at the balance sheet

date.

Cash at banks

Cash and cash equivalents comprise cash and bank deposits.

Equity

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date when they are adopted at the annual general meeting.

Borrowings

After initial recognition borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Pension obligations

Nets has entered into defined benefit plans and defined contribution plans with its employees.

In a defined benefit plan, Nets is obliged to pay a specific benefit to certain employees from the time of retirement. A pension asset or pension obligation corresponding to the present value of the obligations less the defined pension plan's assets at fair value is recognised for these benefit plans.

The costs of providing benefits under the defined benefit plan are determined annually by independent actuaries using the projected unit credit method.

The defined pension plans' assets are estimated at fair value at the balance sheet date.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings in the period in which they occur.

Pension assets recognised are limited to the present value of future repayments from the pension plan or reduced future funding commitments. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

In case of changes in benefits relating to employees' previous service period, a change in the estimated present value of the pension obligations will occur, which will be recognised immediately if the employees have acquired a final right to the changed benefits. If not, the change is recognised over the period

in which the employees become entitled to the changed benefit.

Net periodic pension income/(cost) from defined benefit plans consists of the items: service costs, interest expenses and interest income on assets. Service costs are recognised in wages, salaries and pension costs. Interest expenses and interest income on assets, net, are recognised in pension costs.

For the defined contribution plans, Nets will pay in a fixed periodic contribution to separate legal entities and will have no further obligations after the payment has been made.

Costs regarding defined contribution plans are recognised as incurred within staff costs.

Other provisions	Other provisions are measured at net realisable value. Other provisions are recognised when, as a result of past events, the company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.
Liabilities	Financial liabilities are measured at amortised cost. Other liabilities are measured at net realisable value.
Accruals and deferred income	Accruals and deferred income comprises payments received concerning income in subsequent years.
Segment information	Information is provided on revenue by business segments. Segment information is based on internal financial management.
Financial ratios	Financial ratios stated in the survey of financial highlights are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

Operating margin	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
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Liquidity ratio	$\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$
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Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
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Return on equity	$\frac{\text{Profit from ordinary activities after tax} \times 100}{\text{Average equity}}$
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Income statement

Notes	DKKm	2017	2016
1	Revenue	6,480.2	6,215.0
	External costs	2,733.0	2,693.1
2	Staff costs	1,666.7	1,673.6
	Profit before depreciation, amortisation and impairment losses	2,080.5	1,848.3
6 & 7	Depreciation, amortisation and impairment losses	494.5	450.3
	Operating profit	1,586.0	1,398.0
8	Profit/loss from subsidiaries after tax	199.3	119.2
9	Profit/loss from associates after tax	4.1	4.3
	Profit/loss before financial income and expenses	1,789.4	1,521.5
	Fair value adjustment on Visa shares	81.4	502.8
3	Financial income	52.4	29.0
3	Financial expenses	132.9	144.3
		0.9	387.5
	Profit/loss before tax	1,790.3	1,909.0
5	Tax	361.3	428.9
4	Net profit for the year	1,429.0	1,480.1

Balance sheet

Notes	Assets	2017	2016
	DKKkm		
6	Intangible assets		
	Customer agreements	346.2	418.6
	Goodwill	849.9	988.7
	Software	486.7	381.4
	Development projects in progress	179.3	166.6
		1,862.1	1,955.3
7	Property, plant and equipment		
	Leasehold improvements	63.6	63.4
	Terminals	56.0	49.0
	Plant and machinery	233.8	155.2
	Tools and equipment	1.0	3.2
		354.4	270.8
	Investments		
8	Investments in subsidiaries	1,082.3	928.1
9	Investments in associates	19.4	15.3
14	Deferred tax asset	47.1	41.4
10	Deposits	14.2	14.3
		1,163.0	999.1
	Total non-current assets	3,379.5	3,225.2
	Current assets:		
	Inventories	60.2	57.0
		60.2	57.0
	Receivables:		
	Settlement assets	5,362.7	3,571.4
	Fair value of restricted shares in Visa Inc. and contingent consideration held by Nets Branch Norway (former Teller Branch Norway)	72,6	58.9
	Fair value of restricted shares in Visa Inc. held by Nets Denmark A/S (former Teller A/S)	0.0	457.0
	Other financial assets	105.0	105.0
	Trade receivables	456.7	412.8
11	Group enterprises	2,897.7	2,311.0
	Other receivables	7.8	8.3
12	Prepayments	183.8	150.3
		9,086.3	7,074.7
18	Cash at banks	753.5	1,239.8
	Total current assets	9,900.0	8,371.5
	Total assets	13,279.5	11,596.7
	Contingent assets:	None	

Balance sheet

Notes	Liabilities	2017	2016
	DKKm		
13	Equity and liabilities		
	Share capital	264.5	264.5
	Reserve development projects	424.1	228.9
	Retained earnings	2,138.4	2,085.8
	Proposed dividends	2,338.0	1,462.0
	Total equity	5,165.0	4,041.2
	Non-current liabilities:		
	Borrowings	64.7	16.7
14	Deferred tax	193.5	183.5
15	Pension obligations	45.6	54.3
16	Other provisions	207.8	241.4
	Total non-current liabilities	511.6	495.9
	Current liabilities:		
	Borrowings	513.5	312.3
	Trade payables	693.6	644.0
	Merchant creditors	2,127.4	1,880.0
	Settlement obligations	3,289.1	2,029.8
11	Group enterprises	355.2	1,689.8
	Tax	178.0	11.8
	Other payables	431.8	477.3
17	Deferred income	14.3	14.6
	Total current liabilities	7,602.9	7,059.6
	Total equity and liabilities	13,279.5	11,596.7
	Securities: None		
18	Contingent liabilities		
19	Related party transactions		
20	Events after the balance sheet date		

Statement of changes in equity

DKKm	Share capital	Reserve development projects	Retained earnings	Dividends	Total
Equity at 1 January 2016	264.5	0.0	2,790.9	880.0	3,935.4
Foreign exchange adjustment	0.0	0.0	54.5	0.0	54.5
Received group contribution, net	0.0	0.0	713.1	0.0	713.1
Submitted group contribution, net	0.0	0.0	-519.5	0.0	-519.5
Submitted group contribution in Nets Norge Infrastruktur AS, net	0.0	0.0	-20.5	0.0	-20.5
Submitted group contribution in Nets Finland Oy, net	0.0	0.0	-51.0	0.0	-51.0
Submitted group contribution in Kortaccept AB, net	0.0	0.0	-19.7	0.0	-19.7
Share-based payments (Employee share bonus)	0.0	0.0	46.8	0.0	46.8
Extraordinary dividend declared	0.0	0.0	-698.0	698.0	0.0
Distributed dividends	0.0	0.0	0.0	-1,578.0	-1,578.0
Transferred, cf. profit appropriation	0.0	228.9	-210.8	1,462.0	1,480.1
Equity at 1 January 2017	264.5	228.9	2,085.8	1,462.0	4,041.2
Foreign exchange adjustment	0.0	0.0	-98.5	0.0	-98.5
Capital contribution	0.0	0.0	1,176.2	0.0	1,176.2
Received group contribution in Nets Sweden AB, net	0.0	0.0	11.5	0.0	11.5
Share-based payments	0.0	0.0	29.6	0.0	29.6
Distributed dividends	0.0	0.0	0.0	-1,424.0	-1,424.0
Transferred, cf. profit appropriation	0.0	195.2	-1,066.2	2,300.0	1,429.0
Equity at 31 December 2017	264.5	424.1	2,138.4	2,338.0	5,165.0

Notes to the Financial Statements

Amounts in DKKm

1. Revenue

	2017	2016
Total revenue are specified as follows:		
Merchant Services	1,777.9	1,621.5
Financial & Network Services	2,105.9	1,966.6
Corporate Services	2,596.4	2,626.9
	<u>6,480.2</u>	<u>6,215.0</u>
Of this amount, revenue outside Denmark	2,699.7	2,695.9

2. Staff costs

	2017	2016
Total staff costs are specified as follows:		
Wages and salaries and remuneration	1,314.4	1,355.8
Pension contributions	130.8	132.8
Other salary-related costs	294.1	252.9
Total employee costs for the year	1,739.3	1,741.5
Employee costs included in development projects	72.6	67.9
Total employee costs expensed in the income statement	<u>1,666.7</u>	<u>1,673.6</u>

Hereof remuneration has been paid to the Executive Board.

No remuneration has been paid to the Board of Directors.

Wages and salaries and remuneration	12.1	8.7
Pension contributions	0.5	0.5
Other salary-related costs	0.3	0.2
Total employee costs for the year	<u>12.9</u>	<u>9.4</u>

Average number of full-time employees:	1,680	1,656
Number of full-time employees year-end:	<u>1,659</u>	<u>1,651</u>

Share option programme

A long-term share option programme was established in 2016 in connection with the IPO of the parent company Nets A/S and granted to Management and certain key employees. In connection with the Annual General Meeting, and as determined by the Board of Directors, share options are granted annually for an amount equivalent to 20-100% of annual salary (however target of 0.75% of the share capital). Vesting is subject to fulfilment of certain key financial targets and continued employment at the vesting date. Each option gives the right to purchase one existing share in Nets A/S.

Retention programme

In connection with the IPO, a non-recurring share-based retention programme has been established for members of the Executive Committee and certain other employees (the "Retention Programme"). Under the Retention Programme, the participants may be granted shares at the end of a 720-day period subsequent to the date where the Company was listed. The shares equal an amount of 24 months' base salary, provided, among other things, that the participants have retained at least 25% of the total number of shares that were directly or indirectly held by the participant under the former management Incentive Programme.

Employee share award

Following the IPO each full-time employee was awarded shares worth DKK 24,900. The consolidated group expense in connection with the employee share award amounted to DKK 64 million (Nets Denmark A/S part DKK 46.8 million) in total including social costs. The shares delivered under the employee share award were covered by issuing bonus shares.

3. Financial income and financial expenses

	2017	2016
Financial income:		
Group enterprises	47.3	19.9
Other interest income	5.1	9.1
	52.4	29.0
Financial expenses:		
Group enterprises	58.2	52.4
Other interest expenses	22.7	17.8
Other financial items	12.6	22.3
Foreign exchange loss, net	39.4	51.8
	132.9	144.3

4. Proposed profit appropriation

	2017	2016
Proposed dividends	2,300.0	1,462.0
Reserve development projects	195.2	228.9
Retained earnings	-1,066.2	-210.8
	1,429.0	1,480.1

5. Tax

	2017	2016
Joint taxation contribution	152.6	526.0
Change in deferred tax liability	10.0	-293.6
Change in deferred tax asset	-5.7	8.4
Tax in foreign branches	204.4	188.1
	361.3	428.9

Nets Denmark A/S expects that DKK 180.8 million of the tax in foreign branches will be offset against deductible group contributions to other group entities.

6. Intangible assets

	Customer agreements	Goodwill	Software	Develop- ment projects in progress
Cost at 1 January	656.8	1,683.4	611.9	166.6
Additions	0.0	0.0	297.0	239.6
Transfer between asset groups	0.0	0.0	0.0	223.6
Exchange rate adjustment	-5.3	-39.5	-22.2	-3.3
Cost at 31 December	651.5	1,643.9	886.7	179.3
Amortisation and impairment losses at 1 January	238.2	694.7	230.5	0.0
Amortisation for the year	72.4	138.1	182.4	0.0
Disposals	0.0	0.0	0.0	0.0
Exchange rate adjustment	-5.3	-38.8	-12.9	0.0
Amortisation and impairment losses at 31 December	305.3	794.0	400.0	0.0
Carrying amount at 31 December	346.2	849.9	486.7	179.3

7. Property, plant and equipment

	Leasehold improve- ments	Terminals	Plant and machinery	Tools and equipment
Cost at 1 January	176.1	237.1	547.9	18.7
Additions	25.5	48.8	141.1	0.2
Disposals	49.9	73.3	60.2	3.5
Exchange rate adjustment	-9.1	-11.5	-40.1	-0.5
Cost at 31 December	142.6	201.1	588.7	14.9
Depreciation and impairment losses at 1 January	112.7	188.1	392.7	15.5
Depreciation for the year	17.9	31.8	50.0	1.9
Disposals	47.9	66.3	59.5	3.1
Exchange rate adjustment	-3.7	-8.5	-28.3	-0.4
Depreciation and impairment losses at 31 December	79.0	145.1	354.9	13.9
Carrying amount at 31 December	63.6	56.0	233.8	1.0

Hereof amounts leased assets to DKK 22.0 million.

8. Investments in subsidiaries

	2017	2016
Cost at 1 January	1,377.7	1,189.2
Additions	0.0	188.5
Cost at 31 December	1,377.7	1,377.7
Value adjustment at 1 January	-449.6	-409.5
Adjustment at 1 January	-10.2	4.0
Dividends	-49.1	-100.9
Group contribution	11.4	-71.5
Share-based payments (Employee share bonus)	0.0	5.6
Profit after tax	199.3	119.2
Exchange rate adjustment	2.8	3.5
Value adjustment at 31 December	-295.4	-449.6
Carrying amount at 31 December	1,082.3	928.1
Fair value recognition from business combinations (goodwill)	300.4	354.8

	Ownership	Share capital
Nets DanID A/S, Lautrupbjerg 10, DK-2750 Ballerup	100%	50.1
Nets Cards Processing A/S, Lautrupbjerg 10, DK-2750 Ballerup	100%	21.5
Signaturgruppen A/S, Inge Lehmanns Gade 10, DK-Aarhus C	51%	0.5
Storebox ApS, Fruebjergvej 3, DK-2100 Copenhagen Ø	73%	0.1
Nets Norge Infrastruktur AS, Haavard Martinsens vei 54, NO-0980 Oslo, Norway	100%	0.1
EDIGard AS, Dueknipen 1, NO-4616 Kristiansand S, Norway	100%	4.0
ITP Baltic SIA, Inženieru iela 101, Ventspils LV-3601, Latvia	100%	0.02
Nets Finland Oy, Teollisuuskatu 21. FI-0510 Helsinki, Finland	100%	0.1
Nets Sweden AB, Lumaparksvägen 9-11, S 120 31 Stockholm, Sweden	100%	20.0
Nets Estonia AS, Tartu maantee 63, 10115 Tallinn, Estonia	100%	0.5

Results 2016	Net profit	Equity
Nets DanID A/S	35.6	75.8
Nets Cards Processing A/S, Ballerup	5.8	57.3
Signaturgruppen A/S	15.6	33.3
Storebox ApS	-2,7	7,5
Nets Norge Infrastruktur AS, NOK	25.5	14.0
EDIGard AS, NOK	23.7	46.9
ITP Baltic SIA, EUR	0.02	0.009
Nets Finland Oy, EUR	6.9	7.2
Nets Sweden AB, SEK	23.4	83.6
Nets Estonia AS, EUR	3.6	29.3

9. Investments in associates

	2017	2016
Cost at 1 January	60.4	60.4
Additions	0.0	0.0
Cost at 31 December	60.4	60.4
Value adjustment at 1 January	-45.1	-49.4
Adjustment at 1 January	-4.7	-2.7
Share of profit after tax and depreciation and amortisation	8.8	7.0
Value adjustment at 31 December	-41.0	-45.1
Carrying amount at 31 December	19.4	15.3
		<u>Share</u>
	<u>Ownership</u>	<u>capital</u>
e-Boks A/S, Ballerup	50%	12.0
e-Boks AS, Norway NOK	50%	1.2
e-Boks AB, Sweden SEK	50%	0.05

10. Deposits

	2017	2016
Cost at 1 January	14.3	14.7
Additions	0.0	0.0
Disposals	0.1	0.4
Cost at 31 December	14.2	14.3

11. Group entities

The Company has entered a cash pool arrangement with Nets Holding A/S and related companies in the Nets A/S Group. Of total liabilities, the cash pool arrangement amounts to DKK 56.5 million (2016: DKK 1,553.6 million of total assets).

12. Prepayments

	2017	2016
Prepaid IT costs	110.3	80.3
Other	73.5	70.0
	183.8	150.3

13. Equity

The share capital is owned by Nets Holding A/S, Lautrupbjerg 10, 2750 Ballerup.

The share capital has been increased by DKK 114.5 million on 17 June 2015 according to the merger on 1 January 2015 with Norwegian Nets Norway AS. There have not been other changes in the last 5 years.

The share capital comprises shares of DKK 1.00 each.

Nets Denmark A/S is part of the consolidated Financial Statements for the ultimate parent company of Nets A/S, Lautrupbjerg 10, 2750 Ballerup which is the smallest and largest group the company is part of.

14. Net deferred tax asset/liabilities

	2017	2016
Classified as follows:		
Deferred tax asset	47.1	41.4
Deferred tax liability	193.5	-183.5
	-146.4	-142.1

15. Pension obligations

The pension obligation costs for defined benefit plans are estimated based on certain actuarial assumptions, the most significant of which relate to returns on plan assets, discount rate, wage inflation and demography (mortality, disability, etc.). The assumed discount rate may fluctuate significantly. Nets Denmark believe the actuarial assumptions illustrate current market conditions and expectations for market returns in the long term. Even modest changes to the actuarial assumptions may result in significant changes to the pension liability. The defined benefit pension plans have been terminated and no new members enters into the agreement.

The actuarial assumptions used for the valuation of the pension obligation are based on regularly used assumptions within insurance for demographic factors. Nets Denmark has used the assumptions according to the guidance from the Norwegian Accounting Standards Board (NASB), as these reflect Nets' expectations regarding annual wage and priceinflation.

16. Other provisions

	2017	2016
Provision for warranty claim relating to repair costs and products returned regarding terminals	1.2	1.0
Deferred consideration EDIGard AS	0.0	41.0
Deferred consideration Storebox ApS	67.5	67.5
Deferred consideration Signaturgruppen A/S	139.1	131.9
Carrying amount at 31 December	207.8	241.4

17. Deferred income

This includes accrual of annual fee from merchants regarding the Dankort.

18. Contingent liabilities

The Company is jointly taxed with other Danish companies in the Nets A/S Group. Together with the other companies included in the joint taxation, the Company has joint and several unlimited liabilities for Danish corporation taxes and withholding taxes on dividends, interest and royalties.

The Company is comprised by a joint registration with other Danish companies owned by Nets Holding A/S. Together with the other companies included in the joint registration, the Company has joint and several unlimited liabilities for Danish VAT, payroll tax and interest within the joint registration.

The Company has entered into leases remaining in force until the end of 2027. Total liabilities amount to DKK 591 million (2016: DKK 434 million) with an average annual payment of DKK 59 million.

The Company has deposited an amount of DKK 21.0 million (2016: DKK 31.5 million) related to withholding taxes on payroll in Norway to a restricted bank account.

The Company has entered into a number of long-term agreements on purchase of services.

The Company is party to a number of pending lawsuits and disputes. In Management's opinion, apart from the receivables and payables recognised in the balance sheet at 31 December 2016, the outcome of these lawsuits will not further affect the Company's financial position.

Nets Denmark A/S is guarantor under the senior facility agreement by Nassa Topco AS and have certain of assets, including selected bank accounts, pledged to the lenders. All such arrangements strictly observe applicable laws and regulations. This has no effect on daily business and excludes all settlement assets.

19. Related party transactions

All transactions with related parties are made on an arm's length basis.

20. Events after the balance sheet date

Nets A/S has been taken over by Hellman & Friedman and on that background, the company has been delisted from Nasdaq Copenhagen. For further information please see note 7.5 in the Annual Report for Nets A/S.

On 1 January 2018, Nets Denmark A/S merged with Nets Oy and Nets Finland Oy. The activities of the merged companies continue in the Finnish branch of Nets Denmark A/S.

No other significant events affecting the annual report for 2017 have occurred subsequently to 31 December 2017.