Annual Report

2018

Payment solutions for an easier tomorrow

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CVR: 37427497

Adopted by the Annual General Meeting on 18 March 2019
Chairman of the meeting:
Louise Rubæk Andersen

Adopted by the General
Meeting on 18 March 2019

Louise Rubæk Andersen
Chair of the meeting

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Investing for growth

Nets is an industry leader in the Nordic payment arena, and we have played an important role in the digitalisation of the Nordic region, shaping a digital mindset through innovative, secure and stable solutions. At the same time, the digital payments industry is evolving at an unprecedented pace, undergoing heavy consolidation and globalisation. Our new 2022 strategy, Excel & Explore, reveals our ambition to become a leading payments player in Europe, and with two major M&As announced in June, we're already delivering on this priority.

A year of new ambitions

The takeover of the Nets Group in February by private equity funds was effected with the clear intention of expanding into Europe. Soon after, we launched our 2022 strategy, Excel & Explore, with the ambition to become a leading payments player in Europe. The digital payments industry is evolving at an unprecedented pace, undergoing heavy consolidation and globalisation. As a Nordic industry leader with solid experience from some of the most developed payment markets in the world, we see great opportunities for structural and acquisitive growth in Europe within digital payments in the years to come.

Our new strategy is two-legged. The Excel part aims at optimising our core competencies with a clear-cut focus on driving commercial and product excellence to make tomorrow easier for our customers and their customers. Within Merchant Services, we expanded our current position as a one-stop shop for merchants during 2018, with the adding-on of additional payment methods such as Diners, Discover, Amex, Alipay and invoices. Our business insight app also generated significant interest, improving customer experience, while the full launch of the EASY e-commerce bundle made checkout even easier for consumers and merchants alike. Our Financial & Network Services renewed a significant number of 3–7 year card processing agreements with Nordic banks, while the Danish NemID authenticator app, launched by Corporate Services on behalf of Digitaliseringsstyrelsen, reached 1.3 million downloads five months after launch, making it the most downloaded app in Denmark in 2018, with 91% user satisfaction. A good example of how product excellence and seamless customer experiences go hand in hand.

It may sound simple, but for a company of our size, creating seamless customer experiences at every touch point takes time, which makes it even more encouraging to learn that 30% of our customers think our performance has improved over the past 12 months. The increase is down to the hard work carried out across Nets, and making it easy and straightforward for our customers to do business with us will remain a focus area going forward.

The Nordics as a stepping stone into Europe

The Explore leg of our strategy implies new horizons in terms of both geography and leading-edge technology. The Nordic countries have embraced digitisation like no others, and people in the region are not afraid to challenge the status quo. Just look at how rapidly the Danes took contactless payments to heart; only three years after the first cards were issued, 61% of all payments in physical stores in Denmark are now contactless. We believe Nets has played an important role in this development, shaping a digital mindset through innovative, secure and stable solutions.

The heavy consolidation and globalisation characterising the payment industry makes it the right time for us to expand into new geographies, and already in June we took a big step into Europe by announcing our merger with a leading payment provider in the DACH region, Concardis Payment Group. With the merger, two leading companies join forces to create a European payments champion, and our combined portfolios will empower merchants across the Nordic and DACH regions to benefit from the digitisation of payments, with services such as state-of-the-art e-commerce gateways, merchant portals and invoicing solutions for e-commerce merchants. Also in June, we acquired a leading Polish online payment service provider, Dotpay/eCard, and in January 2019, we announced a continued expansion into Poland through a strategic alliance with Przelewy24, a leading Polish online service provider. The agreement is subject to customary approval by the Polish authorities. We expect e-com retail to grow in Poland in the coming years, supported by a growing economy and governmental cashless initiatives.

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"We want to move as fast as the market allows and are ready to grow in Europe, both organically and through investments, within merchant solutions, outsourced card processing for banks and instant payments."

Our Nordic footprint now has a definite European ring to it, spearheaded by our instant payments activities where we have won the last three out of three tenders in Europe. This has given us an early presence in Hungary, Italy and Slovenia. Instant payments will be a main driver of the shift from cash to digital payments in Europe, with some 80% of payments in the Nordics being digital while the figure is only 20% in Southern Europe.

We want to move as fast as the market allows and are ready to grow in Europe, both organically and through investments, within merchant solutions, outsourced card processing for banks and instant payments – allowing us to bring into play our second-to-none Nordic expertise, scale and know-how to unlock new and better opportunities for retailers, financial institutions and enterprises in Europe. It is not only about creating a strong geographical presence. Above all, it is about running our business more effectively and creating value around the payment experience for our customers and their customers.

A path of constant innovation

'Explore' also means that we are on a path of constant innovation. Our innovation unit will continue its explorative work, often in the form of co-creation with retailers, partners in the global fintech community such as Plug'n'Play Tech Center in Silicon Valley, USA and Paris, France, and financial institutions. The purpose of the unit is twofold: on the one hand, it looks to enhance the digital proposition offered by our three segments by adding value at the edge of current value propositions, e.g. through the use of biometrics or blockchain technology. On the other hand, the unit looks to capture greenfield opportunities by tapping into new verticals and revenue pools.

Thank you

Over the past three years, Nets as a business and an organisation has undergone a significant transformation in response to a rapidly changing international payments industry. I have been impressed by all our employees across Nets, their ability to adapt to change, and their passion for our industry and the development of our business. This determination and dedication is what has built our unique position as a payments leader in the Nordic and Baltic regions, and will be key to succeeding on the next part of our journey as we expand into Europe. On behalf of the Board and the Executive Management, I would like to thank our colleagues at Nets for their hard work in 2018, and our customers and business partners for their continued cooperation and support.

Bo Nilsson
Group CEO and Chairman of the Board of Nets A/S

Highlights

Financial highlights

Revenue (DKKm)
7,615

EBITDA b.s.i. (DKKm)
2,895

EBITDA margin
38%

Adjusted net profit (DKKm)
1,459

Net cash from operating activities (DKKm)
1,431
excl. clearing-related balances

All figures for 2018

Market reach

Merchants
300,000+
including 30,000 online merchants

Banks
240+

Enterprises
260,000+

Other key figures

Transaction value* (DKKbn)
517
* within issuing and acquiring

Digital identities (million)
9.1

Downloads of the NemID authenticator app (million)
1.3
in Denmark with 91% user satisfaction

Stability
99.99%

Key events

February
A consortium led by Hellman & Friedman completes and settles the recommended takeover of Nets A/S

March
Nets enters into partnership with Alipay to enable Nordic shops to accept Chinese mobile payments

Biometrics

April
Launch of biometric (finger vein) payment pilot at the Copenhagen Business School

May
Launch of Nets' new 'Excel & Explore' strategy

June
Announcement of the merger between Nets and Concardis

June
Nets and partner MyMonii launch mobile 'pocket money' payment solution for children

June
Nets' acquisition of Dotpay/eCard is announced

5
billion transactions

September
5 billion transactions mark reached by NemID

1
million downloads

November
1 million downloads of NemID app (launched in May)

December
Nets tests Stacker in a pilot – Stacker is a block-chain-based micropayment solution to process small payments

Januar 2019
The merger between Nets and Concardis is closed

Q1 Q2 Q3 Q4 Q1

Financial summary

(DKKm)	2018	2017	2016	2015	2014*
Income statement					
Revenue, net	7,615	7,724	7,385	6,836	3,267
EBITDA before special items	2,895	2,835	2,619	2,248	1,000
EBITDA	1,975	2,581	2,013	1,710	714
Special items	(652)	(186)	(345)	(538)	(286)
Special items - IPO costs and costs related to takeover offer	(268)	(68)	(261)	-	-
Adjusted EBIT	2,372	2,399	2,203	1,977	912
EBIT	818	1,501	943	812	297
Net profit	308	1,218	(584)	119	63
Adjusted net profit	1,459	1,591	997	778	364
Financial position					
Total assets	28,647	30,247	28,299	29,558	26,699
Goodwill	14,538	14,592	14,720	14,646	13,423
Clearing-related balances, net	412	(602)	(658)	(778)	190
Own cash	740	140	703	1,532	1,926
Net interest-bearing debt	6,688	7,602	8,503	13,319	12,526
Equity	10,922	10,652	9,806	4,980	4,946
Cash flow					
Net cash from operating activities excl. clearing-related balances	1,431	2,015	(686)	1,105	650
Change in clearing-related balances	(1,014)	(56)	(120)	989	(1,563)
Net cash from investing activities	(649)	(1,124)	67	(2,081)	(14,949)
Net cash from financing activities	(39)	(1,758)	212	582	17,615
Net cash flow for the year	(271)	(923)	(527)	595	1,753
Net change in own cash	600	(563)	(829)	(394)	3,316
Operating free cash flow	1,341	1,728	1,434	1,235	591

	2018	2017	2016	2015	2014*
Growth in revenue, net					
Reported	(1,4%)	4.6%	8.0%	4.4%	**
Organic	0%	5%	7%	6%	**
Capital structure					
EBITDA before special items (DKKm)	2,895	2,835	2,619	2,248	1,000
Net interest-bearing debt/EBITDA before special items	2,3x	2.7x	3.2x	4.2x	**
Other ratios					
EBITDA before special items margin	38.0%	36.7%	35.5%	32.9%	30.6%
Capital expenditure/revenue	8.6%	8.6%	9.0%	7.9%	**
Capitalised development costs (EBITDA before special items impact)/revenue	6.0%	4.1%	3.9%	3.9%	**
Cash conversion ratio	78%	70%	78%	79%	**
Equity ratio	37.9%	35.2%	34.7%	16.8%	18.5%
Number of full time equivalent (FTE)	2,432	2,454	2,427	2,413	2,618

* Covering the period 1 July to 31 December 2014
** Information not available

Performance highlights 2018

In 2018, Nets realised an EBITDA before special items of DKK 2,895 million, corresponding to an increase of 2.1%. The improved operating earnings were mainly driven by an improved cost structure. Nets continued to invest in secure and stable operations, flexible and scalable IT services and innovative solutions.

Net profit for the year amounted to DKK 308 million and was significantly impacted by costs in connection with the Hellman & Friedman (H&F)-led take-private transaction at the beginning of 2018 as well as further investments in transformation programmes.

Revenue

In 2018, net revenue was DKK 7,615 million, which, adjusted for the effect of exchange rates, was in line with 2017. Changes in exchange rates, especially the depreciation in NOK and SEK, impacted revenue negatively by approximately 1.4%.

Merchant Services delivered solid growth within e-commerce, but also experienced price pressure from MIF regulation and impact from non-recurring effects. Underlying growth in Merchant Services was 2.1%. Financial & Network Services delivered solid growth driven by international card and debit card transactions. Underlying growth in Financial & Network Services was 3.5%. Corporate Services delivered solid growth from underlying volumes offset by lower implementations. Underlying growth in Corporate Services was 1.8%.

We will continue to strengthen the commercialisation of the business with a clear-cut focus on driving commercial and product excellence to make tomorrow easier for our customers and their customers.

Operating expenses

Total operating expenses amounted to DKK 4,720 million, compared to DKK 4,889 million in 2017, leading to total cost to net revenue dropping 1 percentage points to 62% from 63% in 2017.

Cost of sales increased by 3.5% to DKK 982 million (13% of net revenue), compared to DKK 949

million (12% of net revenue) in 2017, mainly driven by higher point-of-sale (POS) costs. Cost of sales relates mainly to external vendors to Corporate Services, such as payments to Danish banks for work carried out in connection with Betalingsservice, and the POS business in Merchant Services.

External expenses decreased by 3.5% to DKK 1,753 million (23% of net revenue), compared to DKK 1,816 million (23% of net revenue) in 2017. External expenses include consulting fees related to IT and costs driven by sourcing partnership activities related to our technology development. Continued optimisation of the IT sourcing mix and operational processes and improved procurement impacted external expenses positively.

Staff costs decreased by 6.5% to DKK 1,985 million (26% of net revenue), compared to DKK 2,124 million (28% of net revenue) in 2017. The decrease in staff costs was primarily driven by lower costs for bonus and incentive programmes, and more resources allocated to new ways of working, including future value-related activities.

Nets had 2,432 FTE (full-time equivalent) employees by the end of 2018, which was 22 fewer than in 2017. The decrease was primarily related to a continued effort to improve operational efficiency.

Capitalised development costs (EBITDA b.s.i. impact)

Capitalised development costs impacting EBITDA b.s.i. for 2018 were 6.0% of net revenue, compared to 4.1% in 2017. The capitalised costs related primarily to investment in product excellence, especially within e-commerce and mobile payment solutions to support our strategy of making tomorrow easier for our customers and their customers.

EBITDA b.s.i.

In 2018, EBITDA b.s.i. grew by 2.1% to DKK 2,895 million, compared to DKK 2,835 million in 2017. The improvement in EBITDA b.s.i. was primarily driven by operating leverage from improved cost structure. The improvement resulted in an EBITDA before special items margin expansion of 130 basis points to 38.0% in 2018 from 36.7% in 2017.

Special items and take-private-related costs

Special items amounted to DKK 920 million, of which DKK 268 million related to the take-private of Nets at the beginning of 2018 by a consortium led by H&F. The remaining DKK 652 million in 2018 was mainly related to mergers & acquisitions activities and continued transformation programmes, including severance costs. Compared to last year, special items were DKK 666 million higher.

EBITDA

In 2018, EBITDA amounted to DKK 1,975 million, compared to DKK 2,581 million in 2017, significantly impacted by special items and take-private-related costs.

Depreciation and amortisation

In 2018, underlying depreciation and amortisation totalled DKK 523 million, up from DKK 436 million in 2017. The increase was driven by the higher investments in recent years and the completion of development projects.

Amortisation of business combination amounted to DKK 634 million compared to DKK 644 million in 2017. Amortisation of intangibles recognised as part of the sale of the Nets Group to private equity funds in 2014 amounted to DKK 439 million in 2018, which will decrease to DKK 383 million in 2019, and will further decrease in subsequent years.

Adjusted EBIT

Adjusted EBIT calculated as EBITDA b.s.i. minus underlying depreciation and amortisation was DKK 2,372 million, compared to DKK 2,399 million in 2017.

Net financials

Net financials was an expense of DKK 420 million, compared to an expense of DKK 220 million in 2017. The increase was mainly driven by amortisation of previous capitalised debt costs related to the redemption of existing Nets debt in connection with the Hellman & Friedman-led take-private transaction in February 2018.

Adjusted net financials mainly representing the financing cost related to the net interest-bearing debt was DKK 477 million in 2018 compared to DKK 333 million in 2017.

Tax

In 2018, taxes amounted to an expense of DKK 90 million compared to an expense of DKK 63 million in 2017, equivalent to an effective tax rate of 23% in 2018 (5% in 2017).

The effective tax rate was negatively impacted by non-deductible M&A expenses, earn-outs, interest expenses in Norway and change in income tax rates in Norway on deferred tax, increasing the effective tax rate by approximately 45%, offset by use of tax losses not capitalised, which reduced the effective tax rate by 45%.

In 2017, the effective tax rate was positively impacted by non-taxable currency adjustments decreasing the effective tax rate by approximately 11%, and positively impacted by the use of tax losses not capitalised, which reduced the effective tax rate by 6%. Adjusted for those items, the effective tax rate was 21%.

Net profit

Net profit in 2018 was DKK 308 million, compared to DKK 1,218 million in 2017. Net profit in 2018 was significantly impacted by special items and refinancing expenses totalling DKK 1,011 million.

Adjusted net profit was DKK 1,459 million in 2018, which was a decrease of DKK 132 million or 8% compared to 2017.

In 2018, EBITDA b.s.i. grew by 2.1% to DKK 2,895 million, compared to DKK 2,835 million in 2017.

Balance sheet and cash flow

Tangible and intangible assets

At 31 December 2018, total assets amounted to DKK 28,647 million, compared to DKK 30,247 million at year-end 2017. Total non-current assets amounted to DKK 19,083 million compared to DKK 19,688 million at year-end 2017.

Total current assets amounted to DKK 9,564 million, compared to DKK 10,559 million at year-end 2017, a decrease of DKK 995 million, mainly related to lower clearing-related assets at year-end 2018.

Clearing working capital

At 31 December 2018, clearing-related assets (clearing debtors) amounted to DKK 6,868 million and clearing-related liabilities amounted to DKK 6,456 million, leading to a clearing working capital (CWC) of minus DKK 412 million (negative funding), representing a reduction of DKK 1,014 million compared to a CWC of DKK 602 million (positive funding) at the end of 2017, driven by the day of month-end.

Equity

Total equity amounted to DKK 10,922 million compared to DKK 10,652 million at the beginning of the year. The increase was related to the positive net result, partly offset by currency translation adjustments related to investments in foreign enterprises mainly in Norway.

Borrowings & liabilities to group enterprises

As of 31 December 2018, net interest-bearing debt amounted to DKK 6,688 million, compared to DKK 7,602 million at the end of 2017. In connection with the Hellman & Friedman-led take-private transaction in February 2018, a refinancing of the existing debt in Nets A/S has been replaced with facilities in other Group enterprises, took place. As of 31 December 2018, liabilities to Group enterprises amounted to DKK 5,639 million, compared to DKK 0 million at the end of 2017.

Cash flow

In 2018, net cash flow from operating activities, excluding clearing working capital, was DKK 1,431 million, compared to DKK 2,015 million in 2017. In 2018, the operating cash flow was negatively impacted by the higher costs for special items-related activities, including costs in connection with the de-listing of Nets.

Cash flow from investing activities amounted to DKK 649 million in 2018, including proceeds received from Visa shares of DKK 47 million, of which DKK 27 million was passed through to former shareholders, compared to DKK 1,124 million in 2017. Capital expenditure amounted to DKK 655 million, compared to DKK 665 million in 2017.

In 2017, cash flow from investment was impacted by the acquisition of OP's merchant acquiring business for DKK 179 million, acquisitions of the remaining shares in EDIGard AS and Paytrail, amounting to DKK 95 million, and payments to former shareholders in Nets related to the Visa transaction of DKK 166 million.

Net cash flow from financing activities in 2018, excluding clearing-related balances, amounted to DKK 39 million, compared to DKK 1,535 million in 2017. In 2018, financing activities included the repayment of external borrowings of DKK 6,132 million, offset by an internal shareholder loan.

Key components in 2017 were the purchase of treasury shares of DKK 153 million and proceeds from the bond issuance amounting to DKK 2,974 million which was offset by the repayment of borrowings of net DKK 4,831 million.

Operating free cash flow in 2018 was DKK 1,341 million, down 22.3% compared to 2017. The decrease was primarily driven by lower EBITDA.

Cash conversion ratio

The cash conversion ratio was 78% in 2018 compared to 70% in 2017, primarily due to a positive movement in narrow working capital, primarily related to increased seasonality in trade and other payables.

Outlook for 2019

In 2019, Nets expects a year with slightly increasing revenue including new acquisitions and slightly increasing EBITDA before special items margins. Nets will continue to streamline operations and processes and invest in innovative solutions with an ambition to create value for our customers, partners and shareholders, and deliver on stability, security and integrity to build the future of Nets.

Events after the balance sheet date

In June 2018, it was announced that Nets would merge with a leading payment provider in the DACH region, Concardis Payment Group. Following approvals from the German authorities, the merger was completed at the beginning of January 2019. Also in June 2018, Nets announced the acquisition of a leading Polish online payment service provider, Dotpay/eCard. Following approvals from the Polish authorities, the merger was completed at the beginning of January 2019.

In January 2019, Nets announced a continued expansion into Poland through a strategic alliance with Przelewy24, a leading Polish online payment service provider. Nets will attain a majority stake in the consolidated Polish group that will include Dotpay/eCard and Przelewy24. The agreement is subject to customary approvals by the Polish authorities.

Our business

Whether it's for buying groceries, paying bills online or dealing with public authorities, online services offer great convenience and free up time in people's everyday lives. At Nets, we provide a frictionless payment experience, among other facilities, to our customers and their end-users.

Business model:

Towards an easier tomorrow

We create value for our stakeholders by delivering payments and digital services that are used by hundreds of thousands of merchants, financial institutions and enterprises, allowing our customers to service millions of consumers across the Nordic and Baltic regions and, increasingly, in Southern and Eastern Europe. We see easier products and solutions as the foundation for growth and progress – both in commerce and in society.

Whether it's for buying groceries, paying bills online or dealing with public authorities, online services offer greater convenience and free up time in people's everyday lives. Nets' products and services are integrated parts of everyday life for the majority of the Nordic population. We provide a frictionless payment experience, among other facilities, to our customers and their end-users. Yet the reality behind this seemingly simple exchange of services is a complex web of processes, initiated by a digital transaction such as a payment, an authentication or a digital login.

This means that we invest in, maintain and operate a considerable number of services that are 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 are thus top priorities for our business.

As a leading provider of digital payment services and related technology solutions across the Nordic and Baltic regions and, increasingly, in Southern and Eastern Europe, Nets sits at the centre of the digital payment ecosystem. We operate a deeply entrenched network which connects merchants, financial institutions, enterprises and consumers, enabling them to make and receive payments and use value-added services. Nets operates across the entire payment value chain, from payment capture and authorisation through to processing, clearing and settlement.

We enable digital payments across all major channels – in brick-and-mortar stores, e-commerce or via a mobile device. We offer merchant acquiring solutions, point-of-sale terminals and e-commerce directly to merchants, while services delivered to enterprises, such as direct debit invoice solutions, are offered in close co-operation with financial institutions, as are solutions such as card payments and the national e-identity schemes NemID and BankID in Denmark and Norway respectively. In Denmark, we own some of our key services, such as Dankort and Betalingsservice. In Norway, we operate similar services on behalf of and in close co-operation with our customers – these services include invoice solutions, direct debit payments and BankAxept card payments.

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, Diners, Discover, Union Pay, AliPay, and local payment brands.

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 their customers' preferences. We also offer merchants value-added service for electronic receipts and loyalty solutions, all with simple and fast set-up.

Acquiring revenue is primarily driven by transaction fees. Terminal revenues are primarily monthly subscription fees for POS terminals or revenues from sold POS devices. Our e-com business generates both transaction fees and monthly fees.

Financial & Network Services

Financial & Network Services provides processing services for issuers of payment cards (primarily banks) and merchants, offering a complete end-to-end service and full life-cycle management of cards from both international and domestic card schemes. Besides being a card processor for customers across the Nordic and Baltic countries, Financial & Network Services also offers complementary services, including Consumer Management Services (CMS) and Risk Management Services (Fraud & Dispute solutions).

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

The revenue model for Financial & Network Services is primarily transaction-based combined with additional volume-related fees for additional services.

Corporate Services

Corporate Services offers a leading ecosystem consisting of electronic invoicing and payments, instant payments services, e-identity services, as well as digitalisation solutions to banks, corporates and their customers.

The business segment's solutions enable banks and corporates to invoice their customers electronically and receive payments in due time, with the benefit of reduced churn. More than 90% of Danish and Norwegian households use services from Nets to pay their bills. At the same time, instant payments solutions from Nets are gaining momentum in Europe. In 2018, Nets won a contract and implemented the instant payments solution RealTime24/7 in Hungary. This came in addition to contracts already won in Denmark, Italy and Slovenia. Corporate Services also offers national-identity solutions in Denmark and Norway.

For the majority of its revenue, Corporate Services' revenue model is transaction-based and built upon a strong network of payees and payers featuring recurring payments as the core value proposition. In Norway, the services are sold to the banks, which sell them to their business customers, while in Denmark the services are sold directly to corporates.

Risk management

Risk management is regarded as a core competency for executive management, business leaders and employees at all levels

Risk Management

Risk management is an integral part of the way we work and helps us understand and manage the uncertainties inherent in our strategy and in the day-to-day business operations.

Risk management is anchored in the organisation and supported by a quarterly risk process in business segments and group functions that results in a consolidated risk picture providing a clear and complete overview of all identified risks at Nets.

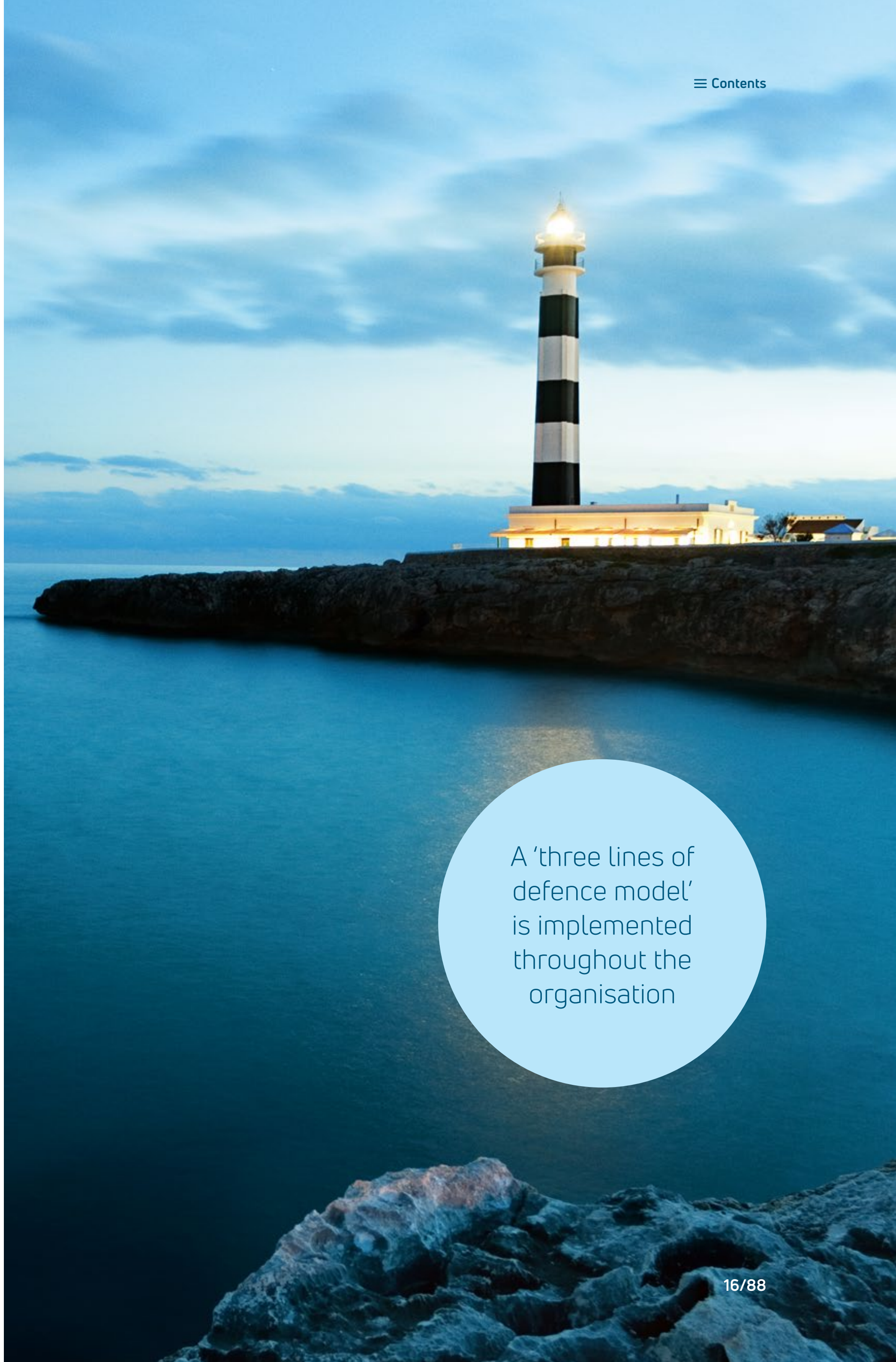
This section describes Nets' key risks in relation to achieving business objectives. Financial risks are described under Financial Statements, sections 2, 3 and 5.

Risk Governance

The Board of Directors is responsible for the overall governance, oversees our risk landscape and approves strategies and policies within the areas of risk management, security, business continuity, GDPR, merchant acquiring credit risk, treasury risk, anti-money laundering and competition compliance.*

A "three lines of defence" model is implemented throughout the organisation and is used to structure roles, responsibility and accountability concerning risk and internal controls.

* The policy areas are not exhaustive



A 'three lines of defence model' is implemented throughout the organisation

Governance model

First line
- Business segments and group functions

The business segments and group functions perform the day-to-day risk-bearing activities and are responsible for identifying, assessing and treating risks within those activities. The business segments and group functions are responsible for compliance with legal, contractual and regulatory requirements.

Second line
- Risk Management and Compliance

The Risk Management function is responsible for reviewing policies, standards and procedures for risk-based decision-making, control and reporting. Risk Management facilitates the risk assessment process, maintains Nets' enterprise-wide risk landscape and ensures that risk mitigation plans are prioritised and are progressing adequately in the business segments and group functions.

The Regulatory and Compliance function is responsible for monitoring and assessing Nets' compliance with current legislation, market standards and internal policies, and advises on how to mitigate compliance risks.

Third line
– Independent assurance

Nets' internal and external auditors form the third line of defence, providing independent assurance of the risk and control tasks performed by the first and second lines. Nets' Internal Systems Audit covers the general IT controls at 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, it covers Nets' core business processes and projects identified as important either internally or to Nets' customers.

Key risks

The risks described are the result of risk assessments within the different business segments and group functions at Nets. Top management review the risks and prioritise, approve and follow up on mitigating actions. The mitigants referenced in this section are examples and not an exhaustive list. The risks are not listed in any particular order of priority as to significance or probability.

Technology innovation

Description:
Global technology trends such as artificial intelligence (AI), 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 Nets.

Potential impact:
Nets' current business model could be at risk if it is not evolving alongside technological innovation, which could result in loss of customers and market share.

Selected initiatives in 2018:
1. Pilot projects with customers on several products based on emergent technologies, including biometrics and blockchain.
2. New fintech partnerships with Hitachi, CoolPay, Klever, 2021.ai, Botsupply and MobilePeople to strengthen innovation and product development at Nets.
3. Expanding the User and Customer Experience (UX, CX) capabilities and manpower with a strong focus on providing better customer experiences with Nets' product and service portfolio.

Mitigants:
1. Continued innovation with new products and business models both within and on the edge of Nets' current offerings alongside strong embedding of an innovative mindset across Nets.
2. An accelerated focus on commercialising new products and services across Nets.
3. Continuing establishment of partnerships with the best-in-class fintech companies.

Regulatory environment

Description:
Nets 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 payment 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. Compliance with the General Data Protection Regulation (GDPR) is an example of such requirements where Nets is investing time and resources to maintain compliance.

GDPR

Description:
As both a processor and controller of personal data, Nets must be able to demonstrate compliance with the requirements set out in the General Data Protection Regulation (GDPR). The GDPR regulates the processing of personal data within the EU. Under the regulation that came into force as of May 2018, Nets must maintain appropriate technical and organisational measures to meet the GDPR requirements and ensure the protection of the rights of the data subjects.

Potential impact:
If Nets is unable to demonstrate compliance with the GDPR requirements, this could result in substantial fines and/or sanctions. In the unlikely event of a very serious data breach involving the loss or otherwise unauthorised or accidental disclosure of personal customer information or other sensitive information, the consequence could be fines of up to 4% of the Group's annual turnover as well as substantial remediation costs and a weakening of our corporate brand and, potentially, customers leaving Nets.

Selected initiatives in 2018:
1. Establishment of permanent governance and operations for all new or updated GDPR processes, including a Privacy Framework, with permanent organisational ownership and the assignment of a Data Protection Officer (DPO).
2. Implementation of a Data Protection Impact Assessments (DPIA) process.
3. Process for documentation and risk assessment for all relevant services and processes established and relevant services/processes documented and reviewed.
4. Updated vendor Data Processing Agreement (DPA) with vendors processing personal data.
5. Establishment of customer communication, including proactive communication packages and general information and GDPR FAQs through Nets' corporate website www.nets.eu.
6. GDPR Awareness training and introduction of Privacy Leads and Privacy Champions throughout the business.

Mitigants:
1. Permanent governance structure, including DPO, to ensure continuous GDPR compliance, linked to Nets' enterprise risk management process.
2. Processes and operational setup in place to ensure continuous GDPR compliance.
3. Nets' ISAE 3000 assurance report type 1 covering the design and implementation of the general personal data protection controls to ensure GDPR compliance related to Nets' role as a data processor.

Information security

Description:
Every 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 its systems to the national financial infrastructures, Nets faces a constant threat from different threat agents such as hacktivists, organised crime and nation states. Relevant security threats include social engineering such as phishing and spear-phishing, hacking, the introduction of system malware and ransomware rendering data unreadable.

Potential impact:
In the worst case, the above-mentioned security threats could lead to system downtime, compromising of critical IT systems and a potential breach of confidential information. Similarly, the loss or otherwise unauthorised or accidental disclosure of personal customer information or other sensitive information could result in regulatory or legal sanctions and/or fines as well as substantial remediation costs. This could also result in a weakening of our corporate brand. In the event of a major data breach, such security incidents could also lead to customers leaving Nets.

Selected initiatives in 2018:
1. Further enhancement of the handling of prioritised security incidents at Nets, including data breach management and communication processes, as well as improved logging, alerting, dashboards and detection controls for insider threats.
2. Roll-out of a new, secure Mobile Device Management solution.
3. Gaining PCI CPP compliance for new mobile solutions and maintaining Nets' PCI DSS compliance.
4. Further automation and consolidation of access role assignment for all users and a clean-up of business roles (Identity and Access Management).

Mitigants
1. Robust and documented handling of prioritised security incidents at Nets, including data breach management and communication processes.
2. Comprehensive security logging, alerting and dashboards as well as the introduction of detective controls for insider threats.
3. Mobile Device Management in place.
4. A continuous security culture and awareness campaigns for all employees and contractors, including regular nano learning lessons within selected security areas (e.g. phishing, malware), internal posters, intranet articles and simulated phishing e-mails.

Corporate Social Responsibility (CSR)

The following statutory assessment of CSR-related risks pertaining to our business model, cf. sections 99a and 99b of the Danish Financial Statements Act, comprises risks that are not considered to be among our top risks. A description of our business model can be found on page 12.

Description:

Nets' primary Corporate Social Responsibility is to help ensure that modern societies function in a safe, easy and efficient manner within the broad area of digital payments, for the benefit of citizens and businesses alike. Data security and privacy are essential for our handling of customer and consumer data, and it is critical how this data is protected. To bolster customer confidence and instil customer trust, Nets must be committed to protecting consumer and customer privacy. We detail our position on security and customer privacy in our security framework and our ethical guidelines.

In addition, Nets has decided to base its specific corporate responsibility activities on (1) human rights, (2) climate and environment , (3) workplace responsibility, (4) anti-corruption and bribery, (5) community involvement, and (6) equal opportunities for both genders. Each of these areas is closely followed by management at Nets.

Potential impact:

A materialisation of CSR-related risks could result in a loss of customers and market share. The corporate brand and reputation could also be weakened through bad publicity related to CSR.

Selected initiatives in 2018:

1. A review and update of Nets' CSR Policy Framework and individual policies.
2. The implementation of a new CSR governance setup at Nets anchored with top management.
3. Nets becoming a signatory of the United Nations Global Compact.

Mitigants:

1. A strong commitment from top management through the CSR policy.
2. A continuous focus on security awareness training of all employees through continuous nano learning lessons covering central security aspects.
3. Risk-resilient products and services to avoid security breaches and protect consumer and customer data.
4. A Supplier Code that specifies Nets' mandatory requirements towards suppliers and business partners.
5. A whistle-blower policy (https://nets.whistleblowernetwork.net). A specific whistleblower channel for Nets is in place through which serious issues can be reported to the Board of Directors confidentially. The investigation of any reported incident will be undertaken by the Audit Committee and the external law firm LIND.

For an account of our sustainability efforts, cf. sections 99a and 99b of the Danish Financial Statements Act, reference is made to the Report on Corporate Social Responsibility 2018 for Nets A/S, which forms part of this Annual Report 2018 for Nets A/S, available here.

Governance

Corporate governance

Management structure

Nets A/S is a company within the overall holding company structure of the Nets Group, with a Board of Directors consisting of relevant management representatives.

The Board of Directors of Nets A/S consists of four members elected by the General Meeting. According to the Articles of Association, the Board of Directors must consist of at least three and not more than eight members elected by the General Meeting. Each member is elected for a one-year term, and members may be re-elected.

The Executive Management of Nets A/S consists of the CEO. According to the Articles of Association, the Executive Management must consist of one to three members.

The Executive Committee is responsible for overseeing the daily operation of the Nets Group, and consists of seven members.

Executive Committee

Bo Nilsson
Group CEO*,
(Head of Merchant Services, acting)

Klaus Pedersen
Group CFO*

Thomas Jul
Executive Vice President, Financial & Network Services – and Country Director for Nets in Denmark

Frode Åsheim
Executive Vice President, Corporate Services and Sector & Government – and Country Director for Nets in Norway*

Robert Hoffman
CEO of Concardis Payment Group**

Pia Jørgensen
Executive Vice President*, Technology

Thomas Kolber
Executive Vice President, HR

* Management and board duties in a number of companies within the Nets Group
** Joined the Executive Committee as of 1 January 2019

Financial statements

At Nets, we operate a deeply entrenched network which connects merchants, financial institutions, enterprises and consumers, enabling them to make and receive payments and use value-added services.

Statement by the Board of Directors and Executive Management

The Board of Directors and the Executive Management have today discussed and approved the annual report of Nets A/S for the financial year 2018.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and further requirements according to the Danish Financial Statements Act. The financial statements of the Parent Company have been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the consolidated financial statements and the Parent Company financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2018, the results of the Group and Parent Company's operations and the Group's consolidated cash flows for the financial year 1 January – 31 December 2018.

In our opinion, the Management Review includes a true and fair account of the development in the Group's and the Parent Company operations and financial conditions, the results for the year, cash flows and financial position as well as a description of the most significant risks and uncertainty factors that the Group and the Parent Company face.

We recommend that the annual report be approved at the Annual General Meeting on 18 March 2019.

Ballerup, 18 March 2019

Executive Management

Dorthe Rosenkilde Saunders
CEO

Board of Directors

Bo Nilsson
Chairman

Klaus Pedersen
Vice Chairman

Pia Ingrid Jørgensen

Dorthe Rosenkilde Saunders

Independent auditor's report

To the Shareholders of Nets A/S

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2018 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Nets A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group collectively ("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 Group 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 Consolidated Financial Statements and the Parent Company 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 Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report (continued)

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 judgement 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 overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent 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 Group's and the Parent 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 Group and the Parent 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.

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

We communicate with those charged with governance 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, 18 March 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Rasmus Friis Jørgensen
State Authorised Public Accountant
mne28705

Consolidated income statement

(DKKm)	Note	2018	2017
Revenue, gross	2.1	10,303	10,422
Interchange fees and processing fees		(2,688)	(2,698)
Revenue, net of interchange fees and processing fees	2.1	**7,615**	**7,724**
Cost of sales		(982)	(949)
External expenses		(1,753)	(1,816)
Staff costs	2.3	(1,985)	(2,124)
Operating profit before depreciation and amortisation (EBITDA) before special items		**2,895**	**2,835**
Special items	2.2	(652)	(186)
Special items – IPO costs and costs related to take private transaction	2.2	(268)	(68)
Operating profit before depreciation and amortisation (EBITDA)		**1,975**	**2,581**
Amortisation of business combination intangibles, customer agreements & impairment losses	4.2 & 4.3	(634)	(644)
Underlying depreciation and amortisation	4.2 & 4.3	(523)	(436)
Operating profit (EBIT)		**818**	**1,501**
Profit from associates after tax	4.5	14	4
Fair value adjustment of Visa shares	7.2	47	93
Fair value adjustment of liability related to Visa shares	7.2	(36)	(83)
Fair value adjustment of Visa shares related to Nets Branch Norway and proceeds (shares) related to Nets Branch Sweden	7.2	20	14
Financial income and expenses, net	5.4	(395)	(218)
Financial expenses – refinancing costs	5.4	(70)	(30)
Net financials		**(420)**	**(220)**
Profit before tax		**398**	**1,281**
Income taxes	6.1	(90)	(63)
Net profit for the year		**308**	**1,218**

(DKKm)	Note	2018	2017
Profit is attributable to:			
Owners of Nets A/S		293	1,206
Non-controlling interests		15	12
		308	**1,218**

Non-GAAP performance measures

		2018	2017
Operating profit before depreciation and amortisation (EBITDA) before special items		2,895	2,835
Underlying depreciation and amortisation		(523)	(436)
Adjusted EBIT		**2,372**	**2,399**
Adjusted net financials		(477)	(333)
Adjusted tax, 23%		(436)	(475)
Adjusted net profit for the year		**1.459**	**1,591**

Consolidated statement of other comprehensive income

(DKKm)	Note	2018	2017
Net profit for the year		**308**	**1,218**
Other comprehensive income:			
Items that will not be reclassified subsequently to the consolidated income statement:			
Actuarial gains/(loss) on defined benefit pension plans	7.1	(4)	(2)
Total items never reclassified to the consolidated income statement		**(4)**	**(2)**
Items that will be reclassified subsequently to the consolidated income statement, when specific conditions are met:			
Currency translation adjustments, foreign enterprises		(93)	(251)
Reclassification of interest swap to the consolidated income statement		4	2
Net gains/(loss) on cash flow hedges		(3)	(1)
Tax on fair value adjustments		(7)	-
Total items that may be reclassified to the consolidated income statement subsequently		**(99)**	**(250)**
Other comprehensive income for the year, net of tax		**(103)**	**(252)**
Total comprehensive income for the year, net of tax		**205**	**966**
Total comprehensive income for the year is attributable to:			
Owners of Nets A/S		190	958
Non-controlling interests		15	8
		205	**966**

Consolidated balance sheet as at 31 December

(DKKm)	Note	2018	2017
Assets			
Non-current assets			
Goodwill	4.2	14,538	14,592
Other intangible assets	4.2	3,537	3,987
Plant and equipment	4.3	405	459
Investment in associates	4.5	243	235
Derivative financial instruments	3.5	27	28
Deferred tax asset	6.1	333	387
Total non-current assets		**19,083**	**19,688**
Current assets			
Inventories	3.1.1	50	66
Trade and other receivables	3.1.2	888	787
Contract assets	2.1	26	54
Clearing-related assets	3.2	6,868	7,791
Prepayments		232	222
Other financial assets	7.2	258	240
Current tax receivables		-	10
Cash and cash equivalent	3.3	1,242	1,389
Total current assets		**9,564**	**10,559**
Total assets		**28,647**	**30,247**

(DKKm)	Note	2018	2017
Equity and liabilities			
Equity			
Share capital	5.1	200	200
Reserves		10,560	10,305
Equity, owners of Nets A/S		**10,760**	**10,505**
Non-controlling interests		162	147
Total equity		**10,922**	**10,652**
Non-current liabilities			
Borrowings	5.2	1,768	7,624
Liabilities to Group enterprises	5.2	5,639	-
Pension liabilities, net	7.1	39	61
Deferred consideration		47	249
Finance lease	5.3	37	59
Deferred tax liabilities	6.1	622	715
Total non-current liabilities		**8,152**	**8,708**
Current liabilities			
Bank overdraft	5.2	914	647
Trade and other payables	3.1.3	1,564	1,502
Contract liabilities	2.1	74	70
Clearing-related liabilities	3.2	6,456	8,393
Deferred consideration		275	17
Finance lease	5.3	31	24
Other financial liabilities	7.2	152	154
Current tax liabilities		107	80
Total current liabilities		**9,573**	**10,887**
Total liabilities		**17,725**	**19,595**
Total equity and liabilities		**28,647**	**30,247**

Consolidated statement of cash flows for the year

(DKKm)	Note	2018	2017
Operating profit (EBIT)		818	1,501
Depreciation, amortisation and impairment losses	4.2 & 4.3	1,157	1,080
Other non-cash items		60	41
Settlement of share option program and retention program		(82)	-
Change in narrow working capital	3.1	21	(188)
Interest and similar items, net		(435)	(219)
Taxes paid	6.1	(108)	(200)
Net cash flow from operating activities excluding clearing-related balances		**1,431**	**2,015**
Change in clearing-related balances	3.2.1	(1,014)	(56)
Net cash from operating activities		**417**	**1,959**
Purchase of intangible assets	4.2	(519)	(431)
Purchase of plant and equipment	4.3	(136)	(234)
Purchase of investments	4.1	(14)	(296)
Proceeds from Visa shares	7.2	47	3
Payment of proceeds from Visa shares	7.2	(27)	(166)
Net cash from investing activities		**(649)**	**(1,124)**
Proceeds from shareholder loan		5,985	-
Base fee in connection with shareholder loan		(120)	-
Proceeds from borrowings		149	550
Repayment of borrowings		(6,132)	(4,831)
Proceeds from bonds		-	2,974
Base fee in connection with bonds		-	(52)
Proceeds from LTIP programme		93	-
Repayment of finance lease liabilities		(37)	(21)
Purchase of treasury shares		-	(153)
Settlement of interest swap		23	(2)
Net cash flows from financing activities exclusive of clearing-related activities		**(39)**	**(1,535)**
Borrowings (clearing-related)		-	(223)
Net cash flows from financing activities		**(39)**	**(1,758)**

(DKKm)	Note	2018	2017
Net cash flow for the year		**(271)**	**(923)**
Cash and cash equivalents as at 1 January		742	1,778
Exchange gains/(loss) on cash and cash equivalents		(143)	(113)
Net cash and cash equivalents as at 31 December		**328**	**742**
Bank overdraft (clearing-related balances)		914	482
Bank overdraft (own cash)		-	165
Cash and cash equivalents as at 31 December	3.3	**1,242**	**1,389**

Non-GAAP performance measures

Net cash and cash equivalents as at 31 December		**328**	**742**
Clearing-related assets as at 31 December		6,868	7,791
Clearing-related liabilities as at 31 December		(6,456)	(8,393)
Own cash as at 31 December		**740**	**140**
Own cash as at 1 January		**140**	**703**
Net cash flow from operating activities excluding clearing-related balances		1,431	2,015
Net cash from investing activities in the year		(649)	(1,124)
Net cash flows from financing activities excluding clearing-related activities		(39)	(1,535)
Net cash flow from pass-through Visa proceeds	7.2	(1)	163
Adjustment of pass-through Visa proceeds		-	31
Exchange gains/(loss) on cash and cash equivalents		(142)	(113)
Own cash as at 31 December		**740**	**140**

Consolidated statement of changes in equity as at 31 December

	2018							
(DKKm)	Share capital	Treasury share reserves	Hedge reserves	Currency translation reserves	Retained earnings	Equity, owners of Nets A/S	Non-controlling interests	Total equity
Equity as at 1 January	200	(153)	13	(498)	10,943	**10,505**	147	**10,652**
Net profit for the year	-	-	-	-	293	**293**	15	**308**
Other comprehensive income for the year								
Actuarial losses related to defined benefit pension plans	-	-	-	-	(4)	**(4)**	-	**(4)**
Currency translation adjustments, foreign enterprises	-	-	-	(93)	-	**(93)**	-	**(93)**
Net gain/(loss) on cash flow hedges	-	-	(3)	-	-	**(3)**	-	**(3)**
Settlement of interest swap	-	-	4	-	-	**4**	-	**4**
Tax on fair value adjustments	-	-	(7)	-	-	**(7)**	-	**(7)**
Other comprehensive income for the year	**-**	**-**	**(6)**	**(93)**	**(4)**	**(103)**	**-**	**(103)**
Total comprehensive income for the year	**-**	**-**	**(6)**	**(93)**	**289**	**190**	**15**	**205**
Adjustment	-	-	15	-	(15)	**-**	-	**-**
Share-based payments	-	93	-	-	(28)	**65**	-	**65**
Total changes in equity	**-**	**93**	**9**	**(93)**	**246**	**255**	**15**	**270**
Equity as at 31 December	**200**	**(60)**	**22**	**(591)**	**11,189**	**10,760**	**162**	**10,922**

Consolidated statement of changes in equity as at 31 December

(DKKm)	2017 Share capital	Treasury share reserves	Hedge reserves	Currency translation reserves	Retained earnings	Equity, owners of Nets A/S	Non-controlling interests	Total equity
Equity as at 1 January	200	-	12	(251)	9,644	**9,605**	201	**9,806**
Net profit for the year	-	-	-	-	1,206	**1,206**	12	**1,218**
Other comprehensive income for the year								
Actuarial gain/(loss) related to defined benefit pension plans	-	-	-	-	(2)	**(2)**	-	**(2)**
Currency translation adjustments, foreign enterprises	-	-	-	(247)	-	**(247)**	(4)	**(251)**
Net gain/(loss) on cash flow hedges	-	-	(1)	-	-	**(1)**	-	**(1)**
Settlement of interest swap	-	-	2	-	-	**2**	-	**2**
Other comprehensive income for the year	-	-	**1**	**(247)**	**(2)**	**(248)**	**(4)**	**(252)**
Total comprehensive income for the year	**-**	**-**	**1**	**(247)**	**1,204**	**958**	**8**	**966**
Acquisition of non-controlling interests	-	-	-	-	52	**52**	(62)	**(10)**
Share-based payments	-	-	-	-	43	**43**	-	**43**
Purchase of treasury shares	-	(153)	-	-	-	**(153)**	-	**(153)**
Total changes in equity	**-**	**(153)**	**1**	**(247)**	**1,299**	**900**	**(54)**	**846**
Equity as at 31 December	**200**	**(153)**	**13**	**(498)**	**10,943**	**10,505**	**147**	**10,652**

Contents

With the aim of providing enhanced information and a better understanding of the Group's financial results, position and cash flows, the notes to the consolidated financial statements have been structured into key themes. Further, to provide additional context to the IFRS financial statements and disclosures, narrative comments have been placed adjacent to the disclosures in the relevant theme section. The notes are presented in the following themes:

- Basis of preparation
- Earnings
- Working capital
- Strategic investment and divestment
- Funding and capital structure
- Tax and Governance
- Other disclosures

Contained within the narrative information is a financial analysis which is used by Executive Management in the monitoring of the business.

For ease of reference, an overview of how the financial statement disclosure notes have been allocated to each of the respective themes is set out below.

Section 1:

Basis of preparation

In this section

Section 1

Basis of preparation

Note 1.1

Basis of preparation

The basis of preparation relates to the accounting framework which Executive Management has applied in the preparation of the consolidated financial statements of Nets A/S.

International Financial Reporting Standards (IFRS) and interpretations (IFRIC), as adopted by the European Union, and further requirements in the Danish Financial Statements Act for entities in reporting class C have been applied in the preparation of these consolidated financial statements.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) measured at fair value.

Included within these financial statements are the following disclosures which are non-IFRS:

- Adjusted EBIT
- Adjusted net profit
- Own cash

The Company is incorporated and registered in Denmark, and the functional currency of the Parent Company and the presentational currency of the Group is Danish kroner (DKK). All values are rounded to the nearest million, except when otherwise indicated.

The Group has applied the following standards for the first time as published by the IASB that are endorsed by the EU and effective as of 1 January 2018:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

The standards were implemented using the modified retrospective method. The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. This is disclosed in Note 1.3.

Furthermore, after the de-listing of the Group as per 12 February 2018, the accounting policies have been updated to only reflect the required disclosures for private companies. Consequently, the following standards are no longer applied:

- IFRS 8 'Operating Segments'
- IAS 33 'Earnings per share'

The Group has assessed that the accounting policies applied retrospectively do not entail the presentation of a third balance sheet, as the preceding period's opening balance sheet has not been impacted. A number of minor reclassifications and adjustments of the comparative figures have been made.

The accounting policies described in the financial statements have, besides the above changes, been applied consistently in each of the periods presented.

Section 1

Basis of preparation (continued)

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the expected impact of these new standards and interpretations is set out in Note 7.4.

Note 1.2

Summary of key accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires Executive Management to make assumptions that affect the reported amount of assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the financial period.

Estimates and judgements used in the determination of reported results are continuously evaluated, and are based on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Executive Management considers the following estimates and related judgements material to the assets and liabilities recognised in the consolidated financial statements; these are described in further detail adjacent to the disclosure Note.

- Use of special items (Note 2.2)
- Business combinations and asset acquisitions (Note 4.1)
- Useful life of intangible assets (Note 4.2)
- Recoverable amount of goodwill and capitalised development projects (Note 4.4)
- Deferred tax assets (Note 6.1)
- Value of Visa shares and related contingent consideration liability (Note 7.2)

Note 1.3

Changes in accounting policies and disclosures – New and amended standards and Interpretations

Nets has adopted the following new accounting standards, amended standards and interpretations from 1 January 2018:

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The implementation of IFRS 9 has had an insignificant impact on the consolidated financial statements. The implementation has resulted in additional disclosures. See Note 3.5. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

Derivative and hedging activities

The interest rate swaps in place as at 31 December 2018 qualified as net investement hedges under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade and other receivables
- Contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and reclassifications to the amounts recognised in the balance sheet. The implementation has had an insignificant impact on the income statements. Contract assets and contract liabilities are now presented separately in the balance sheet.

The standard was implemented using the modified retrospective method. Nets has used the relief from restating comparative figures and applied IFRS 15 only to contracts that were not completed as at 1 January 2018.

The following table shows the amounts by which the affected line items are impacted by the implementation of IFRS 15:

	IAS 18 carrying amount 1 Jan 2018	Reclassification	IFRS 15 carrying amount 1 Jan 2018
Trade receivables	841	(54)	787
Contract assets	-	54	54
Trade payables	1,572	(70)	1,502
Contract liabilities	-	70	70

Section 1

Basis of preparation (continued)

Note 1.4

Basis for consolidation

The consolidated financial information incorporates the financial information of the Group and entities controlled by the Company (its subsidiaries). Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Potential voting rights are included in the assessment of whether the Group has power over an entity.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date on which the Group obtains control or up to the date on which the Group ceases to have control, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Note 1.5

Foreign currency translation

Functional and presentational currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial information is presented in Danish kroner (DKK), which is also the functional and presentational currency of the Parent Company.

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. Items in the consolidated income statements 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.

Translation of transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation of Group companies

Financial information of foreign subsidiaries is translated into Danish kroner at the exchange rates prevailing at the end of the reporting period for assets and liabilities, and at average exchange rates for consolidated income statement and other comprehensive income items.

All effects of exchange rate adjustment are recognised in the consolidated income statement, except for exchange rate adjustments of investments in subsidiaries arising from:

- the translation of foreign subsidiaries' net assets including goodwill recognised at acquisition date, at the beginning of the year at the exchange rates at the end of the reporting period;
- the translation of foreign subsidiaries' income statements using average exchange rates, whereas balance sheet items are translated using the exchange rates prevailing at the end of the reporting period.

The above exchange rate adjustments are recognised in other comprehensive income.

Section 2:

Earnings

This section contains disclosure information related to revenue and costs. The section also discloses information regarding foreign currency exposure.

Revenue
7,615

EBITDA b.s.i.
2,895

Adjusted EBIT
2,372

In this section

Note 2.1

Revenue

The Group earns revenue from its customers predominantly on a transactional basis and on a non-transactional basis:

§ Significant accounting policies

Revenue recognition

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 business areas) and (b) an ad valorem fee based on the value of transactions acquired (which represents the primary revenue model of the Merchant Services business area).

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, fees related to the sale of value-added services and revenue from development projects across all three business areas.

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

Revenue from the sale of products is recognised when the buyer obtains control of the goods, 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.

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 recognised as a contract liability and then recognised on a straight-line basis over the period during which the services are rendered.

Revenue is recognised as the gross amount excluding VAT, taxes and duties and discounts in relation to the sale. Revenue is measured at the fair value of the consideration received or receivable. Payment terms vary between 0-45 days.

Interchange fees and processing fees

Interchange fees and processing fees are the accumulated total of all fees directly related to creating a transaction service charge and sales of other services. This represents interchange fees, processing fees, sales commission, network fees and handling fees.

Note 2.1

Revenue (continued)

Contract assets and liabilities

A contract asset is recognised for the Group's transferring of goods or services, if the customer has either not paid consideration or if the payment is not due. The contract assets primarily relate to development projects in progress.

A contract liability is recognised if the customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers goods or services to the customer. The contract liabilities primarily relate to prepayments received from customers in relation to development contracts and other non-transaction-based revenue.

Business areas

The Executive Management evaluates the activities from a business unit perspective and has identified three business areas:

Merchant Services provide in-store, online and mobile payment acceptance solutions to more than 300,000 merchants across the Nordic region, from large corporate chains to small and medium-sized enterprises and micro-merchants. We serve our merchants through a broad set of distribution channels, including indirect partnership relations such as bank referrals, value-added resellers and web developers as well as through our direct sales force. Our breadth of service, payment type and geographic coverage allows us to be a one-stop-shop for merchants in the countries in which we operate.

Financial & Network Services provide outsourced processing services to more than 240 issuers of payment cards, primarily banks across the Nordic region as well as complementary services including Card Management Systems (CMS), fraud and dispute solutions and mobile wallet technology. This business area is also operating and processing the national debit card schemes in Denmark and Norway, branded Dankort and BankAxept, respectively.

Corporate Services provide the payment platform for recurrent bill payments and credit transfer transactions for more than 260,000 corporations, primarily in Denmark and Norway. At the centre of this business is the ability to provide a seamless and integrated solution for recurring bill payments to corporations and consumers (e.g. Leverandørservice and Betalingsservice). It also includes solutions for real-time clearing providing instant payments.

(DKKm)	2018	2017
Gross revenue per transaction type		
Transactional services	9,178	9,197
Non-transactional services	1,125	1,225
Total	**10,303**	**10,422**
Gross revenue per business area		
Merchant Services	4,620	4,662
Financial & Network Services	2,795	2,862
Corporate Services	2,888	2,898
Total	**10,303**	**10,422**
Net revenue per business area		
Merchant Services	2,414	2,519
Financial & Network Services	2,319	2,313
Corporate Services	2,882	2,892
Total	**7,615**	**7,724**

Note 2.1

Revenue (continued)

(DKKm)	2018	2017
Gross revenue per geographical area		
Denmark	4,924	4,945
Norway	2,657	2,814
Finland	1,764	1,549
Sweden	879	1,020
Baltics	79	94
Total	**10,303**	**10,422**
Net revenue per geographical area		
Denmark	3,616	3,632
Norway	2,412	2,549
Finland	1,073	963
Sweden	449	508
Baltics	65	72
Total	**7,615**	**7,724**

The geographical breakdown of the revenue is based on the location of the legal entities and branches in the Group.

(DKKm)	2018	2017
Assets and liabilities related to contracts with customers		
Contract assets relating to projects and consultancy services	26	54
Total contract assets	**26**	**54**
Contract liabilities – projects	9	3
Other prepayments from customers	65	67
Total contract liabilities	**74**	**70**

During 2018 DKK 3 million of the contract liabilities related to projects reported at the end of 2017 has been recognised as revenue.

No amount are overdue for contract assets relating to projects and consultancy services and no losses are expected.

Other prepayments from customers reported as contract liabilities are recognised as revenue during the following year.

Note 2.2

Costs and Special items

§ Significant accounting policies

Cost of sales

Cost of sales comprises all costs related to products and services which have been sold. This mainly represents the cost of terminals sold and decentralised production costs.

External expenses

External expenses mainly comprise IT operation, software, maintenance and development costs that do not qualify for capitalisation, lease expenses and other marketing, sales and distribution costs, losses and card fraud.

Immaterial other gains and losses of a nature secondary to the main activities of the Group are recognised within external expenses.

Special items

Special items comprise costs or income that cannot be attributed directly to the Group's ordinary activities. Such costs and income include the cost of extensive restructuring or processes and fundamental structural adjustment, and costs related to the owner structure, including cost relating to the takeover offer, IPO and delisting. They are therefore separately disclosed to allow a more comparable view of underlying business performance.

Special items in the year amounted to DKK 920 million (2017: DKK 254 million) and included the following costs:

	2018			2017		
(DKKm)	External expenses	Staff costs		External expenses	Staff costs	
Special items						
Reorganisation, restructuring and refurbishment	(3)	(146)	**(149)**	(20)	(40)	**(60)**
Business set-ups, acquisitions and disposals	(59)	(2)	**(61)**	(13)	(2)	**(15)**
Transformation programme	(418)	(24)	**(442)**	(101)	(9)	**(110)**
Other costs and income, net	-	-	**-**	(1)	-	**(1)**
Special items, excluding IPO costs and costs related to the take private transaction	**(480)**	**(172)**	**(652)**	**(135)**	**(51)**	**(186)**
IPO	-	-	**-**	-	(31)	**(31)**
Takeover, delisting etc.	(206)	(62)	**(268)**	(29)	(8)	**(37)**
Total special items, income statement	**(686)**	**(234)**	**(920)**	**(164)**	**(90)**	**(254)**
Total special items	**(686)**	**(234)**	**(920)**	**(164)**	**(90)**	**(254)**

! Key accounting estimates and judgements

The use of special items entails Management judgement in the separation from other items in the income statement. Management carefully considers such changes in order to ensure the correct distinction between the operating activities and restructuring of the Group carried out to enhance the future earnings potential.

Note 2.2

Costs and Special items (continued)

Financial comments

Reorganisation, restructuring and refurbishment

Costs of reorganisation, restructuring and refurbishment amounted to DKK 149 million (2017: DKK 60 million) and mainly include costs related to termination of employees as part of making Nets more cost-efficient and competitive in meeting the strategy of being operationally excellent.

Business set-ups, acquisitions and disposals

Costs associated with business set-ups, acquisitions and disposals amounted to DKK 61 million (2017: DKK 15 million) and include costs related to external advisors in connection with acquisitions.

Transformation programme

Costs related to the transformation programme amounted to DKK 442 million (2017: DKK 110 million) and included costs related to the launch and execution of a new transformation programme.

These costs related to the further development of a target operating model, and continued investments in security and stability programs as well as the implementation of cost optimisation programmes related to technology, operations and procurement. The cost of third-party consultants represents the majority of the costs relating to the transformation programme.

Takeover offer, delisting and IPO

The costs in 2018 were primarily related to the takeover offer from Hellman & Friedman and subsequent delisting which in total amounted to DKK 268 million. In 2017 costs related to the takeover offer from Hellman & Friedman and IPO-related cost total amounted to DKK 68 million.

Note 2.3

Staff costs

Significant accounting policies

Staff costs

Wages, salaries, pension contributions, social security contributions, annual leave and sick leave and bonuses are recognised in the year in which the associated services are rendered by employees of the Group.

(DKKm)	Note	2018	2017
Staff costs			
Wages and salaries		(1,762)	(1,714)
Share-based payment cost	6.3	(59)	(43)
Pensions – defined contribution plans		(168)	(192)
Pensions – defined benefit obligations	7.1	(2)	(5)
Other social security contributions		(106)	(110)
Other employee costs		(279)	(258)
Total employee costs for the year		**(2,376)**	**(2,322)**
Employee costs capitalised in development projects		157	108
Total employee costs expensed in the income statement		**(2,219)**	**(2,214)**
Employee costs included in special items	2.2	234	90
Total employee costs included in EBITDA before special items		**(1,985)**	**(2,124)**
Actuarial losses recognised in other comprehensive income	7.1	(4)	(2)
Average number of full-time equivalents		2,445	2,476
Year-end number of full-time equivalents		2,432	2,454

Information about remuneration to the Board of Directors and Executive Management is disclosed in Note 6.2.

Note 2.4

Foreign currency exposure

Financial comments

Transaction risk

The Group operates predominantly in Northern Europe. Hence, it is primarily exposed to exchange-rate risks from NOK and SEK, and to a minor degree USD, GBP and ISK. The EUR-based exposure is considered low, given the de facto fixed-rate policy that Denmark maintains against the euro. The Group has only minor exposure to currencies other than those mentioned above.

Foreign currency risk is managed at Group level, focusing on two distinct areas: business activities and Group financial assets and liabilities.

Business activities

There is exchange-rate exposure associated with settlement assets and settlement obligations; however, the exposure is limited, as card transactions are generally executed and settled in the same currency and in the same timeframe. Discrepancies in outflow and inflow of clearing funds result in the Group trading currencies on an ongoing basis to settle these.

Group financial assets and liabilities

The Group holds assets and liabilities in foreign currency, mainly in two different classes, which are as follows:

- Cash at bank – the Group has cash at bank which is in different currencies relevant to underlying card-clearing structure. This and the Group's own cash are not being hedged.
- Borrowings – the Group has Senior Notes denominated in euros (refer to Note 5.2 for further information).

Foreign exchange sensitivity analysis

The Group's exposure to foreign currency fluctuations is summarised in the following tables.

A probable change in the following currencies would hypothetically impact the Group's revenue and operating profit before depreciation and amortisation for the year as outlined in the following table:

		2018		2017	
(DKKm)	Probable change in currency	Net revenue	EBITDA	Net revenue	EBITDA
NOK	+10%	234	115	245	115
SEK	+10%	55	28	64	40
EUR	+1%	12	(2)	12	-

Exchange rate (DKK per 100)	2018			2017		
Key currencies	NOK	SEK	EUR	NOK	SEK	EUR
Average	77.69	72.70	745.32	79.86	77.01	743.80
End of year	74.87	72.66	746.73	75.66	75.63	744.49
Year-end change	(1.7%)	(4.1%)	0.3%	(7.5%)	(2.9%)	0.1%

Note 2.4

Foreign currency exposure (continued)

Financial comments

A probable change in the following currencies against the currencies as at the balance sheet date would have the following hypothetical impact on profit before tax and the Group's equity based on the exposure of balances in foreign currency. Development in the hypothetical impact on profit before tax is given by a changed capital structure (refer to Note 5.2).

2018

(DKKm)	Cash and cash equivalents	Goodwill	Receivables[1]	Borrowings	Liabilities[2]	Net assets[3]	Probable change in currency	Hypothetical impact on profit before tax	Hypothetical impact on equity
Exposure of balance in foreign currency									
NOK	182	1,078	1,422	(5,003)	(1,956)	**(4,277)**	+10%	(59)	(429)
SEK	(243)	1,132	739	-	(1,115)	**513**	+10%	(46)	51
EUR	627	1,468	817	(2,529)	(1,642)	**(1,259)**	+1%	(61)	(13)
Total	**566**	**3,678**	**2,978**	**(7,532)**	**(4,713)**	**(5,023)**			

2017

(DKKm)	Cash and cash equivalents	Goodwill	Receivables[1]	Borrowings	Liabilities[2]	Net assets[3]	Probable change in currency	Hypothetical impact on profit before tax	Hypothetical impact on equity
Exposure of balance in foreign currency									
NOK	631	1,157	1,686	(2,704)	(2,098)	**(1,328)**	+10%	(296)	(133)
SEK	327	1,176	802	-	(1,247)	**1,058**	+10%	45	106
EUR	40	1,458	1,557	(3,113)	(2,012)	**(2,070)**	+1%	(41)	(21)
Total	**998**	**3,791**	**4,045**	**(5,817)**	**(5,357)**	**(2,340)**			

[1] Receivables include settlement assets.
[2] Liabilities include merchant creditors and settlement obligations.
[3] A large part of the balances in foreign currency is naturally hedged by the underlying business activities.

Section 3:

Working capital

The working capital of the Group comprises narrow working capital and clearing-related balances.

Narrow working capital comprises inventory (primarily terminals, spare parts, etc.), trade receivables, prepayments and other receivables and trade and other payables. Management actively focuses on optimising the narrow working capital requirements of the Group's operations.

Clearing-related balances comprise the aggregate of settlement assets less the aggregate of merchant creditors and settlement obligations, as these balances tend to offset each other.

However, Management has limited ability to improve the working capital of clearing-related balances on a day-to-day basis, as these are driven by the volume of transactions and the time elapsed since the last clearing of financial issuers/card schemes, which is why these balances fluctuate from reporting date to reporting date. A description of the components in the clearing-related balances and the key drivers behind their respective amounts is provided in Note 3.2.

Separate credit lines have been established to cover day-to-day fluctuations – see Note 5.2.

In this section

§ Significant accounting policies

Financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through the income statement, financial assets at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets except for trade receivables are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through the income statement, transaction costs that are directly attributable to the acquisition of the financial asset.

Trade receivables including contract assets that do not contain a significant financing component are recognised at the transaction price.

Subsequent measurement

Financial assets at amortised cost

This category is the most relevant to the Group and applies to trade and other receivables and clearing-related assets.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment.

Interest income arising under the EIR method is recognised in financial income in the income statement. Losses arising from impairment are recognised in the income statement under external expenses.

Financial assets at fair value through the income statement

Listed securities are classified as held for trading and are measured at fair value through the income statement.

Impairment of financial assets

Disclosures relating to impairment of financial assets are provided in the following notes:

- Trade and other receivables – Note 3.1.2
- Clearing-related balances – Note 3.2

Inventories

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

Trade and other payables

Trade and other payables are initially recognised at fair value. Suwbsequently, these items are measured at amortised cost.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less allowances for doubtful trade receivables.

The allowances are deducted from the carrying amount of trade receivables and the amount of the loss is recognised in the income statement under External expenses.

Note 3.1

Change in narrow working capital

(DKKm)	2018	2017
Change in narrow working capital		
Inventories	19	(3)
Trade and other receivables	(115)	17
Contract assets	28	(54)
Prepayments	(10)	(28)
Trade and other payables	95	(190)
Contract liabilities	4	70
Total change in narrow working capital	**21**	**(188)**

Note 3.1.1

Inventories

(DKKm)	2018	2017
Inventories		
Finished goods and merchandise	60	79
Total inventories, gross	**60**	**79**
Inventory write-downs at year-end	(10)	(13)
Total inventories, net	**50**	**66**
Movements in the inventory write-downs		
Inventory write-downs as at 1 January	(13)	(10)
Inventory write-downs during the year	(4)	(5)
Provisions utilised	7	2
Inventory write-downs as at 31 December	**(10)**	**(13)**

Write-downs of inventories to net realisable value amounted to DKK 4 million net (2017: DKK 5 million) and are included in cost of sales.

Note 3.1.2

Trade and other receivables

(DKKm)	2018	2017
Trade receivables		
Trade receivables	868	723
Allowances for doubtful debts	(16)	(11)
Trade receivables, net	**852**	**712**
Deposits	17	16
Other receivables	19	59
Total	**888**	**787**
Allowances for doubtful debts as at 1 January	(11)	(14)
Impairment losses	9	10
Adjustment of allowances for bad debt	(14)	(7)
Allowances for doubtful debts as at 31 December	**(16)**	**(11)**
Receivables past due but not impaired	**58**	**108**
Receivables past due but not impaired can be specified as follows:		
Receivables past due less than 6 months	56	105
Receivables past due between 6 and 12 months	2	3
Receivables past due more than 12 months	-	-
Total	**58**	**108**

Related credit risk

The Group is exposed to credit risks related to the trade receivables. The exposure is considered minimal. The base consists of a large number of customers, both banks and merchants, spread across multiple industries and geographical areas, which minimises the credit risk.

Note 3.1.3

Trade and other payables

(DKKm)	2018	2017
Trade and other payables		
Trade payables	588	575
Payables to associates	6	14
Other payables	970	913
Total	**1,564**	**1,502**
Other liabilities		
Employee costs payable	439	417
Other liabilities	422	351
Interest payable	45	78
VAT and duties payable	64	67
Total	**970**	**913**

Note 3.2

Clearing-related balances

(DKKm)	2018	2017
Clearing-related assets		
Settlement assets	6,868	7,791
Total	**6,868**	**7,791**
Clearing-related liabilities		
Merchant creditors	5,054	3,370
Settlement obligations	1,402	5,023
Total	**6,456**	**8,393**

The carrying amount of clearing-related balances is, in general, driven by a combination of card turnover, average settlement days and timing of settlement.

Settlement assets consist primarily of the Group's receivables from the card schemes/networks/banks for transactions processed on behalf of merchants or card issuing banks.

Merchant creditors consist primarily of the Group's liability to merchants for transactions that have been processed but not yet settled. Certain settlement terms towards merchants exceed settlement terms towards the remittance from card scheme/banks, thus creating negative working capital.

Settlement obligations consist primarily of the Group's obligations to the card schemes/networks for transactions made by cardholders who are customers in issuing banks for whom the Group processes transactions. The settlement assets and settlement obligations are primarily clearing transactions and fees that are cleared at the beginning of the following month with card issuers and card acquirers respectively.

Note 3.2.1

Change in clearing-related balances

(DKKm)	2018	2017
Change in clearing-related balances		
Change in settlement assets	923	(3,314)
Change in settlement obligations	(3,621)	2,510
Change in merchant creditors	1,684	748
Total	**(1,014)**	**(56)**

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group is exposed to the risk of unpaid merchant service charges where a customer ceases to trade. To manage this risk, the Group maintains credit risk exposure in line with approved appetite for risk whilst achieving appropriate risk versus reward performance and ensuring that customers will be able to meet their obligations to the Group. In addition, the Group is exposed to chargebacks that arise where customers may not have received the goods or services for which they have paid and seek recompense from the card issuer. Whilst the financial responsibility for a chargeback lies with the merchant, in the event that the merchant is no longer in business, the Group has a liability to re-compensate the card scheme or the issuing bank.

Note 3.3

Cash and cash equivalents

§ Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term highly liquid investments that are readily convertible to known amounts of cash and therefore subject to insignificant risk of change in value.

The credit rating of the banks to which the Group has the largest exposure is monitored on a continuous basis. The Group has entered into cash pool arrangements covering all Group entities.

(DKKm)	2018	2017
Cash at bank and on hand	1,242	1,389
Cash and cash equivalents as at 31 December	**1,242**	**1,389**
Bank overdrafts	(914)	(647)
Cash and cash equivalents as at 31 December, net	**328**	**742**
Restricted cash included in cash at bank and on hand	21	22

(DKKm)	2018	2017
Cash and cash equivalents as at 31 December, net	**328**	**742**
Clearing-related assets as at 31 December	6,868	7,791
Clearing-related liabilities as at 31 December	(6,456)	(8,393)
Own-cash as at 31 December	**740**	**140**

Note 3.4

Financial risk management

Financial comments

Liquidity and financing risk management

Liquidity management is executed on an ongoing daily basis, ensuring availability of required liquidity of the Group by appropriate cash management, and maintaining adequate liquidity reserves at any time through a combination of readily available cash, liquid investment portfolios and uncommitted as well as committed credit facilities.

The Group has established cash pooling arrangements to ensure cost-efficient and secure cash management. The Group continuously monitors actual and future cash flows to match the maturity profiles of financial assets and liabilities.

A part of the Group's liquidity position relates to its settlement activities (settlement cash). The Group ensures that it has sufficient liquidity at any time to meet its settlement payment obligations as they fall due. This is achieved by holding significant cash balances and maintaining sufficient credit lines.

Settlement cash

The Group's acquiring business has a short-term settlement cycle where card schemes (predominantly Visa/MasterCard) remit cash and the Group pays merchants from these remittances.

The settlement activities can result in a significant increase in cash balances or a significant decrease in cash balances. Liquidity is needed only when merchants are remitted prior to funds being received; however, the settlements are normally performed within a few days.

The Group's issuing business also has a short-term settlement cycle where the network (local banks) remits cash and the Group pays the card acquirer or card schemes. The settlements can result in a significant increase in cash balances or a significant decrease in cash balances. Liquidity risks occur when card acquirers are paid prior to funds being received from the network (local banks); however, settlements are normally performed within a few days.

Maturity analysis

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities, with agreed payment periods:

		2018					2017				
(DKKm)	Note	< 1 month	1-3 months	4-12 months	> 1 year	Total	< 1 month	1-3 months	4-12 months	> 1 year	Total
Trade and other receivables		595	210	93	16	**914**	681	128	22	10	**841**
Clearing-related assets		6,868	-	-	-	**6,868**	7,791	-	-	-	**7,791**
Total financial assets at the end of the year by maturity		**7,463**	**210**	**93**	**16**	**7,782**	**8,472**	**128**	**22**	**10**	**8,632**
Borrowings	5.2	1,091	-	461	8,937	**10,489**	667	39	178	8,549	**9,433**
Trade and other payables		623	415	409	191	**1,638**	757	304	438	73	**1,572**
Merchant creditors		5,054	-	-	-	**5,054**	3,370	-	-	-	**3,370**
Clearing-related obligations		1,402	-	-	-	**1,402**	5,023	-	-	-	**5,023**
Deferred consideration		-	267	8	47	**322**	-	4	13	249	**266**
Finance lease	5.3	3	5	23	37	**68**	2	4	18	59	**83**
Total financial liabilities at the end of the year by maturity		**8,173**	**687**	**901**	**9,212**	**18,973**	**9,819**	**351**	**647**	**8,930**	**19,747**

The maturity analysis is based on undiscounted cash flows, including estimated interest. Interest is included based on current rates. Operating lease obligations are disclosed in Note 5.6.
A more detailed maturity analysis of the Group loans is disclosed in Note 5.2.

Note 3.5

Derivative financial instruments

The Group has the following derivative financial instruments

(DKKm)	Note	2018	2017
Non-current assets			
Currency swap		27	28
Total non-current derivative financial instruments		27	28

(DKKm)	Note	Cost of hedging reserve	Currency swaps	Total hedge reserves
As at 1 January 2018		0	28	28
Change in fair value of hedging instrument recognised in OCI for the year		-	1	1
Reclassified from OCI to profit or loss – included in finance costs		(2)	-	(2)
As at 31 December 2018		(2)	29	27

Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

The Group's accounting policy for its cash flow hedges is set out in Note 5.2. Further information about the derivatives used by the Group is provided in the section on market risk.

Fair value measurements

For information about the methods and assumptions used in determining the fair value of derivatives, refer to Note 7.3.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

For hedging of bond payments (principal amount and interest in foreign currency (EUR), the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item, such as changes in the credit risk of Nets or the derivative counterparty, the Group uses the hypothetical derivative method to determine the amount of ineffectiveness.

There was no ineffectiveness during 2018 or 2017 in relation to the currency swaps.

Note 3.5

Derivative financial instruments (continued)

Market risk

Foreign exchange risk

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period expressed in the different currencies used by Nets, is shown in Note 2.4 and 5.2, respectively.

The Group operates predominantly in Northern Europe and is exposed to foreign exchange risk. Refer to description in Note 2.4.

Instruments used by the Group

The Group treasury's risk management policy is to hedge the foreign currency risk related to the corporate bonds amounting to a notional of EUR 220 million by swapping the fixed rate EUR interest and notional exposure into fixed rate DKK and NOK, respectively. The DKK/NOK currency swap ratio is determined based on the forecast consolidated EBITDA origination in DKK and the consolidated net investment in NOK respectively.

The cross-currency swaps are classified as a hedge of future cash flows (EUR/DKK) and a hedge of net investment in a foreign operation (EUR/NOK), respectively, as the (EUR/DKK) swap is assessed as not qualifying as a hedge of a net investment in a foreign operation but, due to the Exchange Rate Mechanism ERM II agreed between the Danish Central Bank and the European Central Bank (ECB), which limits the EURDKK fluctuation band to +/- 2.25%, the hedge is considered effective.

Swaps currently in place match the EUR payments until bond maturity in 2024. The cross-currency swaps replace the fixed EUR interest rate of 2.875% with a fixed DKK interest rate of 2.9285% and a fixed NOK interest rate of 4.7020%, respectively.

The swap contracts require settlement of EUR payments every 6 months. The settlement dates coincide with the dates on which bond principal and interest are payable.

The cost of hedging provisions cf. IFRS 9 are applied to the currency basis spread related to the NOK cross currency swap. The only identified source of ineffectiveness in relation to the groups derivate financial instruments is variance in credit risk between the group and the counterparty

Effects of hedge accounting on the financial position and performance

The effects of the currency swaps on the Group's financial position and performance are as shown in the table:

	2018
Currency rate EURDKK swap	
Carrying amount (asset/liability) (DKKm)	(6)
Notional amount (EURm)	162
Maturity date	2024
Hedge ratio	1:1
Change in fair value of outstanding hedging instruments since 1 January (DKKm)	12
Hedged fixed interest rate until maturity	2.9285%
Currency rate EURNOK swap	
Carrying amount (asset/liability) (DKKm)	35
Notional amount (EURm)	58
Maturity date	2024
Hedge ratio	1:1
Change in fair value of outstanding hedging instruments since 1 January (DKKm)	(1)
Hedged fixed interest rate until maturity	4.7020%

Section 4:

Strategic investments and divestments

This section includes disclosure information related to how the Group executed its growth strategy related to:
- Expansion of geographical and service offering footprint through acquisitions
- Development of innovative product and service offerings

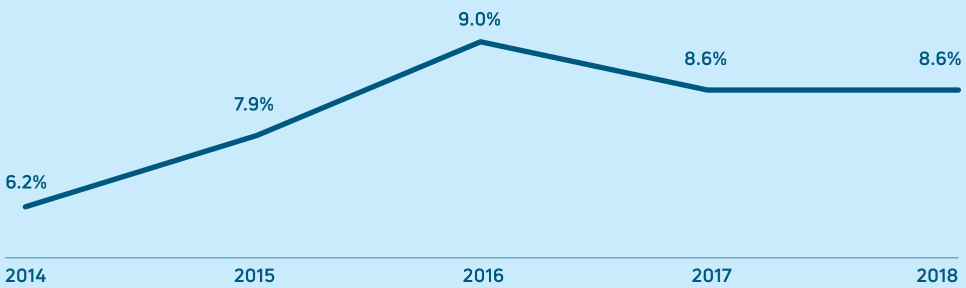
Strategic acquisitions
The Group is actively committed to renewing and supplementing the portfolio of services offered and to strengthening our geographical footprint.

This section provides information on the consideration paid by the Group for acquiring these entities and shows how these businesses have impacted the Group's balance sheet at their respective acquisition dates, including details on goodwill and other intangible assets acquired.

Investments in development projects
At Nets, we see easier payments as the foundation for growth and progress - both in commerce and in society. The Group continuously innovates to bring to market products and services relevant to our focus areas in new payment instruments, analytics and authentication.

This section includes financial information related to expenditure on development projects.

Capital expenditure to net revenue



In this section

Note 4.1

Business combinations and asset acquisitions

Significant accounting policies

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, at either fair value (full goodwill) or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable assets.

Any contingent consideration to be transferred is measured at fair value at the acquisition date. Acquisition-related costs are expensed as and when incurred within external expenses and staff costs.

At the acquisition date, the identifiable assets acquired and the liabilities, including contingent liabilities assumed, are recognised at their fair value at the acquisition date. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired.

If the initial accounting for a business combination is incomplete by the end of the reporting year in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the following 12 months from the acquisition date, if additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date which, if known, would have affected the amounts recognised at that date. The effect of the adjustment is recognised in the opening balance and the comparative figures are restated accordingly.

When the Group ceases to have control of any retained interest in the entity, it is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement.

Key accounting estimates and judgements

The most significant assets acquired generally comprise goodwill, customer agreements and development projects. As no active market exists for the majority of acquired assets, liabilities and contingent liabilities, in particular in respect of acquired intangible assets, Management makes estimates of the fair value. The methods applied are based on the present value of future cash flows, churn rates or other expected cash flows related to the specific asset.

The fair value of development projects and customer contracts acquired in business combinations is based on an evaluation of the conditions relating to the acquired portfolio and related customer relationships. Measurement is based on a discounted cash flow model on key assumptions about the estimated split of the acquired and expected revenue, the related churn rates and profitability of the revenue at the time of the acquisition.

Note 4.1

Business combinations and asset acquisitions (continued)

Acquisition of businesses

The Group has not made any acquisitions in 2018. In January 2019 the Group acquired Dotcard Sp. z o.o. In 2019 the acquisition will have the following effect on the Group's consolidated financial statements as at the reporting date:

(DKKm)	2019 Dotcard Sp. z o.o. Book value on acquisition date	 Opening Balance	 Total acquisitions (Opening balance)
Goodwill	-	433	**433**
Customer agreements	-	121	**121**
Other intangibles	1	1	**1**
Plant and equipment	2	2	**2**
Trande and other receivables	47	42	**42**
Cash and cash equivalent*	237	237	**237**
Other, net	8	8	**8**
Deferred tax	-	(23)	**(23)**
Borrowings	(70)	(70)	**(70)**
Trade and other payables	(226)	(226)	**(226)**
Consideration transferred		**525**	**525**
Cash and cash equivalents in acquisition of business		(237)	(237)
Total cash consideration		**288**	**288**

* An insignificant part relates to own cash.
The purchase price allocation is preliminary due to the short duration since the closing date.

Dotcard Sp. z o.o.

In January 2019 The Group acquired Dotcard Sp. z o.o. and its subsidiaries.

An agreement to acquire 100% of the share capital and voting rights of Dotcard Sp. z o.o. was signed in June 2018 with a closing date of 4 January 2019 for a total consideration of PLN 303 million (DKK 525 million). The cash consideration was transferred to the sellers at 4 January 2019.

The acquisition of the holding company Dotcard Sp. z o.o. including the fully owned subsidiaries eCard S.A. and Dotpay Sp. z o.o. has further strengthened the Group's European presence and gained access to the sixth-largest country in the EU with high growth in digital payments.

Goodwill represents the value of the current workforce and know-how and also the operational synergies expected from integration within the Group.

Asset and share acquisitions

In 2018 the Group made no asset acquisitions. An adjustment to 2017 purchase of customer agreements in Finland has been recognised for a total amount of DKK 14 million.
In 2017 the Group had asset acquisitions amounting to DKK 296 million. This mainly relates to the purchase of remaining shares in previous not fully owned subsidiaries, Paytrail, EDIGard and DIBS (DKK 105 million) and the purchase of customer agreements in Finland (DKK 188 million).

Note 4.2

Intangible assets

Significant accounting policies

Goodwill

Goodwill arising from an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is not amortised. The carrying amount of goodwill is tested annually and if events or changes in circumstances indicate impairment.

Customer agreements and rights

Customer agreements and rights are carried 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 does not exceed:

- Customer agreements 3–15 years
- Rights 3–10 years.

Software

Capitalised software is amortised over the 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 Group, 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.

Key accounting estimates and judgements

Customer agreements

The useful life of customer agreements is determined based on periodic assessments of customer churn or actual useful life and the intended use for those assets. Such studies are completed or updated when new events occur that have the potential to impact the determination of the useful life of the asset, i.e. when events or circumstances occur that indicate the carrying amount of the asset may not be recoverable and should therefore be tested for impairment.

Software

The useful life of software is determined based on periodic assessments of actual useful life and the intended use for those assets. Such studies are completed or updated when new events occur that have the potential to impact the determination of the useful life of the asset, i.e. when events or circumstances occur that indicate the carrying amount of the asset may not be recoverable and should therefore be tested for impairment.

Development projects in progress

For development projects in progress, Executive Management estimates whether each project is likely to generate future economic benefits for the Group in order to qualify for recognition. The development projects are evaluated on technical as well as commercial criteria.

Note 4.2

Intangible assets (continued)

2018

(DKKm)	Goodwill	Other intangible assets: Customer agree-ments	Other intangible assets: Software	Other intangible assets: Devel-opment projects in progress	Other intangible assets	Total intangible assets
Accumulated cost as at 1 January	14,592	2,332	4,205	212	**6,749**	**21,341**
Additions	-	29	100	404	**533**	**533**
Transfer between asset groups	-	-	173	(173)	-	-
Assets disposed of	-	(4)	(83)	-	**(87)**	**(87)**
Currency translation adjustment	(54)	(4)	(7)	(4)	**(15)**	**(69)**
Accumulated cost as at 31 December	**14,538**	**2,353**	**4,388**	**439**	**7,180**	**21,718**
Accumulated amortisation and write-downs for impairment as at 1 January	-	(892)	(1,870)	-	**(2,762)**	**(2,762)**
Amortisation	-	(298)	(670)	-	**(968)**	**(968)**
Assets disposed of	-	4	83	-	**87**	**87**
Currency translation adjustment	-	-	-	-	**-**	**-**
Accumulated amortisation and write-downs for impairment as at 31 December	**-**	**(1,186)**	**(2,457)**	**-**	**(3,643)**	**(3,643)**
Carrying amount as at 31 December	**14,538**	**1,167**	**1,931**	**439**	**3,537**	**18,075**
Carrying amount of finance lease as at 31 December	**-**	**-**	**16**	**-**	**16**	**16**

2017

(DKKm)	Goodwill	Other intangible assets: Customer agree-ments	Other intangible assets: Software	Other intangible assets: Devel-opment projects in progress	Other intangible assets	Total intangible assets
Accumulated cost as at 1 January	14,720	2,075	3,798	197	**6,070**	**20,790**
Additions	-	259	80	370	**709**	**709**
Transfer between asset groups	-	-	352	(352)	**-**	**-**
Currency translation adjustment	(128)	(2)	(25)	(3)	**(30)**	**(158)**
Accumulated cost as at 31 December	**14,592**	**2,332**	**4,205**	**212**	**6,749**	**21,341**
Accumulated amortisation and write-downs for impairment as at 1 January	-	(592)	(1,280)	-	**(1,872)**	**(1,872)**
Amortisation	-	(301)	(609)	-	**(910)**	**(910)**
Currency translation adjustment	-	1	19	-	**20**	**20**
Accumulated amortisation and write-downs for impairment as at 31 December	**-**	**(892)**	**(1,870)**	**-**	**(2,762)**	**(2,762)**
Carrying amount as at 31 December	**14,592**	**1,440**	**2,335**	**212**	**3,987**	**18,579**
Carrying amount of finance lease as at 31 December	**-**	**-**	**22**	**-**	**22**	**22**

(DKKm)	2018	2017
Development costs recognised in the consolidated income statement	(363)	(438)

Note 4.3

Plant and equipment

§ Significant accounting policies

Plant and equipment

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: 10 years
- Terminals: 3 years
- Plant and machinery: 2–5 years

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

	2018				2017			
(DKKm)	Leasehold improve-ments	Terminals	Plant and machinery	Total	Leasehold improve-ments	Terminals	Plant and machinery	Total
Accumulated cost as at 1 January	75	352	287	**714**	109	346	244	**699**
Additions	14	96	42	**152**	26	113	145	**284**
Assets disposed of	-	(75)	(10)	**(85)**	(50)	(91)	(65)	**(206)**
Currency translation adjustment	(1)	(8)	(6)	**(15)**	(10)	(16)	(37)	**(63)**
Accumulated cost as at 31 December	**88**	**365**	**313**	**766**	**75**	**352**	**287**	**714**
Accumulated depreciation and write-downs for impairment as at 1 January	(8)	(205)	(42)	**(255)**	(40)	(198)	(78)	**(316)**
Depreciation	(13)	(97)	(79)	**(189)**	(19)	(93)	(58)	**(170)**
Assets disposed of	-	62	9	**71**	48	75	65	**188**
Currency translation adjustment	-	5	7	**12**	3	11	29	**43**
Accumulated depreciation and write-downs for impairment as at 31 December	**(21)**	**(235)**	**(105)**	**(361)**	**(8)**	**(205)**	**(42)**	**(255)**
Carrying amount as at 31 December	**67**	**130**	**208**	**405**	**67**	**147**	**245**	**459**
Carrying amount of finance lease as at 31 December	**-**	**-**	**51**	**51**	**-**	**-**	**57**	**57**

Terminals are leased by the Group to third-party merchants under operating leases. These operating leases are under various agreements which terminate between 2019 and 2021. The agreements include an extension option.

Note 4.4

Impairment tests

Significant accounting policies

Impairment of goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is any indication that the unit may be impaired.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. When determining a cash-generating unit, various factors have to be considered, including how Management monitors the operations and makes decisions.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognised directly in the income statement and cannot be reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Impairment of other intangible assets and plant and equipment

At each reporting date, the Group assesses whether there is any indication that its other intangible assets or plant and equipment are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss (if any). If an asset does not generate cash flows that are independent from those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. If the recoverable amount of an intangible asset or plant and equipment is less than its carrying value, an impairment loss is recognised immediately in the consolidated income statement.

A reversal of an impairment loss on other intangible assets or plant and equipment is recognised as and when it arises only to the extent that the carrying amount does not exceed the recoverable amount (adjusted for depreciation and amortisation), had no impairment loss been recognised.

Key accounting estimates and judgements

Recoverable amount of goodwill and capitalised development projects

The assessment of whether goodwill and/or capitalised developments projects are subject to impairment requires significant Management judgement in determining various assumptions, such as cash-flow projections, discount rate and terminal growth rates.

The sensitivity of the estimated measurement to these assumptions, combined or individually, can be significant. Furthermore, the use of different estimates or assumptions when determining the fair value of such assets may result in different values and could result in impairment charges in future periods.

Impairment tests of goodwill

The carrying amount of goodwill is tested for impairment annually and if events or changes in circumstances indicate impairment. The testing is performed on cash-generating units which reflect the level on which Management monitors the operation and makes decisions. This means that the cash-generating units are similar to the business areas used in the internal reporting.

The tests were carried out towards the end of 2018 and did not result in any impairment losses recognised.

The carrying amount of goodwill allocated to cash-generating units is as follows:

(DKKm)	2018	2017
Cash-generating unit		
Merchant Services	5,956	5,978
Financial & Network Services	2,290	2,299
Corporate Services	6,292	6,315
Total	**14,538**	**14,592**

Note 4.4

Impairment tests (continued)

The recoverable amount of goodwill recognised is determined based on value in use calculations, which use cash flow projections covering a five-year period incorporating the assumptions used in financial budgets, including expected impact from changes in business models, approved by Executive Management.

Cash flows beyond the five-year budget period have been extrapolated using a steady 2.0% per annum growth rate. Executive Management believes that the growth rates are reasonable based on the services/products being developed, the continued digital conversion of cash, and any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount. Key growth drivers per business are described below.

In 2018, discount rates used for impairment calculations post-tax were 7.5% for Merchant Services, 7.5% for Financial & Network Services, and 7.5% for Corporate Services for the individual cash-generating units to reflect the business and related risk. Discount rates have been updated compared to last year to reflect the newest external analyst input. Key factors that could trigger an impairment test include the following:

- New technology changing the way we currently handle payments
- Macro economy down-scaling
- Regulatory matters.

The calculation of value in use is based on a number of assumptions containing a high level of judgement. To ensure that changes in the assumptions will not affect the recoverable amount in such way that an impairment is required a sensitivity analysis has been performed.

The analysis is performed on the growth rate and the discount rate, because both parameters are signification in calculation of the recoverable amount.

The analysis did not indicate any impairment needs.

Merchant Services

Merchant Services consists of goodwill recognised as part of the sale of the Nets Group to private equity funds in 2014, and from acquisition of activities the following years in Sweden (Payzone AB, DIBS Payment Services AB and Kortaccept Nordic AB), Denmark (Storebox ApS) and Finland (Paytrail Oyj). Goodwill has been tested at aggregated level as Merchant Services is considered as one CGU. Entities are not evaluated separately, as value-added processes are generated across the Group, including synergies from combining operations, economies of scale and future growth potential.

Growth for Merchant Services assumes continued underlying growth in Nets' core market from card-based transactions, associated transactions value (including a continuation of cash to digital conversion) and cross selling opportunities from financial acquiring, POS and e/m-commerce solutions. In addition, growth expectations include continued focus in the Swedish market as well as the launch of improved solutions related to e-commerce and mobile acceptance.

Financial & Network Services

Financial & Network Services consists of goodwill recognised as part of the sale of the Nets Group to private equity funds in 2014. Goodwill has been tested at aggregated level as Financial & Network Services is considered as one CGU. Entities are not evaluated separately, as value-added processes are generated across the Group, including synergies from combining operations, economies of scale and future growth potential.

Growth for Financial & Network Services assumes continued underlying growth in processing volumes (including a continuation of cash to digital conversion in the Nordic core markets). In addition, growth expectations include continued focus on upselling value-added services to existing (and new) customers from e.g. Fraud prevention, Card Management and Mobile solutions. Further growth assumes the continued processing of a majority of existing contracts (including BankAxept processing volumes).

Corporate Services

Corporate Services consists of goodwill recognised as part of the sale of the Nets Group to private equity funds in 2014, and from acquisition of activities from Signaturgruppen A/S in Denmark in 2015. Goodwill has been tested at aggregated level as Corporate Services is considered as one CGU. Entities are not evaluated separately, as value-added processes are generated across the Group, including synergies from combining operations, economies of scale and future growth potential.

Growth for Corporate Services assumes continued underlying growth in account-based payments in the core markets (Norway and Denmark) including a continuation of paper to digital conversion. Further, growth assumes some impact from the successful implementation of new "Instant Payments Solutions".

Note 4.5

Investment in associates

§ Significant accounting policies

Associates

An associate is an entity over which the Group has significant influence. Investments in associates are recognised under the equity method.

Investments in associates are recognised in the balance sheet at the proportional share of the entity's equity value calculated in accordance with Group accounting policies.

Associates with negative equity value are measured at zero, and any receivables from these enterprises are written down, if required, based on an individual assessment. If a legal or constructive obligation exists to cover the associate's negative balance, a liability is recognised.

The income statement reflects the Group's share of the results of operations of the associate.

Any change in other comprehensive income of the associate is presented as part of the Group's other comprehensive income. In addition, when a change has been recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

The proportionate share of the net profit/loss in associates after tax and elimination of the proportionate share of intra-group gains/losses is recognised in the Group's consolidated income statement.

(DKKm)	2018	2017
Investment in associates		
Accumulated cost as at 1 January	238	238
Accumulated cost as at 31 December	**238**	**238**
Revaluation as at 1 January	(3)	(7)
Adjustment for previous year	(1)	(5)
Dividend distributed	(6)	-
Share of profit after tax	15	9
Revaluation as at 31 December	**5**	**(3)**
Carrying amount as at 31 December	**243**	**235**
Fair value recognition from business combinations	**216**	**216**
Carrying amount excluding fair value recognition from business combinations as at 31 December	**27**	**19**

	2018							2017						
						Nets' share							Nets' share	
(DKKm)	Share	Currency	Revenue	Profit for the year	Net assets	Equity	Profit for the year	Share	Currency	Revenue	Profit for the year	Net assets	Equity	Profit for the year
Company name														
e-Boks A/S	50%	DKK	192	16	112	19	8	50%	DKK	174	5	88	11	3
Total			**192**	**16**	**112**	**19**	**8**			**174**	**5**	**88**	**11**	**3**

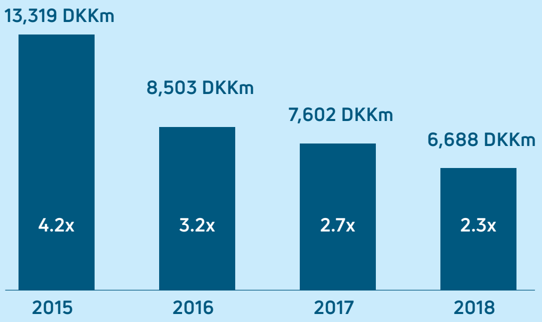
Financial figures are according to latest public annual report for e-Boks A/S.

Section 5:

Funding and capital structure

This section includes disclosure information related to the equity and borrowings of the Group. In addition, the section includes financial risk management information related to the borrowings in the form of interest rate and funding risk.

Net interest-bearing debt to EBITDA b.s.i.



In this section

Note 5.1

Share capital

Significant accounting policies

Equity

Dividends

Dividends expected to be distributed for the year are recognised under a separate item in equity. Dividends and interim dividends are recognised as a liability at the time of adoption by the Annual General Meeting and the meeting of the Board of Directors, respectively.

Foreign currency translation reserve

Foreign currency translation reserve comprises exchange rate differences arising from translation of the functional currency of foreign enterprises' financial information into Danish kroner.

Translation adjustments are recognised in the consolidated income statements when the net investment is realised.

Hedge reserve

The hedge reserve comprises fair value of hedging instruments qualifying for hedge accounting. Hedge accounting ceases when the hedging instrument matures or is no longer effective. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the income statement in the same period that the non-financial asset or liability affects the income statement.

Financial comments

Capital Management

The Group manages its capital base to ensure entities in the Group are able to continue as a going concern, and seeks to maximise the return to shareholders through adequate share of debt and equity on its balance sheet.

Within the Group, certain subsidiaries and branches are registered as payment institutions in Denmark (Nets Denmark A/S), in Finland (Nets Denmark A/S Finnish Branch and Paytrail Oyj) and in Sweden (DIBS Payment Services AB), and therefore such subsidiaries and branches are subject to minimum capital requirements imposed by local authorities.

Note 5.1

Share capital (continued)

	2018		2017	
	Number of shares ('000)	Nominal value (DKKm)	Number of shares ('000)	Nominal value (DKKm)
Share capital				
Share capital as at 1 January	200,411	200	200,411	200
Share capital as at 31 December	**200,411**	**200**	**200,411**	**200**

The share capital of Nets A/S was established on 5 February 2016. In 2016 capital increases were conducted in connection with the IPO to a total number of shares of 200,411,094, each share with a nominal value of DKK 1, giving a share capital of DKK 200 million.

Number of shares ('000)	2018	2017
Treasury shares		
Treasury shares as at 1 January	1,203	-
Acquisition of treasury shares	-	1,203
Disposal of treasury shares	-701	-
Treasury shares as at 31 December	**502**	**1,203**

Note 5.2

Borrowings and related risks

§ Significant accounting policies

Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, clearing-related liabilities, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Loans and borrowings

This is the category most relevant to the Group.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedge accounting

Derivative financial instruments used for cash flow hedges and hedges of net investments in subsidiaries are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Gains or losses arising from changes in the fair value of derivatives are recognized directly in the OCI as cash flow hedge reserve, except for the ineffective portion of cash flow hedges, which is recognised in the income statement as financial items.

Income and costs relating to cash flow hedges and hedges of net investments in subsidiaries are transferred from OCI on realization of the hedged item and are recognized as Financial income or Financial costs.

Loans and borrowings

The Senior Notes (EUR 220 million) are issued by Nassa Topco AS, a direct subsidiary of Nets A/S. The future payments of the Senior Notes have been swapped to DKK (DKK 1,204 million) and NOK (NOK 530 million) with fixed interest rates until maturity and final exchange of notional at maturity. Further, Nets A/S has access to a euro-denominated Revolving Credit Facility ('RCF') expiring in 2024. The RCF amounts to EUR 200 million (DKK 1,493 million), of which EUR 24 million (DKK 179 million) are carved out in an Overdraft Facility.

Together, the RCF and the Overdraft Facility are available for general corporate purposes of the Group. As of 31 December 2018, the RCF was drawn by DKK 653 million, DKK 631 million netted of unamortised debt cost (2017: DKK 620 million, DKK 585 million netted of unamortised debt cost). Of the drawn amount, DKK 653 million, Nets A/S Group accounts for drawing DKK 149 million and Parent companies, of the Nets A/S Group, accounts for drawing DKK 504 million, leaving DKK 840 million (2017: DKK 2,353 million) undrawn. The Overdraft Facility was drawn by DKK 0 million (2017: DKK 165 million) as of 31 December 2018 leaving DKK 179 million (2017: DKK 393 million) available.

Repayment of existing debt in relation to the LBO and de-listing

In February 2018 the shareholders of Nets A/S accepted the public takeover offer by Nets Holdco 5 AS, which resulted in the removal of Nets A/S' shares from trading and official listing on Nasdaq Copenhagen A/S. As a part of the takeover, all existing term loans in the Nets A/S Group were repaid leaving only the Senior Notes and the RCF as external borrowings in the Nets A/S Group.

Adjacent to this transaction, Nassa Topco AS issued a tender to redeem the Senior Notes prior to maturity. This option was exercised by 45.1% of the noteholders, which resulted in a repayment of EUR 180 million, bringing the notional of the Senior Notes down from EUR 400 million to EUR 220 million.

Loans from Parent Company

The Group has entered into three intra-group loan agreements with an indirect parent company from the wider corporate group above Nets A/S. These agreements are a consequence of the LBO and delisting of Nets A/S, as well as M&A activities. The loans consist of two seven-year loans (NOK 6,695 million and EUR 79 million) and a one-year loan (EUR 20 million).

Note 5.2

Borrowings and related risks (continued)

Clearing working capital facilities

In addition to the Senior Notes and the RCF, the Group has separate credit lines available for clearing working capital purposes; EUR 205 million (DKK 1,529 million) on a committed basis, which was temporarily increased to EUR 405 million (DKK 3,024 million) as of 31 December 2018 due to the holiday season. In addition, a EUR 30 million (DKK 224 million) money market line is available on an uncommitted basis. On 31 December 2018, the overdraft facilities for clearing working capital was drawn by DKK 914 million (2017: DKK 482 million), leaving DKK 2,110 million (2017: 1,044 million) undrawn. In addition, the Group also has a number of intra-day facilities available.

	2018								2017
	Interest rate								
(DKKm)	Nominal	Effective	Year of maturity	Currency	Available facility	Drawn amount	Amount hedged	Carrying amount	Carrying amount
Term and maturity of the Group's interest-bearing loans and borrowing									
Term Loan 1 (NOK)	NIBOR[1] + 1.75%	2.8%	2019	NOK	-	-	-	-	632
Term Loan 2 (EUR)	EURIBOR[1] + 2.25%	2.3%	2021	EUR	-	-	-	-	134
Term Loan 2 (NOK)	NIBOR[1] + 2.25%	3.4%	2021	NOK	-	-	-	-	1,325
Term Loan 2 (DKK)	CIBOR[1] + 2.25%	2.6%	2021	DKK	-	-	-	-	2,016
Revolving Credit Facility[2]	IBOR[1] + 3.00%	3.0%	2021	Multi	1,493	149	-	149	585
Senior Notes	2.875%	3.4%	2024	EUR	1,640	1,640	1,640	1,619	2,932
Loan to Group enterprises (NOK)	NIBOR[1] + 3.75%	5.0%	2025	NOK	5,003	5,003	-	4,899	-
Loan to Group enterprises (EUR)	4.35%	4.4%	2025	EUR	591	591	-	591	-
Loan to Group enterprises (EUR)	EURIBOR[1] + 3.25%	3.3%	2019	EUR	149	149	-	149	-
Total long-term borrowings (non-current liabilities)								**7,407**	**7,624**
Overdraft Facility (own cash)	IBOR[1] + 2.5%	2.5%	2021	Multi	179	-	-	-	165
Overdraft Facility (clearing-related balances)[3]				Multi	3,024	914	-	914	482
Money Market (clearing-related balances)				Multi	224	-	-	-	-
Total short-term borrowings (current liabilities) – Included in own cash calculation								**914**	**647**
Total loans and borrowings								**8,321**	**8,217**

1. For the Term Loans, Revolving Credit Facility, there is a floor of 0.0% on the EURIBOR, NIBOR and CIBOR.
2. Revolving Credit Facility commitment is EUR 200 million and overdraft carve out of EUR 24 million.
3. Overdraft Facility for clearing working capital ("CWC") with commitment of EUR 405 million in bank lines.

Note 5.2

Borrowings and related risks (continued)

(DKKm)	2018	2017
Net interest-bearing debt		
Total long-term borrowings exclusive of finance lease liability (non-current liabilities)	7,407	7,624
Capitalised debt costs included in carrying amount	21	118
Own cash	(740)	(140)
Net interest-bearing debt	**6,688**	**7,602**

	2018					
(DKKm)	Carrying amounts	Contractual cash flow	<1 year	1-2 years	3-4 years	> 5 years
Maturity						
Senior Notes	1,619	1,910	54	108	108	1,640
Revolving Credit Facility	149	149	149	-	-	-
Clearing-related facilities	914	914	914	-	-	-
Loan from Group enterprises	5,639	7,477	435	560	559	5,923
Total	**8,321**	**10,450**	**1,552**	**668**	**667**	**7,563**

	2017					
(DKKm)	Carrying amounts	Contractual cash flow	<1 year	1-2 years	3-4 years	> 5 years
Maturity						
Term Loan	4,107	4,554	120	853	3,581	-
Senior Notes	2,932	3,541	98	197	197	3,049
Revolving Credit Facility	585	691	19	38	634	-
Overdraft facilities	647	647	647	-	-	-
Total	**8,271**	**9,433**	**884**	**1,088**	**4,412**	**3,049**

The maturity analysis is based on undiscounted cash flows, including estimated interest. Interest is included based on current rates.

Note 5.3

Finance lease

The Group has entered into a number of financial lease agreements related to software and equipment. The leasing period is 3–5 years and none of the agreements include conditional payments. Some of the agreements give the Group an option to purchase the assets at a price lower than or equal to the assets' expected fair value at the date the option becomes exercisable, while others give the Group an option to extend or renew the agreement.

(DKKm)	2018	2017
Finance lease		
Commitments in relation to finance lease are payable as follows:		
> 1 year	33	28
1-5 years	38	61
Minimum lease payments	**71**	**89**
Future finance charges	(3)	(6)
Recognised as a liability	**68**	**83**
The present value of the finance lease liabilities is as follows:		
> 1 year	31	24
1-5 years	37	59
Minimum lease payments	**68**	**83**

Note 5.4

Net financials

§ Significant accounting policies

Financial items

Financial income and expenses comprise interest income and expenses, realised and unrealised gains, and dividends, losses on transactions denominated in foreign currencies, amortisation of loan costs and securities and subsequent changes to contingent acquisition costs.

(DKKm)	2018	2017
Financial income		
Net foreign exchange gains	82	115
Other income etc.	4	8
Total financial income, exclusive of refinancing costs	**86**	**123**
Financial expenses		
Interest expense	(90)	(265)
Interest expense to Parent Company	(259)	-
Fair value adjustment of financial liabilities	(60)	(17)
Amortisation of transaction costs	(22)	(29)
Other fees etc.	(50)	(30)
Total financial expenses, exclusive of refinancing costs	**(481)**	**(341)**
Extraordinary amortisation of transaction costs in connection with refinancing	(91)	(28)
Settlement of interest swaps	21	(2)
Financial expenses – refinancing costs	**(70)**	**(30)**
Net financials, inclusive of refinancing costs	**(465)**	**(248)**

Note 5.5

Interest risk management

The Group is exposed to interest rate risk on loans, credits and cash balances as well as mismatches on maturities between loans and cash, resulting in variable interest cash flows.

The Group's loan arrangements are based on variable interest rates. Cash held at variable rates partly offsets risk arising from changing interest rates on the Group's loans and credits.

(DKKm)	Variable, non-contractual	Contractual variable rates < 1 month	Total
Exposure to changes in interest rates			
Cash and cash equivalents	1,242	-	**1,242**
Bank loans	-	1,768	**1,768**
Liabilities to Group enterprises	-	5,639	**5,639**
Overdraft Facilities	-	914	**914**
Net	**1,242**	**8,321**	**(7,079)**

A probable change in interest rates compared to the interest as at the balance sheet date would have the following hypothetical impact on profit before tax and the Group's equity, based on the exposure of balances as at 31 December.

	2018			2017	
(DKKm)	Probable change in interest	Hypothetical impact on profit for the year	Hypothetical impact on equity	Hypothetical impact on profit for the year	Hypothetical impact on equity
Sensitivity					
Borrowings	1 p.p.	(57)	-	(8)	86

An increase in the interest rate of 1 p.p. would only affect profit for the year with regards to the Intercompany Loans in EUR and NOK and the Revolving Credit Facility.

An increase in the interest rate of 1 p.p. would have no effect on equity as all borrowings in the Group will be repaid at par value.

Note 5.6

Commitments, contingencies and collaterals

Significant accounting policies

Leases

Contracts to lease assets are classified as financial leasing if they transfer substantially all the risks and rewards of ownership of the asset to the Group. Other contracts to lease assets are classified as operating leases.

The Group as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Operating lease commitments are related to non-cancellable operating leases primarily pertaining to premises, cars and office equipment. The lease costs for 2018 were DKK 110 million (2017: DKK 115 million).

Commitments

The Group has entered into a number of long-term service agreements.

Contingencies

The Group is engaged in certain litigation proceedings. In the opinion of Management, settlement or continuation of these proceedings is not expected to have a material effect on the Group's financial position, operating profit or cash flow.

Group as a lessee:

The total contractual obligations as at 31 December can be specified as follows:

	2018				
(DKKm)	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
Operating leases	105	160	131	363	**759**
Total contractual obligations	**105**	**160**	**131**	**363**	**759**

	2017				
(DKKm)	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
Operating leases	104	187	140	417	**848**
Total contractual obligations	**104**	**187**	**140**	**417**	**848**

Section 6:

Tax and Governance

This section includes disclosures that relate to the Group's Tax and Governance policies.

In this section

Note 6.1

Income and deferred income taxes

§ Significant accounting policies

Income taxes

Tax for the year comprises current income tax, change in deferred tax and adjustments from prior years. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or equity.

The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, as at the reporting date in the countries where the Group operates and generates taxable income. Deferred tax arises due to temporary differences between the carrying amount in the consolidated financial statements and the tax base of assets and liabilities as at the balance sheet date. Deferred tax is not recognised for temporary differences arising on the initial recognition of goodwill and other items where amortisation for tax purposes is disallowed.

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

Deferred tax is measured on the basis of the tax rules and tax rates in the respective countries that will be effective under the legislation as at the balance sheet date when the deferred tax is expected to be realised or the liability settled.

Changes in deferred tax as a result of changes in tax rates are recognised in the consolidated income statements except for the effect of items recognised directly in Other comprehensive income.

Deferred tax assets and liabilities are offset in the Consolidated statement of financial position if the Group has a legally enforceable right to offset and the deferred tax assets and liabilities relate to the same legal tax entity.

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 consolidated income statements. The tax saving as a result of losses is also refunded proportionately.

The companies in the Group are taxed under the on-account tax scheme. Interest/refunds relating to the tax payment are included in interest income and expense and similar items.

Note 6.1

Income and deferred income taxes (continued)

Key accounting estimates and judgements

Deferred tax assets

The Group recognises deferred tax assets, including the expected tax value of tax loss carry-forwards if management assesses that these tax assets can be offset against positive taxable income in the near future. This judgement is made annually and is based on budgets and business plans for the coming years, including planned commercial initiatives. As at 31 December 2018, the carrying amount of the deferred tax assets was DKK 333 million (2017: DKK 387 million) and unrecognised tax losses amounted to DKK 60 million (2017: DKK 828 million).

(DKKm)	2018	2017
Income taxes expensed		
Current tax on profit for the year	(29)	(220)
Deferred tax on profit for the year	(56)	150
Adjustments related to previous years – current tax	(5)	7
Income taxes in the income statement	**(90)**	**(63)**

(DKKm)	2018	2017
Income taxes paid		
Income taxes paid in Denmark	(28)	(137)
Income taxes paid outside Denmark	(80)	(63)
Total income taxes paid *)	**(108)**	**(200)**

*) In 2017 tax paid related to Visa pass-through proceeds was DKK 23 million in Denmark and DKK 5 million in Finland. No taxes related to Visa pass-through were paid in 2018.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(DKKm)	2018	2017
Profit before tax	**398**	**1,281**
Income tax expense calculated at domestic tax rate	(87)	(282)
Deviation in foreign subsidiaries' tax rates compared with Danish tax rate	(5)	(5)
Permanent differences [1]	(148)	172
Previous years not recognised tax losses utilised or capitalised	178	72
Exchange rate adjustment	1	(20)
Change in income tax rates on deferred tax	(29)	-
Income tax expense recognised in the income statement	**(90)**	**(63)**

(DKKm)	2018	2017
Computation of effective tax rate percentage		
Statutory corporate income tax rate in Denmark	22.0%	22.0%
Deviation in foreign subsidiaries' tax rates compared with Danish tax rate	1.4%	0.4%
Permanent differences [1]	37.5%	(13.4%)
Previous years not recognised tax losses utilised or capitalised	(45.1%)	(5.6%)
Exchange rate adjustment	(0.3%)	1.5%
Change in income tax rates on deferred tax	7.4%	-
Effective tax rate	**22.9%**	**4.9%**

[1] Permanent differences in 2017 mainly include losses in Norway due to foreign currency translation adjustments on external debt that is only recognised for tax purposes.
Permanent differences in 2018 mainly include Non-deductible M&A expenses, Non-deductible earn-out adjustments and Non-deductible financial expenses in Norway (deductions waived).

Note 6.1

Income and deferred income taxes (continued)

(DKKm)	2018 Intangible assets	Plant & equipment	Other receivables	Employee benefits obligation	Deferred tax losses carried forward	Total
Development in deferred income tax assets and liabilities						
Net deferred tax asset/(liability) as at 1 January	(657)	31	(25)	12	311	**(328)**
Deferred tax on profit for the year	60	(1)	22	(6)	(29)	**46**
Deferred tax on items recognised in other comprehensive income	-	-	-	-	(7)	**(7)**
Net deferred tax asset/(liability) as at 31 December	**(597)**	**30**	**(3)**	**6**	**275**	**(289)**
Classified as follows:						
Deferred tax asset as at 31 December						333
Deferred tax liability as at 31 December						622

(DKKm)	2017 Intangible assets	Plant & equipment	Other receivables	Employee benefits obligation	Deferred tax losses carried forward	Total
Development in deferred income tax assets and liabilities						
Net deferred tax asset/(liability) as at 1 January	(764)	33	(36)	14	278	**(475)**
Deferred tax on profit for the year	107	(2)	12	(2)	33	**148**
Other changes to deferred tax	-	-	(1)	-	-	**(1)**
Net deferred tax asset/(liability) as at 31 December	**(657)**	**31**	**(25)**	**12**	**311**	**(328)**
Classified as follows:						
Deferred tax asset as at 31 December						387
Deferred tax liability as at 31 December						715

Note 6.2

Related party transactions

Related party transactions

As at 31 December 2018 the Group was 100% owned by Nets Holdco 5 AS. The ultimate parent of the Group is Evergood H&F Lux S.a.r.l. (Luxembourg).

Related parties with significant influence are the company's Executive Board, Board of Directors and their related parties. Furthermore, related parties are companies in which the above persons have significant interests, as well as associates of the Group. All transactions with related parties are made on arm's length terms.

Transactions with e-Boks A/S comprise mainly administrative services amounting to DKK 57 million (2017: DKK 52 million).

There were no transactions with members of Group Management or members of the Board of Directors of the Group, other than remuneration, and furthermore, no loans were granted to the Board of Directors or Group Management in 2018 or 2017.

Remuneration of the Board of Directors and Group Management

Short-term benefits included fixed-base salary and accrued cash bonuses designed to incentivise individual performance and the achievement of a number of predefined short-term functional and individual business targets linked to goals in the Group's balanced scorecard.

Long-term incentives include a retention bonus and share-based payment. For a description of share-based payment, we refer to Note 6.3.

At year-end 2018, Group Management consisted of four members (seven in 2017).

In the event that a member of the Executive Management is dismissed, the ordinary fixed base salary, bonuses etc. are paid for a 12-month notice period and an additional severance of 12 months' fixed salary to the CEO. In the event of change of control, the members of the Executive Board do not receive any additional compensation.

	2018				2017			
(DKKm)	Board of Directors	Executive Management[1]	Group Management	Total	Board of Directors	Executive Management	Group Management	Total
Fixed base salary	(1)	(11)	(18)	**(30)**	(5)	(11)	(21)	**(37)**
Bonus including termination bonus	-	(3)	(4)	**(7)**	-	(10)	(9)	**(19)**
Pensions	-	(1)	(1)	**(2)**	-	(2)	(1)	**(3)**
Benefits	-	-	(1)	**(1)**	-	-	(1)	**(1)**
Total	**(1)**	**(15)**	**(24)**	**(40)**	**(5)**	**(23)**	**(32)**	**(60)**
Retention bonus	-	(7)	(8)	**(15)**	-	(11)	(13)	**(24)**
Share-based payment	-	(14)	(10)	**(24)**	-	(5)	(5)	**(10)**
Total remuneration	**(1)**	**(36)**	**(42)**	**(79)**	**(5)**	**(39)**	**(50)**	**(94)**

[1] On 31 December 2018 Dorthe Rosenkilde Saunders was nominated as CEO. Presented remuneration to former CEO Bo Nilsson and former CFO Klaus Pedersen includes total remuneration costs for the whole of 2018.

Note 6.3

Share-based payment

Accounting policies

As a consequence of the take-private transaction, a change of control clause was triggered for both the share option programme and the retention programme. For the share option programme, the vesting conditions under the change of control clause is considered fulfilled at maximum and 120% of the share options vested in February 2018. For the retention programme, the change of control clause triggered full pay-out of the programme in February 2018.

The share option programme was accounted for on an accrual basis over the vesting period. Share options issued were measured at fair value at the date of granting times the probability of vesting. The total amount expensed over the vesting period was determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value was fixed at the grant date. Non-market vesting conditions were included in assumptions about the number of options that were expected to vest. 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.

Share option programme

Long-term share option programme was established in 2016 in connection with the IPO 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 were granted annually for an amount equivalent to 20–100% of annual salary (however target of 0.75 % of the share capital). Vesting was subject to fulfilment of certain key financial targets and continued employment at the vesting date. Each option gave the right to purchase one existing share in Nets A/S.

No new share options were granted in 2018 (2017: total value of the share option programme granted was DKK 20 million). DKK 43 million was expensed in 2018 relating to the long-term share option programme (2017: DKK 16 million).

Retention programme

In connection with the IPO, a non-recurring share-based retention programme was 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. The cost recognised in 2018 amounts to DKK 16 million (2017: DKK 27 million).

	2018	2017
Share option programme		
Vesting conditions (KPIs)	-	Organic growth and EBITDA
Exercise price	-	DKK 133.20
Vesting	-	February 2020
Share price during exercise period	DKK 165.00	Not vested
Average Black-Scholes value of options	**-**	**DKK 16.80**
Assumptions:		
Risk-free interest rate	-	(0.46%)
Retention rate	-	80%
Volatility	-	25.00%
Dividend	-	0.80%
Period	-	4.0 years

	Executive Manage-ment	Group Manage-ment	Key employees	Total	Average exercise price
Number of share options					
Outstanding as at 1 January 2018	900,852	827,686	1,087,473	**2,816,011**	148.64
Added in the year[1]	91,218	85,138	113,422	**289,778**	133.20
Exercised during the year	(547,312)	(510,840)	(680,599)	**(1,738,751)**	(133.20)
Cancelled in the year	(444,758)	(401,984)	(520,296)	**(1,367,038)**	(165.00)
Outstanding as at 31 December 2018	-	-	-	-	-

[1] The 2017 grant was based on a 100% fulfilment of the vesting conditions, but it was possible to achieve 120%. At the takeover, 120% was vested as part of the takeover.

Note 6.4

Fee to statutory auditors

(DKKm)	2018	2017
Remuneration to Auditors (PwC as elected by the Annual General Meeting)		
Statutory audit	**(6)**	**(6)**
Non-statutory audit services:		
Other assurance engagements	(3)	(2)
Tax advisory services	(1)	(3)
Other services	-	(2)
Total non-statutory audit services	**(4)**	**(7)**
Total	**(10)**	**(13)**

The fee for services other than the statutory audit of the financial statements provided by PwC Statsautoriseret Revisionsanpartsselskab to the Group consists of services related to bond issuance, takeover offer, Mergers & Acquisitions, business optimisation, and other accounting and tax services including IT.

Section 7:

Other disclosures

Included in this section are disclosures which are material to the financial statements from either a quantitative or a qualitative perspective, but which do not directly relate to a specific theme section.

In this section

Note 7.1

Pension assets and pension obligations, net

§ Significant accounting policies

Pensions

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

In a defined benefit plan, the Group 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 through OCI in the period in which they occur.

Remeasurements are not reclassified to profit or loss in subsequent periods.

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 consist of: 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, the Group 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.

Note 7.1

Pension assets and pension obligations, net (continued)

Key accounting estimates and judgements

Defined benefit pension plans

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. We 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 are entering 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 has used the assumptions according to the guidance from the Norwegian Accounting Standards Board (NASB), as these reflect Nets' expectations regarding annual wage and price inflation. The actuarial valuation is from 6 January 2019 based on parameters from 31 December 2018.

(DKKm)	2018	2017
Assets and obligations		
Specification of pensions		
Fair value of plan assets	57	74
Projected benefit obligations	(96)	(135)
Pension asset/(obligation) recognised in the balance sheet	**(39)**	**(61)**
Change in pension assets/(obligations) recognised in the balance sheet		
Pension liability recognised in the balance sheets as at 1 January	(61)	(66)
Pension (costs)/income recognised in the income statements	(2)	(5)
Actuarial gains/(loss) on projected benefit obligations and plan assets recognised in Other comprehensive income	(4)	(2)
Gain on plan assets	1	2
Nets' contribution	9	7
Benefit paid to employees	3	2
Gain from transfer of employees to external part	14	-
Exchange rate adjustments	1	1
Pension assets/(obligations) recognised in the balance sheet as at 31 December	**(39)**	**(61)**

	Assumptions		2018 Sensitivity		2017 Sensitivity	
	2018	2017	+1 %-point	-1 %-point	+1 %-point	-1 %-point
Discount rate	2.6%	2.3%	(12)	(12)	(14)	18
General wage inflation	2.6%	2.5%	1	(1)	4	(4)
Expected regulation of minimum payment	2.6%	1.5%	9	(9)	13	(11)

The table above shows the estimated impact of some of the risks that the Group was exposed to. The Group was also exposed to fluctuations in the market value of assets. For some of these risks, if the defined benefit obligation rises or falls, the market value of assets may move in the opposite direction, thereby eliminating part of the risk.

The Group has used a mortality rate in accordance with the Norwegian K2013 table. Overall, an expected lifetime after retirement at age 65 is 21.7 years for men and 24.9 years for women.

(DKKm)	2018	2017
Expected maturity of projected benefit obligation		
Within 1 year	(5)	(7)
1–5 years	(27)	(27)
Beyond 5 years	(64)	(101)
Total	**(96)**	**(135)**

Note 7.2

Other financial assets and financial liabilities

Significant accounting policies

Financial assets

Other financial assets are classified, at initial recognition, as financial assets at fair value through the income statement.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Key accounting estimates and judgements

Other financial assets

The Visa Inc. shares and contingent considerations held by Nets Denmark A/S Finnish branch (formerly Nets Oy) and Nets Denmark A/S (formerly Teller A/S) , are designated as fair value through the income statement in order to present both the fair value gain of the assets and the value adjustment on the related liability to pass on the proceeds in the income statement.

Other financial liabilities

Other financial liabilities consist of the liability to pass on the net proceeds after tax to the former owners and are measured at fair value.

The fair value adjustments of the Visa Inc. shares and contingent consideration (assets) and the obligation to pass on any proceeds (liability) have been measured based on available information and Executive Management's best estimate as at 31 December 2018.

Financial comments

On 2 November 2015, Visa Inc. and Visa Europe Ltd. ('Visa Europe') announced that they had reached an agreement for Visa Inc. to acquire Visa Europe, an association owned and operated by member banks and other payment service providers. On 21 April 2016, Visa Inc. and Visa Europe announced that they had reached a preliminary agreement on revised terms of the transaction, pending the final agreement and regulatory approval. The revised terms consist of total consideration of up to EUR 18.37 billion, net of costs (the 'Visa Transaction'). Visa Inc. agreed to pay (i) up-front consideration of EUR 17.25 billion, consisting of EUR 12.25 billion in cash, and approximately EUR 5 billion in preferred stock, and (ii) an additional cash payment of EUR 1.12 billion (including interest) payable on the third anniversary of the closing of the transaction. The Visa transaction was closed on 21 June 2016.

As part of the transaction entered into in 2012 between Nets Holding A/S and Suomen Luotto-osuuskunta Cooperative ("SLOK") relating to the acquisition of Luottokunta Oy (now Nets Denmark A/S Finnish Branch), Nets Holding A/S is obligated to pass on the proceeds received from the Visa transaction as a result of the principal member share held by Nets Oy to the extent such proceeds were owing to merchants and financial institutions by Nets Oy. Furthermore, as part of the transaction entered into between Nassa A/S and 186 banks, including affiliates of Danske Bank A/S and Nordea Bank AB, relating to the acquisition of Nets Holding A/S in 2014, Nassa A/S is obligated to pass on proceeds received from the Visa transaction as a result of the principal member shares held in Nets Oy (remaining proceeds) and Nets Denmark A/S, respectively.

In 2016, shares in Visa Europa were converted into cash, restricted shares in Visa Inc. and contingent considerations, where received cash net of tax effects have been partly passed through to the previous owners of Nets Holding A/S (the Danish and Norwegian banks) and Nets Oy and partly used for tax payments related to the gain on the Visa transaction. As of 31 December 2018 all cash has been passed through.

Accounting treatment of the Visa transaction

Fair value adjustment of assets and the corresponding liability is recognised in the income statement in the Financial Statements, as all shares and the related liabilities to pass on the proceeds are held by the same reporting entity (Nets A/S Group).

Fair value adjustments are based on Management's best estimate on received information as at 31 December 2018, although uncertainty exists with regard to the value of preference shares, deferred payments and leakage and transaction costs. Nets is working to mitigate any uncertainties/risks related to the Visa transaction, including (i) requesting binding rulings from the relevant tax authorities ("bindende svar") on the tax treatment of the pass-through arrangement and (ii) refraining from paying out any proceeds before (a) a receipt of binding tax rulings is obtained, and (b) a release has been received from all beneficiaries under the above agreements, primarily SLOK and the Nets Holding A/S sellers, stating that such payment is in full discharge of any obligations.

Note 7.2

Other financial assets and financial liabilities (continued)

(DKKm)	2018	2017
Consolidated income statement		
Fair value adjustment on shares and proceeds (financial income)	47	93
Fair value adjustment on debt (financial expense)	(36)	(83)
Net profit for the year on pass through proceeds	**11**	**10**
Value adjustment related to Nets Branch Norway (financial income)	13	14
Proceeds (shares) related to Nets Branch Sweden (financial income)	7	-
Net profit for the year	**31**	**24**
Other financial assets		
Restricted shares in Visa Inc. and contingent consideration held by Nets Branch Norway	85	73
Restricted shares in Visa Inc. and contingent consideration held by Nets Denmark A/S	104	105
Restricted shares in Visa Inc. held by Nets Branch Sweden	7	-
Contingent consideration held by Nets Denmark A/S, Finnish Branch	62	62
Other financial assets as at 31 December	**258**	**240**
Other financial liabilities		
Visa proceeds to be transferred to former owners of Nets Holding A/S	94	95
Visa proceeds to be transferred to former owners of Nets Denmark A/S, Finnish Branch	58	59
Other financial liabilities as at 31 December	**152**	**154**

(DKKm)	2018	2017
Cash flow		
Received cash consideration related to Visa Europe Shares held by Nets Branch Sweden	47	-
Received cash consideration related to Visa Europe Shares held by Nets Denmark A/S, Finnish Branch	-	3
Proceeds from Visa Europe shares	**47**	**3**
Payment of Visa proceeds to former owners of Nets Branch Sweden	(36)	-
Payment of Visa proceeds to former owners of Nets Holding A/S	(1)	(163)
Payment of Visa proceeds to former owners of Nets Denmark A/S, Finnish Branch	-	(3)
Proceeds from Visa Europe shares	**(37)**	**(166)**
Tax paid on pass through proceeds – Nets Denmark A/S	-	(23)
Tax paid on pass through proceeds – Nets Denmark A/S, Finnish Branch	-	(5)
Tax paid on pass through proceeds	**-**	**(28)**

Note 7.3

Classification of financial assets and financial liabilities

Fair value measurement hierarchy

The carrying values and fair values are identical, except for bank loans measured at amortised cost. Refer to Note 5.2 for carrying amounts and nominal value of bank loans. Fair value of bank loans is assumed to be similar to the nominal value.

The methods and assumptions used in measuring the Group's financial assets and liabilities at fair value are unchanged from 2017.

The methods and assumptions are as follows:

- the fair value of financial assets and liabilities traded in active markets is based on quoted market prices as at the balance sheet date (Level 1).
- the fair value of financial assets and liabilities is based on inputs other than quoted prices included in Level 1 that are observable either directly or indirectly i.e. floating rate bank loans (Level 2).
- the fair value of financial assets and liabilities which are highly liquid and have a short duration is estimated to have a fair value that is identical with the book value (Level 3).

	2018		
(DKKm)	Financial assets and liabilities measured at fair value through the income statement	Financial assets and liabilities measured at amortised cost	Total
Financial assets and liabilities			
Trade and other receivables	-	888	888
Contract assets	-	26	26
Settlement assets	-	6,868	6,868
Cash at bank and on hand	-	1,242	1,242
Other financial assets[1]	258	-	258
Total financial assets	**258**	**9,024**	**9,282**
Borrowings	-	1,768	1,768
Liabilities to Group enterprises	-	5,639	5,639
Trade and other payables	-	1,564	1,564
Contract liabilities	-	74	74
Merchant creditors	-	5,054	5,054
Settlement obligations	-	1,402	1,402
Deferred consideration[2]	322	-	322
Finance lease	-	68	68
Other financial liabilities[1]	152	-	152
Total financial liabilities	**474**	**15,569**	**16,043**
Total net financial assets/ (liabilities)	**(216)**	**(6,545)**	**(6,761)**

[1] Level 1 in the fair value hierarchy.
[2] Level 3 in the fair value hierarchy. The valuation is based on expected future cash flows discounted to its present value.

	2017		
(DKKm)	Financial assets and liabilities measured at fair value through the income statement	Financial assets and liabilities measured at amortised cost	Total
Financial assets and liabilities			
Trade and other receivables	-	787	787
Contract assets	-	54	54
Settlement assets	-	7,791	7,791
Cash at bank and on hand	-	1,389	1,389
Other financial assets[1]	240	-	240
Total financial assets	**240**	**10,021**	**10,261**
Borrowings	-	7,624	7,624
Trade and other payables	-	1,502	1,502
Contract liabilities	-	70	70
Merchant creditors	-	3,370	3,370
Settlement obligations	-	5,023	5,023
Deferred consideration[2]	266	-	266
Finance lease	-	83	83
Other financial liabilities[1]	154	-	154
Total financial liabilities	**420**	**17,672**	**18,092**
Total net financial assets/ (liabilities)	**(180)**	**(7,651)**	**(7,831)**

[1] Level 1 in the fair value hierarchy.
[2] Level 3 in the fair value hierarchy. The valuation is based on expected future cash flows discounted to their present value.

Note 7.4

Standards issued but not yet effective

The standards and interpretations which have been issued, but are not yet effective, up to the date of issuance of the Group's financial statements, and which are considered to have an effect on the Group, are disclosed below.

New standards and amendments which are not yet effective and which are not considered to have an impact on the Group are not disclosed. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has reviewed all of the Group's leasing arrangements in light of the new lease accounting rules in IFRS 16.

Nets has made a preliminary assessment of the impact of the standard in rounded numbers. The changes will result in:

- an increase in Plant and Equipment of DKK 450 million
- an increase in financial liabilities of DKK 450 million
- a net effect in the income statement of DKK 5 million as additional cost, as a result of a decrease in external expenses of DKK 100 million, offset by increases in depreciations of DKK 95 million and financial expenses of DKK 10 million.

Nets will by the end of 2019 move to new premises in Denmark. This will result in additional increase in Plant and Equipment of DKK 188 million with a corresponding increase in debt.

The right-of-use assets and lease liabilities are to be presented seperately in the balance sheet or disclosed in the notes.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Note 7.5

Events after the balance sheet date

In June 2018, Nets announced the acquisition of a leading Polish online payment service provider, Dotpay/eCard. Following approvals from the Polish authorities, the merger was completed beginning of January 2019. For additional information, refer to Note 4.1.

In January 2019, Nets announced a continued expansion into Poland through a strategic alliance with Przelewy24, a leading Polish online payment service provider. Nets will attain a majority stake in the consolidated Polish group that will include Dotpay/eCard and Przelewy24. The agreement is subject to customary approvals by the Polish authorities.

No further events with significant impact on the consolidated financial statements have occurred subsequent to 31 December 2018.

Note 7.6

Companies in the Group

Company	Structure	Currency	Ownership
Parent Company			
Nets A/S			
Denmark			
Nassa A/S	Subsidiary	DKK	100%
Nets Holding A/S	Subsidiary	DKK	100%
Nets Denmark A/S	Subsidiary	DKK	100%
Nets DanID A/S	Subsidiary	DKK	100%
Nets Cards Processing A/S	Subsidiary	DKK	100%
DIBS Payment Services A/S	Subsidiary	DKK	100%
Storebox ApS	Subsidiary	DKK	72.7%
Kvittering.dk ApS	Subsidiary	DKK	72.7%
Signaturgruppen A/S	Subsidiary	DKK	51%
e-Boks A/S	Associate	DKK	50%

Company	Structure	Currency	Ownership
Norway			
Nassa Topco AS	Subsidiary	NOK	100%
Nets Norge Infrastruktur AS	Subsidiary	NOK	100%
DIBS AS	Subsidiary	NOK	100%
EDIGard AS	Subsidiary	NOK	100%
e-Boks AS	Associate	NOK	50%
Sweden			
Nets Sweden AB	Subsidiary	SEK	100%
Nassa BidCo AB	Subsidiary	SEK	100%
Nets Spectracard AB	Subsidiary	SEK	100%
DIBS Payment Services AB	Subsidiary	SEK	100%
DIBS Payment Services i Göteborg AB	Subsidiary	SEK	100%
DebiTech AB	Subsidiary	SEK	100%
VerifyEasy AB	Subsidiary	SEK	100%
e-Boks Sverige AB	Associate	SEK	50%
Finland			
DIBS Payment Services AB	Subsidiary	EUR	100%
Paytrail Oyj	Subsidiary	EUR	100%
Paytrail Technology Oy	Subsidiary	EUR	100%
Other countries			
Nets Estonia AS	Subsidiary	EUR	100%
ITP Baltic SIA (Estonia)	Subsidiary	EUR	100%

Note 7.7

Financial definitions

Key figures and financial ratios stated in the consolidated financial statements have been calculated as follows:

Growth in revenue, reported	Absolute revenue growth / Revenue in comparative period
Growth in revenue, organic	Organic growth is a measure of growth excluding the impact of acquisitions, divestments and foreign exchange adjustments from year-on-year comparisons
EBITDA before special items (b.s.i)	EBITDA before special items
EBITDA before special items margin, %	EBITDA before special items / net revenue
Special items	As defined in Note 2.2
EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment losses
Underlying depreciation and amortisation	Depreciation & amortisation adjusted for amortisation of business combination intangibles & impairment losses
Adjusted EBIT	EBITDA before special items and adjusted for underlying depreciation and amortisation
EBIT	Earnings before interest and tax (operating profit)
Adjusted net profit	Adjusted EBIT adjusted for financial income and expenses excluding impact from foreign exchange gains and losses and adjusted for an effective tax rate of 23%

Capital expenditure (CAPEX)	Purchase of intangible assets and plant & equipment and capitalised development projects for the year, excluding acquisition of subsidiaries
Cash flow from operating activities excl. clearing-related balances	Operating cash flow excluding clearing-related cash flow
Narrow working capital	As defined in Section 3
Operating free cash flow	Cash flow from EBITDA adjusted for change in narrow working capital and CAPEX
Own cash	Cash and cash equivalents excluding clearing-related balances and other proceeds received in cash to be passed through
Net interest-bearing debt (NIBD)	Interest-bearing debt net of own cash and clearing-related borrowings
Cash conversion ratio	Operating free cash flow adjusted for special items / EBITDA before special items
Clearing-related balances	As defined in Section 3
Equity ratio	Equity of the Group / Total assets

Financial statements:

Parent Company

In this section

Income statement for the Parent Company

(DKKm)	Note	2018	2017
Revenue	2	6	7
External expenses		(336)	(59)
Staff costs	3	(36)	(38)
Operating profit (EBIT)		**(366)**	**(90)**
Financial income	4	1	2
Financial expenses	4	(6)	(3)
Net financials		**(5)**	**(1)**
Profit before tax		**(371)**	**(91)**
Income taxes		25	18
Net profit for the year		**(346)**	**(73)**
Proposed profit appropriation			
Retained earnings		(346)	(73)
Total appropriation		**(346)**	**(73)**

Balance sheet for the Parent Company

(DKKm)	Note	2018	2017
Assets			
Non-current assets			
Deferred tax asset		-	3
Investment in subsidiaries	5	10,237	10,237
Total non-current assets		**10,237**	**10,240**
Current assets			
Other receivables		56	1
Prepayments (prepaid wages)		1	1
Receivables from Group enterprises		49	43
Cash and cash equivalents		4	-
Total current assets		**110**	**45**
Total assets		**10,347**	**10,285**
Equity and liabilities			
Equity			
Share capital		200	200
Reserves		9,683	9,947
Total equity		**9,883**	**10,147**
Current liabilities			
Borrowings		-	1
Trade and other payables	6	126	51
Payable to Group enterprises		338	86
Total current liabilities		**464**	**138**
Total liabilities		**464**	**138**
Total equity and liabilities		**10,347**	**10,285**

Statement of changes in equity for the Parent Company

(DKKm)	Share capital	Retained earnings	Total equity
2018			
Equity as at 1 January	200	9,947	**10,147**
Net profit for the year	-	(346)	**(346)**
Share-based payment	-	(11)	**(11)**
Received contribution from Share-based payment	-	93	**93**
Total changes in equity	**-**	**(264)**	**(264)**
Equity as at 31 December	**200**	**9,683**	**9,883**

(DKKm)			
2017			
Equity as at 1 January	200	10,130	**10,330**
Net profit for the year	-	(73)	**(73)**
Purchase of treasury shares	-	(153)	**(153)**
Share-based payments	-	43	**43**
Total changes in equity	**-**	**(183)**	**(183)**
Equity as at 31 December	**200**	**9,947**	**10,147**

Nets A/S was formed on 5 February 2016 with a share capital of DKK 500,000. Several capital increases were made in the year by issuing a total of 200,411,094 new shares, each with a nominal share value of DKK 1.

Moreover, a capital reduction was made during the year of DKK 500,000. At 31 December 2016, outstanding shares in Nets A/S totalled 200,411,094. There have been no changes in share capital in 2017 and 2018. All shares are ordinary shares.

Note 1

Accounting policies

The financial statements of the Parent Company have been prepared in accordance with the Danish Financial Statements Act (Class medium-sized C).

The accounting policies for the financial statements of the Parent Company are the same as for the consolidated financial statements with the additions described below. For a description of the accounting policies of the Group, please refer to Section 1 in the consolidated financial statements.

Supplementary accounting policies for the Parent Company

Financial assets

In the financial statements of the Parent Company, investment in subsidiaries and associated companies are recorded at their acquisition cost. The recognised value is adjusted only if the recognised value of the investment exceeds the recoverable amount.

Dividend or other direct payments received from subsidiaries or associates are recognised as income from financing and investing activities and presented in the income statement.

Fair value of share options issued to employees of the subsidiaries of Nets A/S is accounted for as a capital contribution over the vesting period, whereby it is recorded as an addition during the year. Payments received from subsidiaries to compensate Nets A/S upon an employee's exercise of share options are, conversely, deducted from the accumulated cost of investments in subsidiaries.

Tax

For Danish tax purposes, the Parent Company is assessed jointly with its Danish subsidiaries. The Danish jointly taxed companies are included in a Danish on-account tax payment scheme for Danish corporate income tax. All current taxes under the scheme are recorded in the individual companies.

Statement of cash flows

No separate statement of cash flows has been prepared for the Parent Company; please refer to the Consolidated statement of cash flows.

Note 2

Revenue

(DKKm)	2018	2017
Group services (wages and salaries etc.)	6	7
Total	**6**	**7**

Note 3

Staff costs

(DKKm)	2018	2017
Staff costs		
Wages and salaries	(11)	(11)
Bonus	(3)	(10)
Retention bonus	(7)	(11)
Share-based payment costs	(14)	(5)
Pensions – defined contribution plans	(1)	(1)
Total employee costs for the year	**(36)**	**(38)**
Average number of full-time employees	2	2
Year-end number of full-time employees	2	2

For information regarding remuneration of the Board of Directors and the Executive Management, please refer to Note 6.2 in the consolidated financial statements.

For information regarding share-based payment, please refer to Note 6.3 in the consolidated financial statements.

Note 4

Net financials

(DKKm)	2018	2017
Financial income		
Interest income from Group enterprises	1	2
Total financial income	**1**	**2**
Financial expenses		
Interest expenses to Group enterprises	(5)	(1)
Other fees etc.	(1)	(2)
Total financial expenses	**(6)**	**(3)**

Note 5

Investment in subsidiaries

(DKKm)	2018	2017
Investment in subsidiaries		
Accumulated cost as at 1 January	10,144	10,144
Accumulated cost as at 31 December	**10,144**	**10,144**
Revaluation as at 1 January	93	-
Share-based payments - Contributions	-	93
Revaluation as at 31 December	**93**	**93**
Carrying amount as at 31 December	**10,237**	**10,237**

Investment in subsidiaries consist of the following entities, disclosed with result as of latest approved annual report.

(DKKm)	Share	Currency	Annual report	Equity	Profit for the year
Company name					
Nassa Topco AS	100%	DKK	2017	9,715	60
Total				**9,715**	**60**

Note 6

Trade and other payables

(DKKm)	2018	2017
Employee cost payable	2	15
Trade payables	124	36
Total	**126**	**51**

Note 7

Contingent liabilities

Nets A/S and its Danish subsidiaries are jointly taxed with the Danish companies in the Nets A/S Group. The joint taxation also covers withholding taxes in the form of dividend tax, royalty tax and interest tax. The Danish companies are jointly and individually liable for the joint taxation. Any subsequent adjustments to income taxes and withholding taxes may lead to a larger liability. The taxes for the individual companies are allocated in full on the basis of the expected taxable income.

For information on pending litigation and other contingencies, please refer to Note 5.6 in the consolidated financial statements.

Note 8

Related party transactions

For information on transactions with related parties, please refer to Note 6.2 in the consolidated financial statements.

Nets Group chart

Glossary*

Acceptance – a service that allows merchants to accept card payments

Acquiring services (merchant acquiring) – the act of handling credit or debit card payments on behalf of a merchant

Artificial intelligence (AI) – intelligence exhibited by machines

Authentication – the process of recognising a user's identity

Avtalegiro – a service offered by Nets in Norway for automatic invoicing and payment of recurring bills

BankAxept – a domestic payment scheme owned by Norwegian banks. Nets operates the common operating infrastructure for BankAxept's debit card

BankID – a digital identity solution in Norway operated by Nets on behalf of banks

Betalingsservice – a direct debit solution offered by Nets to Danish corporates and their customers

Biometrics – metrics related to human characteristics, such as fingerprint, iris og face recognition or behavioral patterns such as typing patterns, used a.o. for access control

Blockchain – a distributed ledger technology / decentral database

Clearing – the process of reconciliation of orders between transacting parties

CMS – Consumer Management Services

Contactless transactions – payment card transactions carried out in-store without the consumer having to insert their card into a terminal or enter their PIN

Dankort – the Danish domestic debit card owned and operated by Nets

Digital identity – information on an entity used by computer systems to represent an external agent. That agent may be a person, organisation, application, or device

Digital login – login details to log on to a digital mailbox or similar

Direct debit payment – (Betalingsservice) an instruction from a consumer to their bank, authorising the receiver, usually a corporate, to collect varying amounts from the consumer's account, provided the account holder has been given advanced notice of the amount and date of collection

e-commerce (electronic commerce) – a transaction of buying or selling online

eFaktura – Nets' Norwegian e-billing service

e-identity – refer to 'digital identity'

Fintech – Nets and other providers of new solutions which demonstrate innovative development of applications, processes, products or business models in the financial services industry

Fraud & Dispute Services – card fraud management and dispute handling

General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) – a regulation intended to strengthen and unify data protection for individuals within the EU and which also addresses export of personal data outside the EU

Instant payments – refer to 'real-time clearing'

Internet of Things (IoT) – machine-to-machine communication. Payment IoT enables automatic payment when objects are linked to the internet

Issuer processing (front-end processing) – processing of card-based transactions on behalf of issuing banks

Malware – short for 'malicious software'. Software used to disrupt computer or mobile operations, gather sensitive information or gain access to private computer systems

Merchant acquiring – refer to 'acquiring services'

NemID – a national digital identity solution offered by Nets to Danish citizens, corporates, banks and the public sector on behalf of Digitaliseringsstyrelsen

Payment processor – a company appointed by a merchant to handle transactions from various channels such as credit cards and debit cards, front-end and/or back-end

PCI DSS (The Payment Card Industry Data Security Standard) – a proprietary information security standard for organisations that handle branded credit cards

Phishing – the attempt to obtain sensitive information such as usernames, passwords and credit card details by posing as a trustworthy entity in an electronic communication

Point-of-sale (POS) – the checkout at a store

Real-time clearing (RealTime24/7) – a Nets product allowing instant clearing and settlement of payments

Robotics – the use of intelligent computer systems within areas such as fraud prevention and customer service

Settlement – the completion of a transaction, wherein the seller transfers securities or financial instruments to the buyer and the buyer transfers money to the seller

* Terms are explained in the context of this report

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