Nets A/S

Annual Report 2019

Adopted at the Annual General Meeting
on 27 March 2020

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Chair of the meeting

Financial Summary*

EURm	2019	2018	2017	2016	2015
Income statement					
Revenue, net	747.3	731.7	1,037.7	993.1	916.3
EBITDA before special items	295.0	266.0	380.9	352.2	301.3
EBITDA	198.0	147.2	346.8	270.7	229.2
Special items	(97.0)	(82.8)	(25.0)	(46.4)	(72.1)
Special items - costs related to takeover offer and delisting	-	(36.0)	(9.1)	(35.1)	-
Adjusted EBIT	215.7	197.8	322.3	296.3	265.0
EBIT	56.6	14.9	201.7	126.8	108.8
Result from continuing operations	(28.1)	(31.7)	163.6	(78.5)	15.9
Result from discontinuing operations	60.3	72.9	-	-	-
Adjusted result	123.1	109.1	213.7	134.1	104.3
Financial position					
Total assets	4,037.7	3,836.3	4,062.7	3,806.5	3,960.9
Goodwill	1,360.8	1,946.9	1,959.9	1,980.0	1,962.6
Clearing-related balances, net	(103.2)	55.1	(80.9)	(88.5)	(104.3)
Own cash	32,0	99.0	18.8	94.6	205.3
Net interest-bearing debt	994.5	909.7	1,021.1	1,143.8	1,784.8
Equity	1,522.6	1,462.5	1,430.7	1,319.0	667.3
Cash flow					
Net cash from operating activities excl. clearing related balances	210.9	191.9	270.7	(92.3)	148.1
Change in clearing related balances	109.7	(136.0)	(7.5)	(16.1)	132.6
Net cash from investing activities	(216.9)	(87.0)	(151.0)	9.0	(278.9)
Net cash from financing activities	(15.2)	(5.2)	(236.2)	28.5	78.0
Net cash flow for the year	88.5	(36.3)	(124.0)	(70.9)	79.7
Net change in own cash	(67.0)	80.4	(75.6)	(111.5)	(52.8)
Operating free cash flow	76.9	62.2	232.2	192.8	165.5

EURm	2019	2018	2017	2016	2015
Growth in revenue, net					
Reported	2.1%	(1.8%)	4.6%	8.0%	4.4%
Organic	1%	0%	5%	7%	6%
Capital structure					
EBITDA before special items	295.0	266.0	380.9	352.2	301.3
Net interest-bearing debt/EBITDA before special items	3.4x	3.4x	2.7x	3.2x	4.2x
Other ratios					
EBITDA before special items margin	39.5%	36.4%	36.7%	35.5%	32.9%
Capital expenditure/Revenue	14.9%	12.0%	8.6%	9.0%	7.9%
Capitalised development costs (EBITDA before special items impact)/Revenue)	7.0%	6.5%	4.1%	3.9%	3.9%
Cash conversion ratio	66%	70%	70%	78%	79%
Equity ratio	37.7%	38.1%	35.2%	34.7%	16.8%
Year-end number of employees, full time equivalant	2,460	2,179	2,454	2,427	2,413

* In 2018 and 2019 the numbers have been re-stated as the Group's account-to-account payment business is presented as discontinuing operations. In the income statement result after tax from discontinuing operations is presented in a separate line with comparison numbers. In 2019 assets and liabilities related to discontinuing operations are presented in separate lines as held-for-sale. Net cash flow from discontinuing operations is presented in a Note to the financial statements. Figures from 2015-2017 have not been restated.

Performance highlights 2019

In 2019, Nets saw a strong execution of our European ambitions through acquisitive growth. Our strategic alliance with Przelewy24 (PayPro S.A.) and the acquisition of Dotpay/eCard led to the creation of one of the largest online service providers in Poland and the merger with Concardis Payment Group, additionally gave Nets a leading position in Germany within merchant acquiring and payment terminal rental. Nets' expansion into Germany and Poland, and continuous investments in new payment solutions and a more efficient setup, affirm our determination to deliver on our strategy to build a European payment leader and unlock new and better opportunities for retailers and financial institutions in Europe.

In August 2019, it was announced that the Nets Group will sell its account-to-account business to Mastercard for EUR 2,850 million. The divestment comprises a major line of business whose activities and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the other business areas. Consequently, in the Annual Report for 2019, the account-to-account business is presented as a discontinuing operation with the result after tax presented separately in the income statement with comparative figures. Assets and liabilities related to the account-to-account business are recognised separately in the balance sheet without comparative figures. The notes to the income statement and balance sheet have been adjusted accordingly. The transaction with Mastercard is subject to regulatory approvals and customary closing conditions expected to be met in first half of 2020, at which date the financial gain from the transaction will be recognised. The result, cash flows, assets and liabilities related to the account-to-account business as a discontinuing operation are described and specified in Note 4.6

In June it was announced that Robert Hoffmann would assume the role as CEO of Nets Merchant Services in September. Following the introduction of the new operating model and with the clear ambition of becoming a leading player in the European payments industry, further changes were made to the Executive Committee in early November as Nets welcomed Torsten Hagen Jørgensen as the new CEO of Issuer & eSecurity Services and Gianluca Ventura as new Group CHRO. Both with strong European profiles, Torsten Hagen Jørgensen will play a key role in making Nets a leading European issuer services provider, drawing on extensive executive leadership experience within financial services, while Gianluca Ventura, drawing on his essential role in several waves of transformation as Group HR Director at Vodafone, will be key in continuing the transformation of Nets as we continue our European consolidation.

In the Nordics, Nets did not suffer any losses in connection with Thomas Cook entering into Compulsory Liquidation.

REVENUE

In 2019, net revenue was EUR 747.3 million, up 2.1% compared to 2018.

Merchant Services delivered strong performance across geographies, including acquired activities within e-commerce. Organic growth amounted to 5.4% in 2019.

Issuer & eSecurity Services revenue declined in line with expectations, and was negatively impacted by the price impact from renegotiations of long-term bank contracts as well as a change away from principal license for some customers (with offsetting cost effects). Organic growth was negative by 2.8% in 2019.

Nets will continue to strengthen the commercialisation of the business with a clear-cut focus on driving commercial and product excellence.

OPERATING EXPENSES

Total operating expenses were EUR 452.3 million compared to EUR 465.7 million in 2018, leading to a total cost to net revenue decrease by 3 percentage point to 61% from 64% in 2018.

Cost of sales was EUR 38.2 million (5.1% of net revenue). Cost of sales was at the same level as 2018. Main cost components were point-of-sale (POS) costs.

External expenses amounted to EUR 181.3 million (24.3% of net revenue) compared to EUR 201.9 million in 2018 (27.6% of net revenue) a decreased of 10.2%, mainly driven by migration away from principal license agreements in Norway and the implementation of IFRS 16. External expenses include consulting fees related to IT and costs driven by sourcing partnership related to our technology development.

Staff costs amounted to EUR 232.8 million (31.2% of net revenue) compared to EUR 225.6 in 2018 (30.8% of net revenue) an increase of 3.2%. The increase in staff costs was primarily driven by additional staff following acquisitions combined with salary indexation.

Nets had 2,460 FTEs (full-time equivalent) by the end of 2019, which is 281 more than in 2018. The increase was primarily related to acquisitions to further strengthen the Group's European presence.

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

Capitalised development costs impacting EBITDA b.s.i. for 2019 were 7.0% of net revenue, compared to 6.5% in 2018. The capitalised costs

Performance highlights 2019 (continued)

were primarily related to investments in product excellence, especially within e-commerce and mobile payment solutions, to support our strategy of creating an easier tomorrow for our customers and their customers.

EBITDA B.S.I.

In 2019, EBITDA b.s.i. grew by 10.9% to EUR 295.0 million, compared to EUR 266.0 million in 2018. Adjusted for IFRS 16 effects and new acquisitions, EBITDA b.s.i. grew by 1.1%.

The improvement in EBITDA b.s.i. was primarily driven by strong growth in Merchant Services and solid operating leverage. The improvement resulted in an EBITDA before special items margin expansion of 312 basis points to 39.5% in 2019 from 36.4% in 2018.

SPECIAL ITEMS AND TAKE-PRIVATE-RELATED COSTS

In 2019, special items amounted to EUR 97.0 million, compared to EUR 118.8 million in 2018.

In 2019, investment in transformation programmes continued and amounted to EUR 45.6 million (2018: EUR 58.0 million). Costs associated with business setups, acquisitions and disposals amounted to EUR 28.2 million (2018: EUR 4.9 million) and costs related to reorganisation, restructuring and refurbishment was EUR 23.2 million (2018: EUR 20.0 million).

In 2018, special items also included costs related to the take-private of Nets A/S of EUR 35.9 million.

EBITDA

In 2019, EBITDA amounted to EUR 198.0 million, compared to EUR 147.2 million in 2018.

DEPRECIATION AND AMORTISATION

In 2019, underlying depreciation and amortisation were EUR 79.3 million, up from EUR 68.2 million in 2018. The increase is mainly due to IFRS 16 Financial Leasing becoming applicable per 1. January 2019, driving an increase in depreciations related to leasing assets of EUR 15.3 million.

Amortisation of business combination and impairment losses amounted to EUR 62.1 million compared to EUR 64.1 million in 2018. The decrease is mainly due to significant assets being fully amortised during the year partly offset by the acquisitions, of the Polish activities DotCard and PayPro and amortisations of the related purchase price allocations.

ADJUSTED EBIT

Adjusted EBIT calculated as EBITDA b.s.i. minus underlying depreciation and amortisation was EUR 215.7 million, compared to EUR 197.8 million in 2018.

NET FINANCIALS

Net financials was an expense of EUR 66.6 million, compared to an expense of EUR 56.3 million in 2018. The increase is primarily due to a negative impact by foreign exchange adjustments of EUR 12.9 million.

TAX

In 2019, taxes amounted to an expense of EUR 18,1 million compared to an income of EUR 9,7 million in 2018, equivalent to an effective tax rate of 180.7% in 2019 (positive 23,4% in 2018).

The effective tax rate was negatively impacted by non-deductible M&A cost with a tax value of EUR 5.0 million and interest expenses with a tax value of EUR 8.3 million.

ADJUSTED NET PROFIT

Adjusted net profit increased to EUR 123.1 million compared to EUR 109.1 million in 2018, driven by increased operating profit b.s.i., offset by higher underlying depreciations (IFRS 16 effect) and financial expenses.

RESULT FOR THE YEAR

Result for the year was EUR 32.2 million in 2019, compared to EUR 41.2 million in 2018. The result for 2019 was significantly impacted by Special items of EUR 97.0 million and amortizations of business combination intangibles and customer agreements related to acquisitions of EUR 62.1 million.

BALANCE SHEET AND CASH FLOW

Tangible and intangible assets

At 31 December 2019, total assets amounted to EUR 4,037.7 million, compared to EUR 3,836.3 million at year-end 2018. Total non-current assets amounted to EUR 1,994.4 million compared to EUR 2,555.5 million at year-end 2018 impacted by reclassification of assets held for sale.

Total current assets amounted to EUR 2,043.3 million, compared to EUR 1,280.8 million at year-end 2018, an increase of EUR 762.5 million, mainly related to assets held for sale previously classified as non-current assets of EUR 916.3 million.

CLEARING WORKING CAPITAL

At 31 December 2019, clearing-related assets (clearing debtors) amounted to EUR 707.5 million and clearing-related liabilities amounted to EUR 810.7 million, leading to a clearing working capital (CWC) of minus EUR 103.2 million (positive funding).

EQUITY

Total equity amounted to EUR 1,522.6 million compared to EUR 1,462.5 million at the beginning of the year. The increase related to the positive net result, partly offset by the estimated value of related Put option in connection with the acquisition of PayPro and tax on Group contribution.

Performance highlights 2019 (continued)

BORROWINGS & INTEREST-BEARING LOANS TO SHAREHOLDERS

As of 31 December 2019, borrowings amounted to EUR 1,014.3 million, compared to EUR 992.0 million end of 2018. The increase was mainly a result of the acquisitions of Przelewy24 and Dotpay/eCard, which amounted to a cash outflow of EUR 73.7 million and additional drawings on the revolving credit facilities, partly offset by repayment of internal shareholder loan.

In 2018, in connection with the Hellman & Friedman-led take-private transaction in February 2018, a refinancing of the existing debt in Nets A/S by facilities in other Group enterprises took place.

CASH FLOW

In 2019, net cash flow from operating activities, including discontinued operations, excluding clearing working capital, was EUR 210.9 million, compared to EUR 191.9 million in 2018.

In 2019, the operating cash flow was significantly negatively impacted by the continued investment in transformation programmes, reorganisation and acquisition activities, EUR 97.0 million in total. Adjusted for non-recurring items, cash flow from operating activities was EUR 307.9 million.

Cash flow from investments, including discontinued operations, was EUR 216.9 million, whereof acquisitions amounted to EUR 108.3 million. Investments in development projects and other intangibles continued to be at a high level, and amounted to EUR 85.6 million (in 2018 EUR 69.6 million).

In 2018, cash flow from investing activities amounted to EUR 87.0 million, primarily related to investments in development projects EUR 69.6 million.

Net cash in-flow from financing activities in 2019, excluding clearing-related balances, amounted to negative EUR 15.2 million. Financing activities mostly included inflow from external borrowing, partly offset by repayment of internal shareholder loan.

Net cash flow from financing activities in 2018, excluding clearing-related balances, amounted to EUR 5.2 million. In 2018, financing activities included the repayment of external borrowings of EUR 822.7 million, offset by an internal shareholder loan.

Operating free cash flow in 2019, including discontinued operations, was EUR 173.9 million, compared to EUR 177.0 million in 2018. The development was primarily driven by higher EBITDA before special items offset by continuing significant investments in development projects and the transformation programme.

OUTLOOK 2020

The Nets Group is carefully monitoring COVID-19 and any impact on the expected financial performance for 2020 including revenue and earnings, however it is too early to realiably estimate the financial impact for 2020. 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 January 2020, Nets announced the acquisitions of Finnish software developer Poplatek and terminal service provider Poplatek Payments. For additional information, refer to Note 4.1

Also in January 2020, Nets announced a reduction of the workforce to reduce overlapping roles and functions following years of intense Merger and Acquisition activity.

In March 2020, Nets announced the acquisition of the company Polskie ePlatnosci a leading Polish payment provider. The acquisition is subject to customary approvals by the Polish authorities.

The consequences of COVID-19, where Governments around the world have decided to enforce drastic measures, including "closing down" the countries, will have a significant impact on the global economy. The Nets Group is carefully monitoring any potential impact on the financial performance for 2020 and actions needed. The consequences of COVID-19 are considered a non-adjusting subsequent event regarding the financial statements as per 31 December 2019.

Business model: For an easier tomorrow

We create value for our customers by delivering digital payments and related services that are used by hundreds of thousands of merchant outlets and hundreds of banks and other issuers of payment cards in Europe, allowing our customers to service millions of European consumers. 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, shopping safely on the mobile 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 many European banks, businesses and consumers. We provide a secure and 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 or an authentication.

This means that we invest in, maintain and operate a considerable number of payment platforms in Europe, domestic debit card schemes in Denmark and Norway, and e-identity. Security, stability and high performance are thus top priorities for our business.

As one of the largest digital payment providers in Europe, Nets operates a deeply entrenched network which connects merchants, financial institutions, public service and consumers, enabling them to make and receive payments, provide ID and use value-added services based on data and analytics.

Nets offers several digital payment services, from payment capture and authorisation through to processing and settlement. We enable digital payments across 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 across Europe, while other services such as card payments are offered in close co-operation with financial institutions, and the Danish national e-identity scheme NemID and its successor MitID is offered in close co-operation with public authorities. In Denmark, we own Dankort, while in Norway, we process BankAxept card services on behalf of and in close co-operation with our customers.

To expand our leading position as a one-stop payment shop for merchants and a strong provider of processing services for banks across Europe, we have centred our activities around two distinct business units to address our customers' needs even better, while at the same time benefitting from synergies related to security, stability and scale that come from operating integrated end-to-end processing platforms.

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 Europe, including Visa, MasterCard, JCB, Diners, Discover, American Express, Union Pay, AliPay, Apple Pay, Google Pay, Samsung Pay 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. In Poland, Przelewy24, part of the Nets Group and the largest e-commerce provider in Poland, enables merchants to accept local payment methods such as Pay-By-Link bank payments and BLIK mobile payments, while in the Nordics, Nets 360 offers a smooth shopping experience by connecting all touchpoints, centring around the customer's preferred payment methods. We also offer merchants value-added service for electronic receipts and loyalty solutions, all with a simple and fast setup. Further, in Denmark, we own and operate Dankort, the national debit card system.

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-commerce business generates both transaction fees and monthly fees, while the revenue model for Dankort is primarily transaction-based.

Issuer & eSecurity Services

Issuer & eSecurity Services provides processing services and value added services for issuers of payment cards (primarily banks) as well as e-security and digitisation services to the private and public sector.

The issuer services offering includes 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 issuers in Europe, Issuer & eSecurity Services offers complementary services such as Consumer Management Services (CMS), Risk Management Services (Fraud & Dispute solutions) and Data & Analytics. The business also processes the national debit card systems in Denmark and Norway branded Dankort and BankAxept respectively.

Business model: For an easier tomorrow (continued)

The e-security and digitisation services include delivery of e-security solutions mainly through NemID and BankID, and digitisation services enabling customers to simplify workflows and processes supporting customers in their digital transformation.

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

Corporate Services
On 6 August 2019, it was announced that Nets' account-to-account-based services, including clearing and instant payment services, and e-billing solutions, were sold to MasterCard, subject to merger clearance. The operations sold to Mastercard represent the majority of Nets' Corporate Services division, including Betalingsservice in Denmark and AvtaleGiro/eFaktura in Norway. Nets' e-ID and Digitisation services are not part of the transaction and will be retained by Nets as core capabilities, operated by Issuer & eSecurity Services.

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 continuous risk processes with quarterly reporting 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 to the Executive Management.

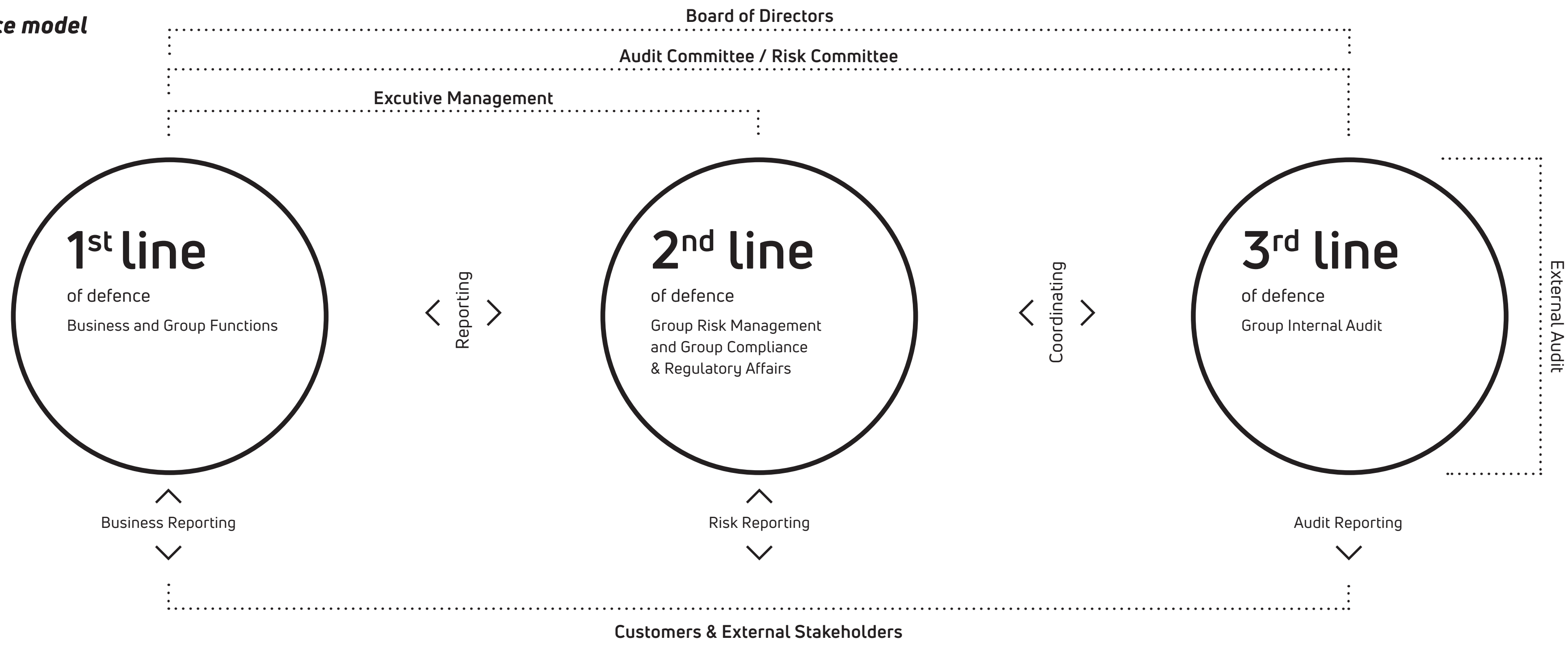
This section describes Nets' key risks in relation to achieving business objectives. Financial risks are described under Financial Statements, sections 2, 3 and 5.

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*. The Board has appointed an Audit Committee and a Risk Committee, which, among other tasks, monitors risk management and compliance policies and methodology.

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

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. Furthermore, they are responsible for compliance with legal, contractual and regulatory requirements.

Second Line
- Group Risk Management and Group Compliance & Regulatory
The Group Risk Management function is responsible for the Group Risk Management and Business Continuity policies. Group 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 Group Compliance & Regulatory function is responsible for monitoring and assessing Nets' compliance with current legislation, market standards and internal policies. Group Compliance & Regulatory prepares management reporting and advises on how to prevent and mitigate identified compliance risks, including creating awareness and providing training as required to business units.

Third Line
- Independent assurance
Nets' internal auditors form the third line of defence, providing independent assurance of the risk and control tasks performed by the first and second line. Nets Group Internal Audit covers the general IT controls, 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 a high-level summary of the result of risk assessments across the Nets Group. Top management reviews the risks and prioritises, approves and follows up on mitigating actions. The risks are not listed in any particular order of priority as to significance or probability, and only contain selected example mitigations.

Industry and market transformation

Description:

New business models, new market players, changing consumer behaviour and market consolidation are, alongside new technologies and regulation, propelling transformation in the payment eco-system, driving increasing competition and price pressure. Amplified customer requirements for functionalities, usability and innovation require proactivity, without compromising on our high security and stability standards.

Potential impact:

Failing to adapt to the changing industry and market dynamics can lead to loss of business and may have an impact on our reputation.

Selected initiatives in 2019:

1. Investment in and development of e-commerce services, offering some of the best checkout solutions in the market.
2. New organisational structure and ways of working, supporting efficient and swift decision-making, providing simple and clear accountability along with the integration of new entities, to better address the changing industry and market dynamics and get closer to the customer.
3. Successfully continuing European expansion through strategic alliance and M&A activities.

Mitigants:

1. Enhanced focus on commercial and product excellence enabling better customer experiences.
2. Increasing value and product development through M&As and alliances.
3. Strengthening our position through by further integration of our geographical expansiion.

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 several 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, as well as the introduction of system malware or ransomware rendering data unreadable.

Potential impact:

At worst, the above-mentioned security threats could lead to system downtime, compromise 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, substantial remediation costs and a weakening of our corporate brand.

Selected initiatives in 2019:

1. Further enhancement of procedures and controls related to the handling of privileged identity and access management and implementation of a privileged identity management solution.
2. Automation of the take-down of phishing sites.
3. Improving and automating procedures and controls related to Nets' PCI DSS compliance.
4. Further automation and consolidation of access role assignment for all users, and 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, monitoring, alerting and dashboards.
3. Multi-layered security architecture, including intrusion prevention and detection, end-point protection, segmentation, encryption of data etc.
4. A strong security culture and continuous awareness campaigns towards all employees and contractors, including regular Nano learnings within selected security areas (such as phishing, malware, password protection), internal posters, intranet articles and simulated phishing e-mails.

Key risks (continued)

Stability and operations

Description:

Nets operates a considerable number of critical payment platforms in Europe, such as domestic debit card schemes, clearing systems (to be part of the sale to MasterCard), e-identity schemes and payment platforms. As these systems are critical for the broader society as well as for our customers, government organisations and authorities, stability has a very high priority at Nets. Potential risk causes include insufficient application deployment and testing, incident management issues, failing infrastructure components, data centre transitions and Distributed Denial of Service (DDoS) attacks.

Potential impact:

Any unscheduled system downtime would impact our services, potentially causing Service Level Agreement (SLA) breaches, loss of business revenue and increased operating expenses. In addition, Nets could suffer reputational damage in case of prolonged or repeated downtime incidents.

Selected initiatives in 2019:

1. Enhancement of the monitoring of events and incidents to enable a swifter remediation of incidents and the potential for predictive analysis on patterns.
2. Optimisation and automation of the operational IT Asset Management setup and overview.
3. Establishment of a Business Continuity Forum and enhancements to the Business Continuity and Crisis Management setup.
4. Continued migration of IT Services throughout 2019 to Nets' new Tier 3 data centre in Norway, further mitigating current proximity and infrastructure hardware risk.

Mitigants:

1. Agreed and accepted policy for what versions of hardware and software are accepted and what versions are desired, accompanied by processes to monitor the lifecycle of hardware and software.
2. Nets Reference Architecture providing a common set of principles, framework and taxonomy for Nets' technology architecture.
3. Firm procedures for change and incident management.
4. Strong Business Continuity and Disaster Recovery Governance.
5. Services run out of Data Centres with best-in-class network and infrastructure set-up.

Merchant acquiring credit risk exposure

Description:

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

Potential impact:

Financial losses from chargebacks that cannot be transferred to a merchant due to merchant bankruptcy.

Selected actions in 2019:

1. Continued legal review of contracts within certain areas to ensure satisfactory deferral and termination rights.
2. Renegotiation of merchant credit risk insurance programme, with continued focus on improving coverage of the most significant credit risk exposures.
3. Improved risk assessment for new merchants and monitoring of existing merchants.
4. Service Agreement for a Payment System Protection Programme, providing scanning of the internet for merchants with illegal or brand-damaging activities.

Mitigants:

1. Merchant credit risk policy and merchant credit risk insurance programme to limit the risk of losses due to merchant bankruptcy.
2. Strengthened credit risk policy for airline and travel onboarding.
3. Ensuring a satisfactory level of contractual rights to manage exposure.
4. New IT tools and capabilities to improve the risk management process.

Regulatory environment

Description:

As Nets expands geographically, it is becoming subject to laws and regulations in the new jurisdictions in which it operates as well as in existing markets. The European Payment Service Directive (PSD2), General Data Protection Regulation (GDPR) and Anti Money Laundry/Combatting the Financing of Terrorism (AML/CFT) legislation are examples of requirements where Nets is investing time and resources to maintain adherence across the group.

Potential impact

A lack of regulatory compliance may potentially result in recommendations and fines from local regulators or Central Banks alike. In addition, Nets may suffer reputational damage in case of data breaches, facilitation of money laundering, late implementation of new regulatory requirements, etc.

Key risks (continued)

Selected initiatives in 2019
1. Reinforcement of the three lines of defence model by adding relevant competences and resources to the Group Compliance & Regulatory team, and approval of the Compliance Policy at top management level.
2. Development and implementation of a Group Compliance Reporting covering AML/CFT, PSD2 and GDPR to be presented to top management.
3. Updating of the whistleblower tool to include all regulated Nets Group entities.

Mitigants:
1. Further improvement of governance by ensuring clear reporting lines and division of responsibilities within the three lines of defence.
2. Securing a group-wide overview of compliance risk by combining self-assessment questionnaires for all regulated sites as well as follow-up stakeholder meetings and request for documentation of policies and procedures in place.
3. Ensure secure groupwide confidential disclosure of relevant incidents in a whistleblower tool.

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 the 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.

Corporate Social Responsibility

Corporate Social Responsibility

This statutory statement on corporate social responsibility (CSR), cf. sections 99a and 99b of the Danish Financial Statements Act covers the financial period 1 January – 31 December 2019.

Our approach

At Nets, we recognise and respect the social, environmental and economic impact that Nets has through the digitisation of the countries in which we operate. In 2018, we became a signatory of UN Global Compact, which guides our work within CSR.

Our impact stems from increasing digital payments, running services related to digital identities, digitising paper-based processes, and ensuring that modern societies function in a safe and efficient manner within the broader area of digital payments, for the benefit of citizens and businesses alike.

As a result, our CSR framework is based on three strategic pillars: 'Driving digitisation', 'Responsible employer' and 'Responsible operations'.

Significant achievements in 2019

In 2019, we expanded into Poland with the acquisition of Dotpay/eCard, the alliance with Przelewy24 and merger with Concardis Payment Group. This has entailed a focus on incorporating new entities into our CSR policy framework. Other signifcant developments include:

- New CSR policies for the Nets Group
- A stricter and more systematic approach to supplier assessment
- A new approach to data gathering for new entities and locations across the enlarged Group
- New sustainable headquarters

Driving digitisation

It is at the core of our digital solutions to drive a move towards a digitised, paperless, and cashless society, contributing to a significant reduction of negative societal, economic, and environmental impact.

We continuously work to ensure that the digitisation of society, to which we contribute through our products and services, brings social, environmental, and economic benefits to society, businesses, and right holders. We do so through the activation of three strategic themes: 'Easiness', 'Security & stability', and 'Digital inclusion'. Nets' CSR Policy framework is available on: https://www.nets.eu/about-nets/csr/Documents/Nets-CSR-Policy.pdf.

In 2019, focus has been on the security agenda, including the systematic reporting of all detected attempts of phishing, smishing or other examples of digital fraud, an area in which Nets in 2019 has become a leading provider of information alerts to the safeguarding initiative "Mit Digitale Selvforsvar" that seeks to guide Danes to navigate safely on the web.

Throughout 2019, Nets has taken fraud monitoring and prevention to a new level by means of artificial intelligenc, hindering fraudulent transactions in real-time. This has led to record low fraud-related losses, despite historically high attempts of fraudulent behaviour. For Dankort alone, 2019 marked an all-time low with a 46% drop in crime-related losses.

In March, Nets joined the Danish ICT Industry Association (ITB)'s Code on reporting security flaws. The Code provides guidance to external stakeholders on how to handle and report to Nets if a security incident is detected in any of our systems etc.

Internally, to raise awareness and drive the right behaviour, new lessons on information security were introduced to all employees, along with the gamified phishing training tool HoxHunt, aimed at strengthening the ability of our employees to recognise phishing e-mails.

Responsible Operations

Climate and environment

At Nets, we aim to run our business in an environmentally conscious way. We commit ourselves to being an environmentally conscious service provider and partner throughout towards suppliers and business partners. Our environmental policy entails commitments and targets for reducing CO2 from travel, reducing electricity consumption, increasing the use of renewable energy, reducing paper use as well as sorting and reducing waste.

New headquarters:

In November, we moved to our new, renovated headquarters in Ballerup, Denmark. Circular economy played a central role in the restoration of the building.

At the headquarters, initiatives were launched to meet sustainability targets, including the use of bio-degradable cups and increased procurement of seasonal produce with an organic certification along with a focus on limiting food waste.

Supplier Code of Conduct

Nets is committed to ensuring that we have responsible and sustainable supplier relationships, and our Supplier Code of Conduct specifies our requirements to human and labour rights and to environmental and ethical standards.

For 2019, we set the ambition to upgrade our supplier processes. In the fall, we asked suppliers to self-assess and document their CSR-efforts, and will adjust the process for 2020 based on an evaluation of process and results to ensure strong supply chain management.

Environmental performance

	2018	2019*	Differential
Reduction in CO_2 emissions from travel between locations	3,718 tonnes of CO_2 saved	2,993 tonnes of CO_2 saved	2019 saw an increase in air travel compared to 2018 due to extensive M&A and integration activities
Reduction in energy consumption	Energy consumption reduced by 13.5% compared to 2017	Energy consumption reduced by 3.5% compared to 2018	2019 resulted in a lower decrease than in 2018. However, in total, energy consumption has been reduced by more than 25% since 2014, exceeding the target of a 15% reduction in 2020 compared to 2014
Amount of unsorted waste	227 tonnes unsorted waste	238 tonnes unsorted waste	2019 saw several re-construction and re-location projects, including moving to a new HQ, driving up waste volumes.
Paper consumption	2.1m sheets - a 13% reduction compared to 2017	1,8m sheets - a 14% reduction compared to 2018	In total, paper consumption has been reduced by 75% since 2014, significantly exceeding the target of a 15% reduction in 2020 compared to 2014.

* Comparing Nordic activities as we establish a new unified methodology for measuring and calculating across newly acquired units.

Anti-bribery & corruption

Nets has zero tolerance of bribery and corruption, and we condemn it in all its forms. Together with our Ethical Policy, our Anti-Bribery and Corruption Policy conveys this stance to ensure employees act with integrity and do not engage in any action involving corruption and/or bribery.

To certify compliance, we have set the target that all employees receive adequate annual training with a response rate above 75%. Following the adoption of the updated Anti-Bribery and Corruption policy in 2019, a new training programme for all employees is expected to be rolled out during first half of 2020.

Whistleblower scheme

In 2014, Nets implemented a whistleblower scheme under which reports on violations or misconduct, or suspicion thereof, that may impact the Nets Group or the life or health of an individual may be submitted anonymously. The whistleblower scheme for the Nets Group remains in effect, allowing employees, the Executive Management, the Board of Directors and external stakeholders to report violations or misconduct, or suspicions thereof. The whistle-blower scheme is an independent and autonomous channel, and any reports submitted will be received directly by an external law firm. A reported concern is forwarded to the Audit Committee, which will investigate the matter and take appropriate action. https://www.nets.eu/Pages/Whistleblower.aspx

External parties can report under the whistleblower scheme through our website. Any reports received are investigated by an external law firm. In 2019, six reports were submitted via our whistleblower channel, two of which did not concern Nets and two of which were out of scope as they concerned identity theft and a phishing attempt. One report only contained a first name with no description of the issue, and one report was investigated by the external law firm and assessed to be unfounded.

Responsible Employer

Human and Labour Rights

At Nets, we seek to respect and protect human and labour rights across our business and across all locations. Our approach to human and labour rights is firmly based on our core values and ethical policy. Nets' Human and Labour Rights Policy is based on the UN's declaration on Human Rights and the ILO's Declaration on Fundamental Principles and Rights at Work.

At Nets, we have a responsibility to help secure the employability of our employees through development opportunities, but also expect everyone to take ownership of their own development to stay employable with and beyond Nets. In 2019, we introduced an on-line learning platform providing everyone with learning opportunities at all devices. By mid-December 2019, a total of 2,585 employees have logged into the platform spending an average of 3.1 hours.

For 2019, the target was to reach a score of 66/100 in Nets' employee engagement survey on the question of: 'I have good opportunities to learn and grow at Nets', with a 2025-target score of 75/100. For 2019, the result was 68, putting us on track towards reaching the long-term target.

Ethical policy

As a key player in the digital payment ecosystem, it is imperative to ensure every decision made at Nets is ethically sound and responsible. Our values, Accountable, Customer-Driven, Together, lie at the core of everything we do, and Nets' Ethical Policy is based on them. In 2019, we upgraded the ethical guidelines to a policy applicable to all employees, and new employees will be introduced to it as part of their introduction to Nets.

Diversity policy

At Nets, we regard diversity as a prerequisite for operating a healthy and forward-looking company. Nets aspires to be an attractive workplace for all current and future employees. We aim to offer employment on an equal basis, ensuring that all our colleagues have equal opportunities for promoting their careers in the company regardless of their nationality, ethnicity, disability, age, gender, sexual orientation, religion, or belief.

It is important that executives have the right skill-set irrespective of gender, and we strive to broaden the field of candidates as much as possible when filling management positions to provide equal opportunities for women and men.

The Board of Directors of Nets A/S has set the following targets for the boards in question. The targets will apply until end 2020:

- At least two female members of the Board of Directors of Nets A/S
- At least one female member of the Board of Directors of Nets Denmark A/S

By year-end 2019, we were on track to meet the 2020 targets with the following compositions:

- Two female members of the Board of Directors of Nets A/S, corresponding to 50%
- One female member of the Board of Directors of Nets Denmark A/S, corresponding to 25%

Work environment

We strive to provide a safe and healthy workplace for all to prevent work-related illnesses. This requires a continuous focus on eliminating work-related illnesses and improving health and safety measures. Further, we intend to run an annual employee engagement survey, two shorter pulse surveys and a leadership effectiveness survey each year to give employees the opportunity to provide feedback and to strengthen our company culture and work environment.

For 2019, the target was to reach a score of 73/100 in Nets' employee engagement survey, with a 2025 target of 80/100. For 2019, the medium-term target was reached.

Further, at Nets we continuously work to prevent and reduce work-related illness. In 2019, the number of work-related accidents with absence was two, while a series of actions was initiated to prevent and handle stress and to strengthen focus on well-being at work.

All policies can be accessed via our website: https://www.nets.eu/about-nets/csr/.

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 2019.

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 2019, 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 2019.

In our opinion, the Management Review includes a true and fair account of the development in the Group's 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 31 March 2020.

Ballerup, 27 March 2020

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 2019 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2019 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 2019 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2019 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 2019, 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 ("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.

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.

Independent auditor's report (continued)

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, 27 March 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Rasmus Friis Jørgensen
State Authorised Public Accountant
mne28705

Michael Groth Hansen
State Authorised Public Accountant
mne33228

Consolidated income statement

EURm	Note	2019	2018
Continuing operations			
Revenue, gross	2.1	1,129.6	1,091.5
Interchange fees and processing fees		(382.3)	(359.8)
Revenue, net of interchange fees and processing fees	2.1	**747.3**	**731.7**
Cost of sales		(38.2)	(38.2)
External expenses		(181.3)	(201.9)
Staff costs	2.3	(232.8)	(225.6)
Operating result before depreciation and amortisation (EBITDA) before special items		**295.0**	**266.0**
Special items	2.2	(97.0)	(82.9)
Special items - costs related to takeover offer and de-listing	2.2	-	(35.9)
Operating result before depreciation and amortisation (EBITDA)		**198.0**	**147.2**
Amortisation of business combination intangibles, customer agreements & impairment losses	4.2 & 4.3	(62.1)	(64.1)
Underlying depreciation and amortisation	4.2 & 4.3	(79.3)	(68.2)
Operating result (EBIT)		**56.6**	**14.9**
Result from associates after tax	4,5	-	1.9
Fair value adjustment on liability related to Visa shares	7.2	(1.6)	1.5
Fair value adjustment of VISA shares related to Nets Branch Norway and proceeds (shares) related to Nets Branch Sweden	7.2	5.0	2.7
Financial income and expenses, net	5.4	(70.0)	(53.0)
Financial expenses - refinancing costs	5.4	-	(9.4)
Net financials		**(66.6)**	**(56.3)**
Result before tax		**(10.0)**	**(41.4)**
Income taxes	6.1	(18.1)	9.7
Result from continuing operations		**(28.1)**	**(31.7)**
Result from discontinuing operations	4.6	**60.3**	**72.9**
Result for the year		**32.2**	**41.2**

EURm	Note	2019	2018
The result is attributable to:			
Owners of Nets A/S, continuing operations		(30.2)	(33.6)
Owners of Nets A/S, discontinuing operations		60.3	72.9
Non-controlling interests, continuing operations		2.1	1.9
		32.2	**41.2**

Non-GAAP performance measures, continuing operations

Operating result before depreciation and amortisation (EBITDA) before special items		295.0	266.0
Underlying depreciation and amortisation		(79.3)	(68.2)
Adjusted EBIT		**215.7**	**197.8**
Adjusted net financials		(55.8)	(56.1)
Adjusted tax, 23%		(36.8)	(32.6)
Adjusted result for the year, continuing operations		**123.1**	**109.1**

Consolidated statement of other comprehensive income

EURm	Note	2019	2018
Result for the year		**32.2**	**41.2**
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	0.2	(0.5)
Total items never reclassified to the consolidated income statement		**0.2**	**(0.5)**
Items that will be reclassified subsequently to the consolidated income statement, when specific conditions are met:			
Currency translation adjustments, foreign enterprises		(1.1)	(17.0)
Reclassification of interest swap to the consolidated income statement		-	0.5
Net gains/(loss) on cash flow hedges		1.0	(0.4)
Tax on fair value adjustments		(0.4)	(0.9)
Total items that may be reclassified to the consolidated income statement subsequently		**(0.5)**	**(17.8)**
Other comprehensive income for the year, net of tax		**(0.3)**	**(18.3)**
Total comprehensive income for the year, net of tax		**31.9**	**22.9**
Total comprehensive income for the year is attributable to:			
Owners of Nets A/S, continuing operations		(30.5)	(51.9)
Owners of Nets A/S, discontinuing operations		60.3	72.9
Non-controlling interests, continuing operations		2.1	1.9
		31.9	**22.9**

Consolidated balance sheet as at 31 December

EURm	Note	2019	2018
Assets			
Non-current assets			
Goodwill	4.2	1,360.8	1,946.9
Other intangible assets	4.2	451.6	473.7
Plant and equipment	4.3	134.0	54.2
Investment in associates	4.5	32.6	32.5
Derivative financial instruments	3.5	4.3	3.6
Deferred tax asset	6.1	11.1	44.6
Total non-current assets		**1,994.4**	**2,555.5**
Current assets			
Inventories	3.1.1	9.0	6.7
Trade and other receivables	3.1.2	121.0	118.9
Contract assets	2.1	10.5	3.5
Clearing-related assets	3.2	707.5	919.7
Prepayments		29.8	31.1
Receivables from Group enterprises		61.0	-
Other financial assets	7.2	15.8	34.6
Cash and cash equivalent	3.3	153.5	166.3
Assets held-for-sale	4.6	935.2	-
Total current assets		**2,043.3**	**1,280.8**
Total assets		**4,037.7**	**3,836.3**

EURm	Note	2019	2018
Equity and liabilities			
Equity			
Share capital	5.1	26.9	26.9
Reserves		1,363.5	1,413.9
Equity, owners of Nets A/S		**1,390.4**	**1,440.8**
Non-controlling interests		132.2	21.7
Total equity		**1,522.6**	**1,462.5**
Non-current liabilities			
Borrowings	5.2	325.3	236.8
Liabilities to Group enterprises	5.2	689.0	755.2
Pension liabilities, net	7.1	4.0	5.2
Put option liability		153.4	-
Deferred consideration		7.5	6.3
Lease liabilities	5.3	68.9	5.0
Deferred tax liabilities	6.1	65.7	83.3
Total non-current liabilities		**1,313.8**	**1,091.8**
Current liabilities			
Bank overdraft	5.2	17.5	122.4
Trade and other payables	3.1.3	216.0	209.4
Contract liabilities	2.1	6.9	9.9
Clearing-related liabilities	3.2	810.7	864.6
Liabilities to Group enterprises		63.2	-
Deferred consideration		1.9	36.8
Lease liabilities	5.3	17.5	4.2
Other financial liabilities	7.2	1.4	20.4
Current tax liabilities		21.8	14.3
Liabilities held-for-sale	4.6	44.4	-
Total current liabilities		**1,201.3**	**1,282.0**
Total liabilities		**2,515.1**	**2,373.8**
Total equity and liabilities		**4,037.7**	**3,836.3**

Consolidated statement of cash flows for the year ended 31 December

EURm	Note	2019	2018
EBITDA before Special items, from continuing operations		295.0	266.0
Special items, from continuing operations		(97.0)	(118.8)
Operating result (EBIT) from discontinued operations	4.6	97.0	117.7
Other non-cash items		-	8.1
Settlement of share option program and retention program		-	(11.0)
Change in narrow working capital		(9.7)	2.8
Interest and similar items, net		(51.0)	(58.4)
Taxes paid	6.1	(23.4)	(14.5)
Net cash flow from operating activities excluding clearing-related balances		**210.9**	**191.9**
Change in clearing-related balances		109.7	(136.0)
Net cash from operating activities		**320.6**	**55.9**
Purchase of intangible assets	4.2	(85.6)	(69.6)
Purchase of plant and equipment	4.3	(25.8)	(18.2)
Purchase of investments	4.1	(108.3)	(1.9)
Proceeds from Visa shares	7.2	24.2	6.3
Payment of proceeds from Visa shares	7.2	(21.4)	(3.6)
Net cash from investing activities		**(216.9)**	**(87.0)**
Proceeds from shareholder loan		-	803.0
Repayment of shareholder loan		(74.0)	-
Base fee in connection with shareholder loan		-	(16.1)
Proceeds from borrowings		87.9	20.0
Repayment of borrowings		(10.0)	(822.7)
Proceeds from LTIP programme		-	12.5
Repayment of finance lease liabilities		(19.1)	(5.0)
Settlement of interest swap		-	3.1
Net cash flows from financing activities		**(15.2)**	**(5.2)**

EURm	Note	2019	2018
Net cash flow for the year		**88.5**	**(36.3)**
Cash and cash equivalents as at 1 January		43.9	99.4
Exchange gain/(loss) on cash and cash equivalents		3.6	(19.2)
Net cash and cash equivalents as at 31 December		**136.0**	**43.9**
Bank overdraft (clearing-related balances)		7.2	122.4
Bank overdraft (own cash)		10.3	0.0
Cash and cash equivalents as at 31 December	3.3	**153.5**	**166.3**

Non-GAAP performance measures

Net cash and cash equivalents as at 31 December		**136.0**	**43.9**
Clearing-related assets as at 31 December		707.5	919.7
Clearing-related liabilities as at 31 December		(810.7)	(864.6)
Adjustment for Visa proceeds		(0.8)	-
Own cash as at 31 December		**32.0**	**99.0**
Own cash as at 1 January		**99.0**	**18.6**
Net cash flow from operating activities excluding clearing related balances		210.9	191.9
Net cash flows from investing activities in the year		(279.9)	(87.0)
Net cash flows from financing activities excluding clearing-related activities		(15.2)	(5.2)
Own cash aquired from takeover		13.6	-
Net cash flow from pass-through Visa proceeds	7.2	-	(0.1)
Exchange gain/(loss) on cash and cash equivalents		3.6	(19.2)
Own cash as at 31 December		**32.0**	**99.0**

Consolidated statement of changes in equity at 31 December

EURm	Share capital	Treasury share reserve	Hedge reserves	Currency translation reserves	Retained earnings	Equity, owners of Nets A/S	Non-controlling interests	Total equity
	2019							
2019								
Equity as at 1 January	26.9	(8.1)	2.9	(79.4)	1,498.5	**1,440.8**	21.7	**1,462.5**
Result for the year	-	-	-	-	30.1	**30.1**	2.1	**32.2**
Other comprehensive income for the year								
Actuarial gains/(loss) related to defined benefit pension plans	-	-	-	-	0.2	**0.2**	-	**0.2**
Currency translation adjustments, foreign enterprises	-	-	-	(1.1)	-	**(1.1)**	-	**(1.1)**
Net gain/(loss) on cash flow hedges	-	-	1.0	-	-	**1.0**	-	**1.0**
Tax on fair value adjustments	-	-	-	-	(0.4)	**(0.4)**	-	**(0.4)**
Other comprehensive income for the year	**-**	**-**	**1.0**	**(1.1)**	**(0.2)**	**(0.3)**	**-**	**(0.3)**
Total comprehensive income for the year	**-**	**-**	**1.0**	**(1.1)**	**29.9**	**29.8**	**2.1**	**31.9**
Capital decrease	-	8.1	-	-	(8.1)	**-**	-	**-**
Tax on group contribution after tax	-	-	-	-	47.2	**47.2**	-	**47.2**
Acquisition of non-controlling interests	-	-	-	-	26.0	**26.0**	(26.0)	**-**
Addition of non-controlling interests from Business Combinations	-	-	-	-	-	-	134.4	134.4
Put option liability	-	-	-	-	(153.4)	**(153.4)**	-	**(153.4)**
Total changes in equity	**-**	**8.1**	**1.0**	**(1.1)**	**(58.4)**	**(50.4)**	**110.5**	**60.1**
Equity as at 31 December	**26.9**	**-**	**3.9**	**(80.5)**	**1,440.1**	**1,390.4**	**132.2**	**1,522.6**

Consolidated statement of changes in equity at 31 December

EURm	Share capital	Treasury share reserve	Hedge reserves	Currency translation reserves	Retained earnings	Equity, owners of Nets A/S	Non-controlling interests	Total equity
	2018							
2018								
Equity as at 1 January	26.9	(20.6)	1.7	(66.9)	1,469.9	**1,411.0**	19.8	**1,430.8**
Result for the year	-	-	-	-	39.3	**39.3**	1.9	**41.2**
Other comprehensive income for the year								
Actuarial gains/(loss) related to defined benefit pension plans	-	-	-	-	(0.5)	**(0.5)**	-	**(0.5)**
Currency translation adjustments, foreign enterprises	-	-	-	(12.5)	(4.5)	**(17.0)**	-	**(17.0)**
Net gain/(loss) on cash flow hedges	-	-	(0.4)	-	-	**(0.4)**	-	**(0.4)**
Settlement of interest swap	-	-	0.5	-	-	**0.5**	-	**0.5**
Tax on fair value adjustments	-	-	(0.9)	-	-	**(0.9)**	-	**(0.9)**
Other comprehensive income for the year	**-**	**-**	**(0.8)**	**(12.5)**	**(5.0)**	**(18.3)**	**-**	**(18.3)**
Total comprehensive income for the year	**-**	**-**	**(0.8)**	**(12.5)**	**34.3**	**21.0**	**1.9**	**22.9**
Share-based payments	-	12.5	-	-	(3.7)	**8.8**	-	**8.8**
Adjustment	-	-	2.0	-	(2.0)	**-**	-	**-**
Total changes in equity	**-**	**12.5**	**1.2**	**(12.5)**	**28.6**	**29.8**	**1.9**	**31.7**
Equity as at 31 December	**26.9**	**(8.1)**	**2.9**	**(79.4)**	**1,498.5**	**1,440.8**	**21.7**	**1,462.5**

Contents
Notes to Consolidated Financial Statements

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

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 as disclosed in Note 7.3.

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

- Adjusted EBIT
- Adjusted net profit
- Own cash

The non-GAAP performance measures are defined in Note 7.7.

Section 1

Basis of preparation (continued)

Note 1.2

Changes in accounting policies and disclosures and new and amended standards and interpretations

In the Annual Report 2019 the Group applies, for the first time, the accounting standard IFRS 16 "Leases". The impact from adoption of IFRS 16 is described below. Certain amendments and improvements to other accounting standards and interpretations have come into force 1 January 2019. Amendments and improvements to previously adopted accounting standards have not had any impact on the Group as they cover areas that are not relevant for the Group or accounting policies that are not used by the Group.

IFRS 16 "Leases"

In general, IFRS 16 "Leases" requires that all leases are recognised in the balance sheet. Rights-of-use assets and lease liabilities have therefore been recognised in the balance sheet for leases previously disclosed as operational leases. In accordance with IFRS 16, short-term leases are however not recognised in the balance sheet. These lease payments are expensed on a straight-line basis over the lease term.

IFRS 16 has been implemented using the modified retrospective method meaning that the accumulated effect of initially applying the standard is recognised at 1 January 2019 without restating the comparative figures.

Impact on the balance sheet

When implementing IFRS 16 lease liabilities were measured at the present value of the remaining lease payments according to contracts, discounted using the Group's average incremental borrowing rate. The associated right-of-use assets were measured at the amount equal to the lease liability. As at 1 January 2019, the implementation resulted in an increase in lease assets and lease liabilities of EUR 64.1 million.

EURm	1 Jan. 2019	31 Dec. 2018
IFRS 16 "Leases", Impact on the balance sheet		
Lease assets	70.9	6.8
Total assets	**70.9**	**6.8**
Lease liabilities	73.3	9.2
Total equity and liabilities	**73.3**	**9.2**

EURm	2019
IFRS 16 "Leases", Impact on income statement	
Operating result before depreciation and amortisation (EBITDA)	**15.3**
Depreciation, right-of-use assets	(15.3)
Operating result (EBIT)	**-**
Interest expenses, lease liabilities	(1.6)
Result for the year	**(1.6)**
IFRS 16 "Leases", Impact on statement of cash flows	
Operating result before depreciation and amortisation (EBITDA)	**15.3**
Interest paid	(1.6)
Cash flow from operating activities	**13.7**
Cash flow from financing activities	(13.7)
Net change in cash flows	**-**

EURm	1 Jan. 2019
Operating leases commitments as at 31 December 2018	**101.6**
Discounting using the Group incremental borrowing rate as at 1 January 2019	(17.4)
New headquarter contract signed in 2018 taken into use in 2019	(25.5)
Finance lease liabilities recognized as at 31 December 2018	9.2
Short-term leases and contracts assessed as service agreements	(0.2)
Adjustment for useful life changes	5.6
Lease liabilities recognised as at 1 January 2019	**73.3**

Impact on income statement and equity
Right-of-use assets recognised according to IFRS 16 are depreciated over the shorter of the lease term or the useful life of the asset. Operating lease expenses are recognised as operating expenses included in EBITDA. The impact on 2019 from implementing IFRS 16 has been an increase in EBITDA of EUR 15.3 million and an increase in financial expenses of EUR 1.6 million due to the interest expenses related to lease liabilities. IFRS 16 impacts classification of expenses in the income statement.

Impacts from implementing IFRS 16 are illustrated in the tables.

Change of presentation currency from Danish kroner (DKK) to Euro (EUR)
In 2019 the presentational currency of the Group has been changed from Danish kroner (DKK) to Euro (EUR). Figures are translated into Euro at the exchange rates prevailing at the end of the reporting period for assets and liabilities, and at average exchange rates for income statement and other comprehensive income items. All figures in the Annual Report are, except when otherwise indicated, presented rounded in million Euro with one decimal point.

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.

A summary of IFRS Standards issued but not yet effective is included in Note 7.4.

Note 1.3
Summary of key accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires 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.

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) (judgements)
- Business combinations and asset acquisitions (Note 4.1) (estimate)
- Useful life of intangible assets (Note 4.2) (estimate)
- Recoverable amount of goodwill and capitalised development projects (Note 4.4) (estimate)
- Goodwill, other intangible assets, External cost and Personnal cost allocated to Discontinued operations (Note 4.6) (estimate)
- Incremental borrowing rate and expected lease term for lease agreements (Note 5.3) (estimate)
- Recognition of deferred tax assets (Note 6.1) (estimate)

Note 1.4
Basis for consolidation

The consolidated financial statements incorporates the financial information of Nets A/S (the "Parent Company") and its subsidiaries (together, "the Group" or "Nets"). 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 Euro (EUR).

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 Euro 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
747

EBITDA b.s.i.
295

In this section

Note 2.1

Revenue

Significant accounting policies

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

Transaction based revenue – includes revenue generated through a combination of (a) a fee per transaction processed (which represents the primary revenue model in the Issuers & eSecurity 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 the two 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. Related to the announced sale of the account-to-account business to Mastercard the remaining business activities have been reorganised under two business areas as described below. The comparative figures from 2018 have been restated to reflect the new business structure.

Merchant Services provide in-store, online and mobile payment acceptance solutions to hundreds of thousands merchant across the Nordic regions and Poland, 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.

Issuer & eSecurity Services provide outsourced processing services to hundreds of issuers of payment cards, primarily banks 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.

EURm	2019	2018
Gross revenue per transaction type		
Transaction services	989.3	957.4
Non-transaction services	140.3	134.1
Total	**1,129.6**	**1,091.5**
Gross revenue per business area		
Merchant Services	773.2	718.0
Issuer & eSecurity Services	356.4	373.5
Total	**1,129.6**	**1,091.5**
Net revenue per business area		
Merchant Services	390.9	358.3
Issuer & eSecurity Services	356.4	373.4
Total	**747.3**	**731.7**

Note 2.1

Revenue (continued)

EURm	2019	2018
Gross revenue per geographical area		
Denmark	490.1	460.3
Finland	244.1	236.7
Norway	236.9	266.0
Sweden	114.2	117.9
Poland	33.0	-
Baltics	11.3	10.6
Total	**1,129.6**	**1,091.5**
Net revenue per geographical area		
Denmark	306.9	285.7
Finland	149.2	144.0
Norway	202.9	233.1
Sweden	61.5	60.2
Poland	18.0	-
Balics	8.8	8.7
Total	**747.3**	**731.7**

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

EURm	2019*	2018
Assets and liabilities related to contracts with customers		
Contract assets relating to projects and consultancy services	10.5	3.5
Total contract assets	**10.5**	**3.5**
Contract liabilities - projects	-	1.2
Other prepayments from customers	6.9	8.7
Total contract liabilities	**6.9**	**9.9**

No amounts are overdue for contract assets relating to projects and consultancy services and no losses are expected.
* Contract assets mainly relates to contracts with the Danish Government (MitID and NemLogin).

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.

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. They are therefore separately disclosed to allow a more comparable view of underlying business performance.

Special items in the year amounted to EUR 97.0 million (2018: EUR 118.8 million) and included the following costs:

	2019			2018		
EURm	External expenses	Staff costs	Total	External expenses	Staff costs	Total
Special items						
Reorganisation, restructuring and refurbishment	(14.0)	(9.2)	**(23.2)**	(0.4)	(19.6)	**(20.0)**
Business set-ups, acquisitions and disposals	(23.7)	(4.5)	**(28.2)**	(4.6)	(0.3)	**(4.9)**
Transformation programme	(38.6)	(7.0)	**(45.6)**	(54.8)	(3.2)	**(58.0)**
Special items, excluding costs related to the take private transaction	**(76.3)**	**(20.7)**	**(97.0)**	**(59.8)**	**(23.1)**	**(82.9)**
Takeover offer and de-listing	-	-	**-**	(27.6)	(8.3)	**(35.9)**
Total special items	**(76.3)**	**(20.7)**	**(97.0)**	**(87.4)**	**(31.4)**	**(118.8)**

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. All costs presented under Special items are directly derived from the books and records and carefully monitored by Management on a monthly basis to ensure the only cost meeting the criteria are included.

Note 2.2

Costs and Special items (continued)

Financial comments

Reorganisation, restructuring and refurbishment
Costs of reorganisation, restructuring and refurbishment amounted to EUR 23.2 million and mainly include costs related to the new business model 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 EUR 28.2 million and include costs related to external advisors in connection with acquisitions and other M&A related activities.

Transformation programme
Costs related to the transformation programme amounted to EUR 45.6 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 and de-listing
The costs in 2018 were primarily related to the takeover offer of Nets A/S Group and subsequent de-listing which in total amounted to EUR 35.9 million.

Note 2.3

Staff costs

Significant accounting policies

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

EURm	Note	2019	2018
Staff costs			
Wages and salaries		(205.4)	(198.6)
Share-based payment cost	6.3	(0.1)	(7.4)
Pensions - defined contribution plans		(22.2)	(18.5)
Pensions - defined benefit obligations	7.1	(0.4)	(0.3)
Other social security contributions		(10.5)	(11.3)
Other employee costs		(38.5)	(36.8)
Total employee costs for the year		**(277.1)**	**(272.9)**
Employee costs included in development projects		23.6	15.9
Total employee costs expensed in the income statement		**(253.5)**	**(257.0)**
Employee costs included in special items	2.2	20.7	31.4
Total employee costs included in EBITDA before special items		**(232.8)**	**(225.6)**
Actuarial losses recognised in other comprehensive income	7.1	0.2	(0.5)
Average number of employees, full time equivalant		2,359	2,194
Year-end number of employees, full time equivalant		2,460	2,179

Information about remuneration to the Board of Directors and Key Personnel is disclosed in Note 6.2.

Note 2.4

Foreign currency exposure

Financial comments

Transaction risk

The Group operates predominantly in Northern Europe and Poland. Hence, it is primarily exposed to exchange-rate risks from NOK, SEK, EUR and PLN, and to a minor degree USD, GBP and ISK. The DKK-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.

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:

		2019		2018[4]	
EURm	Probable change in currency	Net revenue	EBITDA	Net revenue	EBITDA
NOK	+10%	20.2	10.3	22.4	11.7
SEK	+10%	6.5	4.4	7.3	4.1
PLN	10%	1.8	0.8	N/A	N/A
HRK	10%	4.9	0.3	N/A	N/A
EUR	+1%	N/A	N/A	1.6	-

Exchange rate EUR per 100	2019[4]			
Key currencies	NOK	SEK	DKK	PLN
Average	10.16	9.45	13.39	23.27
End of year	10.15	9.58	13.39	23.49
Year-end change	1.3%	(1.5%)	-	1.1%

Exchange rate EUR per 100	2018[4]		
Key currencies	NOK	SEK	EUR
Average	77.69	72.70	745.32
End of year	74.87	72.66	746.73
Year-end change	(1.7%)	(4.1%)	0.3%

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).

2019[4]

EURm	Cash and cash equivalents	Goodwill	Receivables[1]	Borrowings	Liabilities[2]	Net assets[3]	Probable change in currency	Hypothetical impact on result before tax	Hypothetical impact on equity
Exposure of balance in foreign currency									
NOK	112.7	83.5	105.7	(674.0)	(266.9)	**(639.0)**	10%	(18.7)	(63.9)
SEK	(9.9)	157.0	39.8	-	(70.8)	**116.1**	10%	(2.7)	11.6
EUR	22.6	197.0	96.1	(426.6)	(175.8)	**(286.7)**	1%	(0.3)	(2.9)
PLN	37.5	225.1	9.8	-	(75.2)	**197.2**	10%	0.3	19.7
Total	**162.9**	**662.6**	**251.4**	**(1,100.6)**	**(588.7)**	**(612.4)**			

2018[4]

EURm	Cash and cash equivalents	Goodwill	Receivables[1]	Borrowings	Liabilities[2]	Net assets[3]	Probable change in currency	Hypothetical impact on result before tax	Hypothetical impact on equity
Exposure of balance in foreign currency									
NOK	24.4	144.4	190.4	(670.0)	(261.9)	**(572.7)**	10%	(7.9)	(57.5)
SEK	(32.5)	151.6	99.0	-	(149.3)	**68.8**	10%	(6.2)	6.8
EUR	84.0	196.6	109.4	(338.7)	(219.9)	**(168.6)**	1%	(8.2)	(1.7)
Total	**75.9**	**492.6**	**398.8**	**(1,008.7)**	**(631.1)**	**(672.5)**			

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.
4 With reference to Note 1.2, change in accounting policies and disclosures, the implication of the Groups change of presentation currency has not affected 2018 comparison figures, other than converted to EUR.

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. Subsequently, 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 3.1.1

Inventories

EURm	2019	2018
Inventories		
Finished goods and merchandise	10.4	8.0
Total inventories (gross)	**10.4**	**8.0**
Inventory write-downs at year-end	(1.4)	(1.3)
Total inventories (net)	**9.0**	**6.7**
Movements in the inventory write downs		
Inventory write-downs as at 1 January	(1.3)	(1.7)
Inventory write-downs during the year	(0.7)	(0.5)
Provisions utilized	0.6	0.9
Inventory write-downs as at 31 December	**(1.4)**	**(1.3)**

Write-downs of inventories to net realisable value amounted to EUR 0.7 million net (2018: EUR 0.5 million) and are included in cost of sales.

Note 3.1.2

Trade and other receivables

EURm	2019	2018
Trade receivables		
Trade receivables, gross	117.2	116.2
Allowances for doubtful debts	(3.3)	(2.1)
Trade receivables, net	**113.9**	**114.1**
Deposits	4.5	2.3
Other receivables	2.6	2.5
Total	**121.0**	**118.9**

Note 3.1.2

Trade and other receivables (continued)

2019

EURm	Current	Less than 3 months past due	Past due 3-6 months	Past due 6-9 months	Past due 9-12 months	Past due more than 12 months	Total
Expected loss rate	0,19%	1%	40%	100%	100%	100%	
Trade receivables, gross	106.4	7.5	0.5	0.4	0.7	1.7	117.2
Allowance for doubtful debts at 31 December	**(0.2)**	**(0.1)**	**(0.2)**	**(0.4)**	**(0.7)**	**(1.7)**	**(3.3)**
Trade receivables, net							113.9

2018

EURm	Current	Less than 3 months past due	Past due 3-6 months	Past due 6-9 months	Past due 9-12 months	Past due more than 12 months	Total
Expected loss rate	0,13%	1%	25%	50%	75%	100%	
Trade receivables, gross	106.5	6.6	0.8	0.5	1.1	0.7	116.2
Allowance for doubtful debts at 31 December	**(0.1)**	**0.0**	**(0.2)**	**(0.3)**	**(0.8)**	**(0.7)**	**(2.1)**
Trade receivables, net							114.1

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

EURm	2019	2018
Trade and other payables		
Trade payables	70.6	78.7
Payables to associates	-	0.8
Other liabilities	145.4	129.9
Total	**216.0**	**209.4**
Other liabilities		
Employee costs payable	62.3	58.8
Other payables	67.1	56.5
Interest payable	5.9	6.0
VAT and duties payable	10.1	8.6
Total	**145.4**	**129.9**

Note 3.2

Clearing-related balances

EURm	2019	2018
Clearing-related assets		
Settlement assets	707.5	919.7
Total	**707.5**	**919.7**
Clearing-related liabilities		
Merchant creditors	574.5	676.8
Settlement obligations	236.2	187.8
Total	**810.7**	**864.6**

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

Clearing-related balances (continued)

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.

In 2019 several actions were taken to futher strenghen the credit risk exposure including continued legal review of contracts, renegotiation of merchant credit risk insurance programmes, improved risk assesment for new merchants and improved monitoring of existing merchants. For further details refer to the Key risks section.

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.

EURm	2019	2018
Cash at bank and on hand	153.5	166.3
Cash and cash equivalents as at 31 December	**153.5**	**166.3**
Bank overdrafts	(17.5)	(122.4)
Cash and cash equivalents as at 31 December, net	**136.0**	**43.9**
Restricted cash included in cash at bank and on hand	2.7	2.8

EURm	2019	2018
Cash and cash equivalants as at 31 December, net	**136.0**	**43.9**
Clearing- relatred assets as at 31 December	707.5	919.7
Clearing-related liabilities as at 31 December	(810.7)	(864.6)
Cash related to pass through visa proceeds	(0.8)	0.0
Own-cash as at 31 December	**32.0**	**99.0**

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:

		2019					2018				
EURm	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 including contract assets		96.2	14.5	16.1	4.7	**131.5**	79.7	28.1	12.5	2.1	**122.4**
Clearing-related assets		707.5	-	-	-	**707.5**	919.7	-	-	-	**919.7**
Total financial assets at the end of the year by maturity		**803.7**	**14.5**	**16.1**	**4.7**	**839.0**	**999.4**	**28.1**	**12.5**	**2.1**	**1,042.1**
Borrowings	5.2	111.9	9.7	32.9	1.104.0	**1,258.5**	146.1	-	61.8	1,196.8	**1,404.7**
Trade and other payables including contract liabilities		127.6	24.8	35.3	35.2	**222.9**	83.4	55.6	54.8	25.6	**219.4**
Merchant creditors		574.5	-	-	-	**574.5**	676.8	-	-	-	**676.8**
Clearing-related obligations		236.2	-	-	-	**236.2**	187.8	-	-	-	**187.8**
Put option liability		-	-	-	153.4	**153.4**	-	-	-	-	-
Deferred consideration		-	0.5	1.4	7.5	**9.4**	-	35.8	1.1	6.3	**43.2**
Lease liabilities	5.3	3.7	1.2	13.4	76.8	**95.1**	0.4	0.7	3.1	5.0	**9.2**
Total financial liabilities at the end of the year by maturity		**1,053.9**	**36.2**	**83.0**	**1,376.9**	**2,550.0**	**1,094.5**	**92.1**	**120.8**	**1,233.7**	**2,541.1**

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 certificates

EURm	2019	2018
Non-current assets		
Currency swap	4.3	3.6
Total non-current derivative financial instruments	4.3	3.6

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

EURm	Cost of hedging reserve	Currency instruments	Total
As at 1 January 2018	-	3.8	3.8
Add: Change in fair value of hedging instrument recognised in OCI for the year	-	0.1	0.1
Less: Reclassified from OCI to profit or loss - included in finance costs	(0.3)	-	(0.3)
As at 31 December 2018	**(0.3)**	**3.9**	**3.6**

EURm	Cost of hedging reserve	Currency instruments	Total
As at 1 January 2019	(0.3)	3.9	3.6
Add: Change in fair value of hedging instrument recognised in OCI for the year	-	1.1	1.1
Add: Costs of hedging deferred and recognised in OCI	(0.4)	-	(0.4)
As at 31 December 2019	**(0.7)**	**5.0**	**4.3**

Note 3.5

Derivative financial instruments (continued)

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 assess effectiveness.

There was no ineffectiveness during 2019 or 2018 in relation to the currency swaps.

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 across 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 and interest swaps on the Group's financial position and performance are as shown in the table:

	2019	2018
Currency certificates		
Carrying amount (assets/liability) (EURm)	5.0	3.9
Notional amount (EURm)	219.3	219.6
Maturity date	2024	2024
Change in fair value of outstanding hedging instruments since 1 January (EURm)	1.1	(0.1)
Hedged fixed interest rate until maturity	2.9285 % - 4.702 %	2.9285 % - 4.702 %

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 certificates, analytics and authentication.

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

In this section

Capital expenditure to net revenue

7.0%

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 Special Items for 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.

Note 4.1

Business combinations and asset acquisitions (continued)

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.

Acquisition of businesses

In January 2019 the Group acquired the Dotcard Group and in August 2019 the Group acquired the company PayPro. In 2019 the acquisitions will have the following effect on the Group's consolidated financial statements as at the reporting date:

	Dotcard Sp.z.o.o.		PayPro S.A.		
EURm	Book value on acquisition date	Opening Balance	Book value on acquisition date	Opening Balance	**Total acquisitions (Opening balance)**
Goodwill	-	56.6	-	154.3	**210.9**
Other intangibles	0.1	16.3	0.5	48.0	**64.3**
Plant and equipment	0.3	0.3	0.3	0.3	**0.6**
Deferred tax assets	0.1	0.1	-	-	**0.1**
Other assets	10.4	9.7	2.4	2.4	**12.1**
Cash and cash equivalent	31.8	31.8	30.9	30.9	**62.7**
Deferred tax liabilities	-	(3.0)	(0.1)	(8.9)	**(11.9)**
Borrowings	(9.4)	(9.3)	-	-	**(9.3)**
Other liabilities	(31.8)	(31.8)	(26.9)	(28.0)	**(59.8)**
Non-Controlling entities	-	-	-	(99.0)	**(99.0)**
Consideration transferred		**70.7**		**100.0**	**170.7**
Payment in shares		-		(34.4)	**(34.4)**
Cash and cash equivalent in aquisition of business		(31.7)		(30.9)	**(62.6)**
Total cash consideration		**39.0**		**34.7**	**73.7**

Note 4.1

Business combinations and asset acquisitions (continued)

Dotcard Sp.z.o.o.
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 cash consideration of PLN 302 million (EUR 70 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.

Acquisition costs relating to the purchase amounted to EUR 2 million.

PayPro S.A.
An agreement to acquire 51% of the share capital and voting rights in PayPro was signed 8 February 2019 with a closing date 1 August 2019. The total purchase price for the acquisition of 51% of the shares, included a total cash consideration of EUR 100 million and a transfer of 49% of the ownership and voting rights of the Dotcard Group.

As of the closing date 1 August, 49% of the Dotcard Group, corresponded to a fair market value of EUR 35 million. In addition to this, the Group entered into a put/call option agreement to acquire the remaining 49% at an exercise price, based on a number of elements including Revenue and EBITDA in the following years.

The acquisition has further strengthened the Group's European presence and 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.

If the acquisition had occurred on 1 January 2019, pro-forma revenue and loss for the year ended 31 December 2019 would have been EUR 16.0 million and EUR 9.4 million respectively

Acquisition costs related to the purchase amounted to EUR 1.9 million.

Poplatek Oy and Poplatek Payments Oy
On 8 January 2020, Nets Denmark A/S acquired 100% of the shares in the Finnish companies Poplatek OY and Poplatek Payments OY. The combined companies have revenue of around EUR 5 million and approximately 40 employees. The combined purchase price amounted to EUR 15 million. A further additional purchase price of maximum EUR 5 million are subject to certain targets being met. Based on provisionally determined fair values Goodwill comprises the majority of the purchase price.

The acquisition will support the Merchant Services business with strengthened payment application capabilities and offerings within payment terminal services.

Acquisition costs related to the purchase amounted to EUR 0.7 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, 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)

2019

EURm	Goodwill	Customer agree-ments	Software	Devel-opment projects in progress	Other intangible assets	Total intangible assets
		Other intangible assets				
Accumulated cost as at 1 January	**1,946.9**	315.1	587.6	58.8	**961.5**	**2,908.4**
Additions from acquisitions	**210.8**	62.1	2.3	0.2	**64.6**	**275.4**
Additions	**-**	0.9	80.2	68.9	**150.0**	**150.0**
Transfer between asset groups	**-**	-	34.0	(34.0)	**-**	**-**
Assets disposed of	**-**	-	(21.2)	-	**(21.2)**	**(21.2)**
Currency translation adjustment	**(0.6)**	0.1	0.2	0.2	**0.5**	**(0.1)**
Reclassification to Assets held for sale	**(796.3)**	(39.1)	(172.8)	(19.2)	**(231.1)**	**(1,027.4)**
Accumulated cost as at 31 December	**1,360.8**	**339.1**	**510.3**	**74.9**	**924.3**	**2,285.1**
Accumulated amortisation and write-downs for impairment as at 1 January	**-**	(158.8)	(329.0)	-	**(487.8)**	**(487.8)**
Amortisation	**-**	(43.9)	(72.0)	-	**(115.9)**	**(115.9)**
Assets disposed of	**-**	-	20.3	-	**20.3**	**20.3**
Currency translation adjustment	**-**	(0.6)	0.2	-	**(0.4)**	**(0.4)**
Reclassification to Assets held for sale	**-**	24.8	86.3	-	**111.1**	**111.1**
Accumulated amortisation and write-downs for impairment as at 31 December	**-**	**(178.5)**	**(294.2)**	**-**	**(472.7)**	**(472.7)**
Carrying amount as at 31 December	**1,360.8**	**160.6**	**216.1**	**74.9**	**451.6**	**1,812.4**

2018

EURm	Goodwill	Customer agree-ments	Software	Devel-opment projects in progress	Other intangible assets	Total intangible assets
		Other intangible assets				
Accumulated cost as at 1 January	**1,960.0**	313.2	564.8	28.5	**906.5**	**2,866.5**
Additions	**-**	3.9	13.4	54.2	**71.5**	**71.5**
Transfer between asset groups	**-**	-	23.2	(23.2)	**-**	**-**
Assets disposed of	**-**	(0.5)	(11.1)	-	**(11.6)**	**(11.6)**
Currency translation adjustment	**(13.1)**	(1.5)	(2.7)	(0.7)	**(4.9)**	**(18.0)**
Accumulated cost as at 31 December	**1,946.9**	**315.1**	**587.6**	**58.8**	**961.5**	**2,908.4**
Accumulated amortisation and write-downs for impairment as at 1 January	**-**	(119.8)	(251.2)	-	**(371.0)**	**(371.0)**
Amortisation	**-**	(40.0)	(89.9)	-	**(129.9)**	**(129.9)**
Assets disposed of	**-**	0.5	11.1	-	**11.6**	**11.6**
Currency translation adjustment	**-**	0.5	1.0	-	**1.5**	**1.5**
Accumulated amortisation and write-downs for impairment as at 31 December	**-**	**(158.8)**	**(329.0)**	**-**	**(487.8)**	**(487.8)**
Carrying amount as at 31 December	**1,946.9**	**156.3**	**258.6**	**58.8**	**473.7**	**2,420.6**

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: 3-5 years
- Plant and machinery: 2–12 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.

	2019				2018			
EURm	Leasehold improve-ments	Terminals	Plant and machinery	Total	Leasehold improve-ments	Terminals	Plant and machinery	Total
Accumulated cost as at 1 January	11.8	48.9	41.9	**102.6**	10.1	47.3	38.5	**95.9**
Impact from implementing IFRS 16	-	-	64.1	**64.1**	-	-	-	**-**
Additions from acquisitions	0.3	-	0.3	**0.6**	-	-	-	**-**
Additions	6.2	10.7	40.5	**57.4**	1.9	12.9	5.6	**20.4**
Assets disposed of	(4.8)	(9.2)	(29.6)	**(43.6)**	-	(10.1)	(1.3)	**(11.4)**
Currency translation adjustment	0.1	(0.1)	1.5	**1.5**	(0.2)	(1.2)	(0.9)	**(2.3)**
Accumulated cost as at 31 December	**13.6**	**50.3**	**118.7**	**182.6**	**11.8**	**48.9**	**41.9**	**102.6**
Accumulated depreciation and write-downs for impairment as at 1 January	(2.8)	(31.5)	(14.1)	**(48.4)**	(1.1)	(27.5)	(5.6)	**(34.2)**
Depreciation	(1.9)	(10.6)	(27.5)	**(40.0)**	(1.7)	(13.0)	(10.6)	**(25.3)**
Assets disposed of	4.8	6.5	29.1	**40.4**	-	8.3	1.2	**9.5**
Currency translation adjustment	-	0.1	(0.7)	**(0.6)**	-	0.7	0.9	**1.6**
Accumulated depreciation and write-downs for impairment as at 31 December	**0.1**	**(35.5)**	**(13.2)**	**(48.6)**	**(2.8)**	**(31.5)**	**(14.1)**	**(48.4)**
Carrying amount as at 31 December	**13.7**	**14.8**	**105.5**	**134.0**	**9.0**	**17.4**	**27.8**	**54.2**

Terminals are leased by the Group to third-party merchants under operating leases. These operating leases are under various agreements which terminate in 2020 and 2022. 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 if 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 it's 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 it's 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. Further, 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.

The recoverable amount 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 the business models, approved by Management.

Management has at year-end assessed that the development in key assumptions that could impact the valuation of goodwill and other intangibles, including capital expenditures, organic growth and discount factor, in general does not indicate any impairment.

Key factors that could trigger an impairment test are the expected revenue streams and the rate used to discount the cash flow, including the following:

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

As value in use for Merchant Services' and Issuer & eSecurity Services' cash-generating units is greater than it's carrying amount, no impairment has been identified.

Impairment tests of goodwill
The carrying amount of goodwill is tested for impairment annually and if events or changes in circumstances indicate impairment. Goodwill does not generate largely independent cash inflows on its own and is therefore allocated to 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 2019 and did not result in any impairment losses recognised.

Note 4.4

Impairment tests (continued)

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

EURm	2019	2018
Cash-generating unit		
Merchant Services	1,042.1	797.6
Issuer & eSecurity Services	318.7	306.7
Corporate Services	-	842.6
Total	**1,360.8**	**1,946.9**

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 Management.

Cash flows beyond the five-year budget period have been extrapolated using a steady 2.0% per annum growth rate. 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 2019, discount rates used for impairment calculations post-tax were 7.3% for Merchant Services and 7.3% for Issuer & eSecurity Services for reflecting the business and related risk. Discount rates have been updated compared to last year to reflect the newest external 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 significant estimations. To ensure that substantial changes in the assumptions will not affect the recoverable amount in such way that an impairment is required a sensitivity analysis by segment has been prepared. For both the MS and IeS segments analysis showed the recoverable amount being considerably higher than the carrying values, and a reasonable decrease in terminal growth of 1.0% will not result in impairment of goodwill. Further, for both the MS and IeS segments an increase in WACC of 1.0% will also not result in impairment of goodwill.

The sensitivity analysis was performed on the terminal growth rate and the WACC, as these are significant inputs in the calculation of the recoverable amount. The analysis showed the recoverable amount being considerably higher than the carrying values for both Business units. The analysis did not indicate any impairment needs.

Merchant Services

Merchant Services consists of goodwill recognised as part of the purchase of the Nets Group to private equity funds in 2014, and from acquisition of activities the following years in, Sweden (Payzone, DIBS Payment Services and Kortaccept Nordic), Poland (DotCard and PayPro), Denmark (Storebox) and Finland (Paytrail). 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-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.

Issuer & eSecurity Services

Issuer & eSecurity Services consists of goodwill recognised as part of the purchase of the Nets Group to private equity funds in 2014. Goodwill has been tested at aggregated level as Issuer & eSecurity 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 Issuer & eSecurity 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).

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.

EURm	2019	2018
Investment in associates		
Accumulated cost as at 1 January	31.9	32.0
Currency translation adjustment		(0.1)
Accumulated cost at 31 December	**31.9**	**31.9**
Revaluation as at 1 January	0.7	(0.4)
Adjustment previous year	(1.1)	(0.1)
Dividend distributed	-	(0.8)
Share of result after tax	1.1	2.0
Revaluation as at 31 December	**0.7**	**0.7**
Carrying amount as at 31 December	**32.6**	**32.6**
Fair value recognition from business combinations	**28.9**	**28.9**
Carrying amound excluding fair value recognition from business combinations as at 31 December	**3.7**	**3.7**

	2019							2018						
						Nets' share							Nets' share	
EURm	Share	Currency	Revenue	Result for the year	Net assets	Equity	Result for the year	Share	Currency	Revenue	Result for the year	Net assets	Equity	Result for the year
Company name														
e-Boks A/S, Denmark	50%	EUR	28.7	1.9	18.4	2.5	0.9	50%	EUR	25.8	2.7	14.7	2.4	1.3
Total			**28.7**	**1.9**	**18.4**	**2.5**	**0.9**			**25.8**	**2.7**	**14.7**	**2.4**	**1.3**

Financial figures are according to latest public Annual Report.

Note 4.6

Discontinued operations

Significant accounting policies

Divestment of activities which can be clearly distinguished, operationally and for financial reporting purposes from the other business and is expected to be carried out within twelve months in accordance with a formal plan is reported as discontinuing operations.

The result after tax from discontinuing operations is presented in a separate line item in the income statement with comparative figures and is specified in this note.

Net cash from discontinuing operations is also presented in the note with comparative figures.

Assets and liabilities related to discontinuing operations are presented in separate line items as held-for-sale and are specified in the note but are presented without comparative figures.

At the time non-current assets are classified as held-for-sale an assessment of the fair value is made to identify any impairment loss from the discontinuing operations.

From the time non-current assets are held-for-sale no further depreciation or amortisation is made.

On 6 August 2019 it was announced that Nets has entered into an agreement with Mastercard to acquire the Group's account-to-account business for EUR 2.85 billion. Management has assessed that the agreement with Mastercard fulfils the requirements for presenting the Group's account-to-account business as discontinuing operations. The transaction with Mastercard is subject to regulatory approvals and customary closing conditions.

The activities to be sold to Mastercard were previously included in the business unit Corporate Services providing the payment platform for recurrent bill payments and credit transfer transactions. At the centre of this business is the ability to provide seamless and integrated solutions for recurring bill payments to corporations and consumers (e.g. Leverandørservice and Betalingsservice). It also includes solutions for real-time clearing providing instant payments.

EURm	2019	2018
Result from discontinuing operations		
Revenue, gross	291.0	290.9
Interchange fees and processing fees	(0.9)	(0.9)
Revenue, net of interchange fees and processing fees	**290.1**	**290.0**
Cost of sales	(94.1)	(93.6)
External expenses*	(51.1)	(38.0)
Staff costs	(47.9)	(40.7)
Operating result before depreciation and amortisation (EBITDA)	**97.0**	**117.7**
Amortisation of business combination intangibles, customer agreements & impairment losses	(12.3)	(21.0)
Underlying depreciation and amortisation	(1.1)	(2.0)
Result before tax	**83.6**	**94.7**
Income taxes	(23.3)	(21.8)
Result from discontinuing operations	**60.3**	**72.9**

* Cost related to the sale of the discontinued operations of EUR 20.2 million is included in External expenses.

Management has made a number of significant estimates related to the discontinuing operations. The main estimates relate to allocation of External expenses and Staff cost in the Consolidated income statement and the allocation of Goodwill and Other intangible assets in the Concolidated balance sheet.

External expenses and Staff cost comprises cost directly associated with the discontinued business and allocated indirect cost.

For Goodwill and Other intangible assets a majority of the values previously allocated to the Corporate Services business has been allocated to discontinued operations based on an evaluation of the individual cash inflows.

Note 4.6

Discontinued operations (continued)

EURm	2019	2018
Net cash from discontinuing operations		
Net cash from operating activities*	96.5	118.6
Net cash from investing activities	(12.4)	(10.6)
Total	**84.1**	**108.0**
Assets held-for-sale		
Goodwill	796.3	
Other intangible assets (customer agreements)	120.0	
Trade and other receivables	11.9	
Contract assets	2.9	
Prepayments	4.1	
Total	**935.2**	
Liabilities held-for-sale		
Pension liabilities, net	0.7	
Deferred tax liability	19.5	
Trade and other payables	24.2	
Total	**44.4**	

*Net cash flow from operating activities does not include a share of the Groups tax payments. Cost related to the sale of the discontinued operations of EUR 20.2 million is included in the cash from operating activities.

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.

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 Euro.

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 certificates 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), in Finland (Nets Denmark, Finnish Branch and Paytrail) and in Poland (Dotpay, eCard and PayPro). Therefore, such subsidiaries and branches are subject to minimum capital requirements imposed by local authorities.

Note 5.1

Share capital (continued)

	2019		2018	
	Number of shares ('000)	Nominal value (EURm)	Number of shares ('000)	Nominal value (EURm)
Share capital				
Share capital as at 1 January	200,411	26.9	200,411	26.9
Disposal	(502)	-	-	-
Share capital as at 31 December	**199,909**	**26.9**	**200,411**	**26.9**

The share capital of Nets A/S was established on 5 February 2016. In 2016 capital increases were conducted in connection with an IPO to a total number of 200,411,094. In 2019 502,358 treasury shares have been cancelled. At the end of 2019 the share capital consists of 199,908,736 shares each with a nominal value of DKK 1, giving a total share capital of DKK 199,908,736.

	2019	2018
	Number of shares ('000)	Number of shares ('000)
Treasury shares		
Treasury shares as at 1 January	502	1,203
Disposal of treasury shares	(502)	(701)
Treasury shares as at 31 December	**-**	**502**

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 certificates.

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 certificates and hedge accounting

Derivative financial certificates 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.

Note 5.2

Borrowings and related risks (continued)

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) 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 240 million, of which EUR 24 million are carved out in an overdraft facility ('Overdraft Facility') and EUR 5 million are carved out for a guarantee (2018: EUR 0 million).

Together, the RCF and the Overdraft Facility are available for general corporate purposes of the Group. As of 31 December 2019, the RCF was drawn EUR 108 million (EUR 108 million by Nets A/S' subsidiaries), EUR 108 million netted of unamortised debt cost (2018: EUR 20 million, EUR 20 million netted of unamortised debt cost), leaving EUR 103 million undrawn (2018: EUR 88 million was left undrawn, as Parent companies of Nets A/S had drawn EUR 68 million). The Overdraft Facility was drawn EUR 10 million (2018: undrawn) as of 31 December 2019 leaving EUR 14 million (2018: EUR 24 million) available.

Repayment of existing debt in relation to the LBO and delisting

In February 2018 the shareholders 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 Nets A/S and its subsidiaries were refinanced. This resulted in repayment of all term loans in Nets A/S and its subsidiaries, leaving only the Senior Notes and the RCF as external borrowings in Nets A/S and its subsidiaries.

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 5,908 million and EUR 79 million) and a one-year loan (EUR 20 million).

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 on a committed basis, which was temporarily increased to EUR 405 million as of 31 December 2019 due to the holiday season. In addition, a EUR 30 million money market line is available on an uncommitted basis. On 31 December 2019, the overdraft facilities for clearing working capital was drawn by EUR 7m (2018 EUR 122 million), leaving EUR 398 million (2018: 283 million) undrawn. In addition, the Group has a number of intra-day facilities available.

Note 5.2

Borrowings and related risks (continued)

	2019								2018
	Interest rate								
EURm	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									
Revolving credit facility[3]	IBOR + 3,25%[1]	3,3%	2024	Multi	240.00	107.9	-	107.9	20.0
Senior notes	2,875%	3,7%	2024	EUR	219.60	219.6	219.6	217.3	216.8
IC Loan (NOK)	NIBOR[1] + 4,00%	5,8%	2025	NOK	599.88	599.9	-	590.0	656.1
IC Loan 1 (EUR)	EURIBOR[1] + 4,35%	4,4%	2025	EUR	79.14	79.1	-	79.1	79.1
IC Loan 2 (EUR)	EURIBOR[1] + 3,25%	3,0%	2020	EUR	20.00	20.0	-	20.0	20.0
Total long term borrowings (non-current liabilities)								**1,014.3**	**992.0**
Overdraft facility (own cash)[3]	IBOR1 + 2,5%	2,5%	2025	Multi	24.0	10.2	-	10.3	-
Overdraft facility (clearing-related balances)[4]				Multi	405.0	7.2	-	7.2	122.4
Money market (clearing-related balances)				Multi	30.0	-	-	-	-
Total short term borrowings (current liabilites) - Included in own cash calculation								**17.5**	**122.4**
Total loans and borrowings								**1,031.8**	**1,114.4**

1. For the Revolving Credit Facility, Intercompany Loans there is a floor of 0.0% on the EURIBOR, NIBOR and CIBOR.
2. Revolving credit facility commitment is EUR 240 million and overdraft carveout 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)

EURm	2019	2018
Net interest-bearing debt		
Total long term borrowings exclusive of lease liabilities (non-current liabilities)	1,014.3	992.0
Capitalised debt costs included in carrying amount	12.2	16.7
Own cash	(32.0)	23.4
Net interest-bearing debt	**994.5**	**1,032.1**

EURm	Carrying amounts	Contractual cash flow	<1 year	1-2 years	3-4 years	> 5 years
			2019			
Maturity						
Senior notes	217.3	249.4	7.3	14.5	227.6	0.0
Revolving credit facility	107.9	108.3	108.3	-	-	-
Clearing-related facilities	7.2	7.2	7.2	-	-	-
Loan from Group enterprises	689.2	900.9	59.6	77.8	77.9	685.6
Total	**1,021.6**	**1,265.8**	**182.4**	**92.3**	**305.5**	**685.6**

EURm	Carrying amounts	Contractual cash flow	<1 year	1-2 years	3-4 years	> 5 years
			2018			
Maturity						
Senior notes	216.8	255.8	7.2	14.5	14.5	219.6
Revolving credit facility	20.0	20.0	20.0	-	-	-
Clearing-related facilities	122.4	122.4	122.4	-	-	-
Loan from Gtroup enterprises	755.2	1,001.4	58.3	75.0	74.9	793.2
Total	**1,114.4**	**1,399.6**	**207.9**	**89.5**	**89.4**	**1,012.8**

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

Note 5.3

Leases

The Group has entered into a number of lease agreements related to software and equipment. The leasing period is 3–12 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.

EURm	Property	Equipment	2019
Lease assets			
Lease assets as at 1 January 2019	-	6.8	6.8
Impact from implementing IFRS 16	61.8	2.3	64.1
Additions from acquisitions	-	-	-
Additions	26.6	4.7	31.3
Remeasurement of lease liabilities	-	-	-
Depreciation	(14.1)	(5.5)	(19.6)
Total lease assets as at 31 December 2019	**74.3**	**8.3**	**82.6**

EURm	2019	2018
Lease liabilities		
Commitments in relation to lease liabilities are payable as follows:		
Less than 1 year	18.2	4.5
1-5 years	39.4	5.1
More than 5 years	37.4	-
Minimum lease payments	**95.0**	**9.6**
Future finance charges	(8.6)	(0.4)
Recognised as a liability	**86.4**	**9.2**
The present value of the lease liabilies is as follows:		
Less than 1 year	17.5	4.2
1-5 years	35.6	5.0
More than 5 years	33.3	-
Minimum lease payments	**86.4**	**9.2**

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.

EURm	2019	2018
Financial income		
Net foreign exchange gains	-	11.0
Other income etc.	-	0.5
Total financial income, exclusive of refinancing costs	**-**	**11.5**
Financial expenses		
Interest expense	(9.2)	(12.1)
Interest expense to Parent Company	(35.5)	(34.6)
Interest expense lease liabilities	(2.2)	(0.4)
Net foreign exchange loss	(12.9)	-
Fair value adjustment of financial liabilities	(1.3)	(8.1)
Amortisation of transaction costs	(2.9)	(3.0)
Other fees etc.	(6.0)	(6.3)
Total financial expenses, exclusive of refinancing costs	**(70.0)**	**(64.5)**
Financial income and expenses, net	**(70.0)**	**(53.0)**
Extraordinary amortisation of transaction costs in connection with refinancing	-	(12.2)
Settlement of interest swaps	-	2.8
Financial expenses – refinancing costs	**-**	**(9.4)**

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.

EURm	Variable, non-contractual	Contractual variable rates < 1 month	Total
Exposure to changes in interest rates			
Cash and cash equivalents	153.5	-	**153.5**
Borrowings	-	1.014.3	**1,014.3**
Overdraft facilities	-	17.5	**17.5**
Net	**153.5**	**1,031.8**	**1,185.3**

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.

		2019		2018	
EURm	Probable change in interest	Hypothetical impact on result for the year	Hypothetical impact on equity	Hypothetical impact on result for the year	Hypothetical impact on equity
Borrowings	1 p.p.	(7.3)	-	(7.6)	-

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

An increase in the interest rate of 1 p.p. would only affect equity with regards to float to fixed rate hedging certificates.

Note 5.6

Commitments, contingencies and collaterals

Significant accounting policies

Leases – Accounting policies applied in 2019

As at 1 January 2019 operating lease commitments was recognized as lease liabilities. Refer to Note 1.2 for a description of the Impact of the Implementation of IFRS 16.

Leases – Accounting policies applied in 2018

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 EUR 14.8 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 2018 can be specified as follows:

EURm	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
2018					
Operating leases	14.1	21.4	17.5	48.6	**101.6**
Total contractual obligations	**14.1**	**21.4**	**17.5**	**48.6**	**101.6**

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.

All Danish entities 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 2019, the carrying amount of the deferred tax assets was EUR 11.1 million and unrecognised tax losses amounted to EUR 0.8 million (2018: EUR 1.0 million).

EURm	2019	2018
Income taxes expensed		
Current tax on result for the year	(18,0)	9.2
Deferred tax on result for the year	1.2	1.2
Adjustments related to previous years – current tax	(1.3)	(0.7)
Income taxes in the Income statement	**(18.1)**	**9.7**

EURm	2019	2018
Income taxes paid		
Income taxes paid in Denmark	(11.2)	(3.8)
Income taxes paid outside Denmark	(12.2)	(10.7)
Total income taxes paid	**(23.4)**	**(14.5)**

The tax on the Group's result 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:

EURm	2019	2018
Result before tax	(10.0)	(41.4)
Income tax expense calculated at domestic tax rate	2.2	9.1
Deviation in foreign subsidiaries' tax rates compared with Danish tax rate	0.2	0.2
Permanent differences [1]	(14.5)	(19.7)
Previous years not recognised tax losses utilised or capitalised	(0.3)	23.9
Currency translation adjustment	-	0.1
Change in income tax rates on deferred tax	(0.1)	(3.9)
Other taxes	(5.6)	-
Income tax expense recognised in the income statement	**(18.1)**	**9.7**

EURm	2019	2018
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	2.0%	0.5%
Permanent differences [1]	(145.2%)	(47.6%)
Previous years not recognised tax losses utilised or capitalised	(3.3%)	57.7%
Currency translation adjustment	- %	0.2%
Change in income tax rates on deferred tax	(0.6%)	(9.4%)
Other taxes	(55.6%)	-
Effective tax rate	**(180.7%)**	**23.4%**

[1] Permanent differences mainly include non-deductible M&A expenses, and non-deductible financial expenses.

Note 6.1

Income and deferred income taxes (continued)

	2019					
EURm	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 assets/(liabilities) as at 1 January	(80.2)	4.1	(0.5)	0.8	37.0	**(38.8)**
Deferred tax on items transferred to assets held for sale	22.3	-	-	-	-	**22.3**
Additions from acquisitions	(11.7)	-	(0.1)	-	-	**(11.8)**
Deferred tax on result for the year	8.5	(1.3)	1.2	(0.1)	(23.1)	**(14.8)**
Deferred tax on result for the year on discontinued activities	-	-	-	-	(11.5)	**(11.5)**
Net deferred tax assets/(liabilities) as at 31 December	**(61.1)**	**2.8**	**0.6**	**0.7**	**2.4**	**(54.6)**
Classified as follows:						
Deferred tax assets as at 31 December						11.1
Deferred tax liabilities as at 31 December						65.7

	2018					
EURm	Intangible assets	Plant & equipment	Other receivables	Employee benefits obligation	Deferred tax losses carried forward	Total
Development in deferred tax assets and liabilities						
Net deferred tax assets/(liabilities) as at 1 January	(88.2)	4.2	(3.4)	1.6	41.8	**(44.0)**
Deferred tax on result for the year	8.0	(0.1)	2.9	(0.8)	(3.9)	**6.1**
Deferred tax on items recognised in other comprehensive income	-	-	-	-	(0.9)	**(0.9)**
Net deferred tax assets/(liabilities) as at 31 December	**(80.2)**	**4.1**	**(0.5)**	**0.8**	**37.0**	**(38.8)**
Classified as follows:						
Deferred tax assets as at 31 December						44.6
Deferred tax liabilities as at 31 December						83.3

Note 6.2

Related party transactions

Related party transactions

As at 31 December 2019 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 Board of Directors, Key Personnel 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 except the preferred equity certificates as described in Note 5.2.

Transactions with e-Boks A/S comprise mainly administrative services amounting to EUR 8.5 million.

There were no transactions with members of the Board of Directors and other Key Personnel, other than remuneration, and furthermore, no loans were granted to the Board of Directors or other Key Personnel in 2019.

Remuneration of the Board of Directors and Key Personnel

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.

At year-end 2019, Key Personnel consisted of eight members (2018: four members).

In the event that a member of the Key Personnel 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 Key Personnel do not receive any additional compensation.

Certain employees of the Group participate in a management equity programme which allows them to acquire shares in Nets TopCo S.à r.l. The investment was made at fair market value at the time of investment in the programme and therefore no benefit, hence, there is no expenditure and therefore no effect on either the balance sheet or on the income statement of the Group.

	2019			2018*		
EURm	Board of Directors	Key Personnel*	Total**	Board of Directors	Key Personnel*	Total**
Fixed base salary	(0.1)	(2.5)	**(2.6)**	(0.1)	(3.9)	**(4.0)**
Bonus including termination bonus and sign-on fee	-	(4.7)	**(4.7)**	-	(0.9)	**(0.9)**
Pensions	-	(0.3)	**(0.3)**	-	(0.2)	**(0.2)**
Benefits	-	(0.2)	**(0.2)**	-	(0.1)	**(0.1)**
Total	**(0.1)**	**(7.7)**	**(7.8)**	**(0.1)**	**(5.1)**	**(5.2)**
Retention bonus	-	-	**-**	-	(2.0)	**(2.0)**
Share-based payment	-	-	**-**	-	(3.2)	**(3.2)**
Total remuneration	**(0.1)**	**(7.7)**	**(7.8)**	**(0.1)**	**(10.3)**	**(10.4)**

* Key Personnel includes Executive Management and the Executive Committee. Key Personnel also includes Executive Committee members that is part of the discontinued operations.

** For 2019, presented remuneration to Key Personnel reflects calculated share of total remuneration to Group Management in Nets TopCo Group based on a revenue allocation model. For 2018, presented remuneration to Key Personal reflects the Management in place during the year. On 31 December 2018 Dorthe Rosenkilde Saunders was nominated as CEO.

Note 6.3

Share-based payment

Accounting policies

The all Employee Share programme (2019) and the share option programme (2018) are accounted for on an accrual basis over the vesting period. Employee Share programme has been measured at the fair value of the Nets Group at the launch date of the programme times the probability of vesting. 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 is determined by reference to the value of the shares and options granted, excluding the impact of any non-market vesting conditions. The value was fixed at grant date. Non-marked vesting conditions is included in assumptions about the number of shares and options that is expected to vest. Any impact of adjustments to estimates is recognised in the income statement and in a corresponding adjustment to Equity over the remaining vesting period. Adjustments relating to prior years are included in the Income statement in the year of adjustment.

As a consequence of the take-private transaction in 2018, 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.

Employee share programme

In August 2019 an all Employee share program was announced with the purpose of giving all employees of the Nets Group the opportunity to become co-owners of the Nets Group. Under the program employees could invest in the Nets Group and have their investment matched with two free shares if participating employees are employed when the Nets Group is either sold or if its shares are offered in an initial Public Offering. The matching shares were granted at 13 December 2019 and are expected to vest 36 months from grant date. The total value of the programme at grant date amounts to EUR 4.5 million and the cost recognised in 2019 amounts to EUR 0.1 million.

Share option programme

Long-term share option programme was established in 2016 in connection with the IPO and granted to Key Personnel and certain other employees. In connection with the Annual General Meeting, and as determined by the Board of Managers, 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. EUR 5.8 million was expensed in 2018 relating to the long-term share option programme.

Retention programme

In connection with the IPO, a non-recurring share-based retention programme was established for members of the Executive Committee in Nets A/S 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 EUR 1.9 million.

	2018	
Share option programme*		
Vesting conditions (KPI's)	-	Organic growth and EBITDA
Exercise price	-	EUR 17.91
Vesting	-	February 2020
Share price during exercise period	EUR 22.14	Not vested
Average Black-Scholes value of options	**-**	**EUR 2.15**
Assumptions:		
Risk-free interest rate	-	(0,46%)
Retention rate	-	80%
Volatility	-	25,00%
Dividend	-	0,80%
Period	-	4.0 years

* Share options exercised in 2018 were granted in 2017 by Nets A/S.

Note 6.3

Share-based payment (continued)

	Key personnel	Other employees	Total	Average exercise price
Number of share options				
Outstanding as at acqusition date	1,728,538	1,087,473	**2,816,011**	19.94
Added in the year[1]	176,356	113,422	**289,778**	17.87
Exercised during the year	(1,058,152)	(680,599)	**(1,738,751)**	(17.87)
Cancelled in the year	(846,742)	(520,296)	**(1,367,038)**	(24.14)
Outstanding as at 31 December 2018	**-**	**-**	**-**	**-**

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

Note 6.4

Fee to statutory auditors

EURm	2019	2018
Remuneration to Auditors (PwC as elected by the Annual General Meeting)		
Statutory audit	**(1.0)**	**(0.8)**
Non-statutory audit services:		
Other assurance engagements	(0.3)	(0.4)
Tax advisory services	(0.1)	(0.1)
Other services	(1.6)	0.0
Total non-statutory audit services	**(2.0)**	**(0.5)**
Total	**(3.0)**	**(1.3)**

The fee for services other than the statutory audit of the financial statements provided by several PwC member firms to the Group consists of services related to 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 Group has defined benefit pension plans mainly in Norway. The defined benefit plans have been closed. Employees covered by the plans will continue to be entitled to the pension payments earned however, employees will not earn further pension payments and no new members are entering into the agreements.

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 assumptions used in the actuarial valuation 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.

EURm	2019	2018
Assets and obligations		
Specification of pensions		
Fair value of plan assets	6.5	7.6
Projected benefit obligations	(10.5)	(12.8)
Pension assets/(obligations) recognised in the balance sheet	**(4.0)**	**(5.2)**
Change in pension assets/(obligations) recognised in the balance sheet		
Pension assets/(obligations) recognised in the balance sheets as at 1 January	(5.2)	(8.1)
Additions from aquisitions	(0.2)	0.0
Pension (costs)/income recognised in the income statement	(0.4)	(0.3)
Actuarial gain/(loss) on projected benefit obligations and plan assets recognised in Other comprehensive income	0.2	(0.5)
Gain on plan assets	0.1	0.1
Nets' contribution	0.5	1.2
Benefit paid to employees	0.1	0.4
Gain from transfer of employees to external part	0.2	1.9
Exchange rate adjustments	-	0.1
Reclassification to liabilities held-for-sale	0.7	-
Pension assets/(obligations) recognised in the balance sheet as at 31 December	**(4.0)**	**(5.2)**

	Assumptions		2019 Sensitivity		2018 Sensitivity	
	2019	2018	+1 %-point	(1 %-point)	+1 %-point	(1 %-point)
Discount rate	2.3%	2.6%	(1.4)	1.6	(1.6)	1.6
General wage inflation	2.3%	2.6%	0.2	(0.2)	0.1	(0.1)
Expected regulation of minimum payment	1.5%	1.5%	1.3	(1.2)	1.2	(1.2)

The assumptions used for the actuarial valuation of the pension obligation are based on regularly used assumptions within insurance for demographic factors. The Group has used a mortality rate in accordance with the Norwegian K2013 table.

The table above shows the estimated impact of some of the risks that the Group is exposed to.

The Group is 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.

EURm	2019	2018
Expected maturity of projected benefit obligations		
Within 1 year	(0.5)	(0.7)
1–5 years	(2.9)	(3.6)
Beyond 5 years	(7.1)	(8.5)
Total	**(10.5)**	**(12.8)**

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.

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.

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.

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 2019.

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.

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 2019, although uncertainty exists with regard to the value of preference shares, and transaction costs.

Note 7.2

Other financial assets and financial liabilities (continued)

EURm	2019	2018
Consolidated income statement		
Value adjustment on shares and proceeds (financial income)	-	6.3
Value adjustment on debt (financial expense)	(1.6)	(4.8)
Net result for the year on pass through proceeds	**(1.6)**	**1.5**
Value adjustment related to Nets Branch Norway (financial income)	4.4	1.8
Proceeds (shares) related to Nets Branch Sweden (financial income)	0.6	0.9
Net result for the year	**3.4**	**4.2**
Other financial assets		
Restricted shares in Visa Inc. and contingent consideration held by Nets Branch Norway	14.5	11.4
Restricted shares in Visa Inc. and contingent consideration held by Nets Denmark A/S	-	14.0
Restricted shares in Visa Inc. held by Nets Branch Sweden	1.3	0.9
Contingent consideration held by Nets Denmark A/S, Finnish Branch	-	8.3
Other financial assets as at 31 December	**15.8**	**34.6**
Other financial liabilities		
Visa proceeds to be transferred to former owners of Nets Holding A/S	0.6	12.6
Visa proceeds to be transferred to former owners of Nets Branch Sweden	0.5	-
Visa proceeds to be transferred to former owners of Nets Denmark A/S, Finnish Branch	0.3	7.8
Other financial liabilities as at 31 December	**1.4**	**20.4**

EURm	2019	2018
Cash flow		
Received cash consideration related to Visa Europe Shares held by Nets Branch Sweden	0.6	6.3
Received cash consideration related to Visa Europe Shares held by Nets Denmark A/S	13.9	-
Received cash consideration related to Visa Europe Shares held by Nets Branch Norway	1.4	-
Received cash consideration related to Visa Europe Shares held by Nets Denmark A/S, Finnish Branch	8.3	-
Proceeds from Visa Europe shares	**24.2**	**6.3**
Payment of Visa proceeds to former owners of Nets Branch Sweden	-	(4.8)
Payment of Visa proceeds to former owners of Nets Holding A/S	(13.4)	(0.1)
Payment of Visa proceeds to former owners of Nets Denmark A/S, Finnish Branch	(8.0)	-
Proceeds from Visa Europe shares	**(21.4)**	**(4.9)**

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 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).

2019

EURm	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	-	121.0	121.0
Contract assets	-	10.5	10.5
Receivables from Group enterprises	-	61.0	61.0
Settlement assets	-	707.5	707.5
Cash at bank and on hand	-	153.5	153.5
Other financial assets[3]	15.8	-	15.8
Total financial assets	**15.8**	**1,053.5**	**1,069.3**
Borrowings	-	325.3	325.3
Liabilities to Group enterprises	-	752.2	752.2
Bank overdraft	-	17.5	17.5
Trade and other payables	-	216.0	216.0
Contract liabilities	-	6.9	6.9
Merchant creditors	-	574.5	574.5
Settlement obligations	-	236.2	236.2
Put option liability	153.4	-	-
Deferred consideration[2]	9.4	-	9.4
Lease liabilities	-	86.4	86.4
Other financial liabilities[1]	1.4	-	1.4
Total financial liabilities	**164.2**	**2,215.0**	**2,379.2**
Total net financial assets/(liabilities)	**(148.4)**	**(1,161.5)**	**(1,309.9)**

[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.
[3] Level 3 in the fair value hierarchy. Ownership in VN Norge AS is considered to be a financial asset in line with shares and other securities. The valuation is based on input from VN Norge AS.

2018

EURm	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	-	118.9	118.9
Contract assets	-	3.5	3.5
Settlement assets	-	919.7	919.7
Cash at bank and on hand	-	166.3	166.3
Other financial assets[3]	34.6	-	34.6
Total financial assets	**34.6**	**1,208.4**	**1,243.0**
Borrowings	-	236.8	236.8
Liabilities to Group enterprises	-	755.2	755.2
Bank overdraft	-	122.4	122.4
Trade and other payables	-	209.4	209.4
Contract liabilities	-	9.9	9.9
Merchant creditors	-	676.8	676.8
Settlement obligations	-	187.8	187.8
Deferred consideration[2]	43.1	-	43.1
Lease liabilities	-	9.2	9.2
Other financial liabilities[1]	20.4	-	20.4
Total financial liabilities	**63.5**	**2,207.5**	**2,271.0**
Total net financial assets/(liabilities)	**(28.9)**	**(999.1)**	**(1,028.0)**

[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.
[3] Level 3 in the fair value hierarchy. Ownership in VN Norge AS is considered to be a financial asset in line with shares and other securities. The valuation is based on input from VN Norge AS.

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.

Currently there are no new standards, amendments and interpretations which have been adopted by the IASB and adopted by the EU, which are relevant to Nets.

Note 7.5

Events after the balance sheet date

In January 2020, Nets announced the acquisitions of Finnish software developer Poplatek and terminal service provider Poplatek Payments. For additional information, refer to Note 4.1

Also in January 2020, Nets announced a reduction of the workforce to reduce overlapping roles and functions following years of intense Merger and Acquisition activity.

In March 2020, Nets announced the acquisition of the company Polskie ePlatnosci a leading Polish payment provider. The acquisition is subject to customary approvals by the Polish authorities.

The consequences of COVID-19, where Governments around the world have decided to enforce drastic measures, including "closing down" the countries, will have a significant impact on the global economy. The Nets Group is carefully monitoring any potential impact on the financial performance for 2020 and actions needed. The consequences of COVID-19 are considered a non-adjusting subsequent event regarding the financial statements as per 31 December 2019.

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%
Storebox ApS	Subsidiary	DKK	100%
Kvittering.dk ApS	Subsidiary	DKK	100%
Signaturgruppen A/S	Subsidiary	DKK	100%
e-Boks A/S	Associate	DKK	50%
Centurion DK A/S	Subsidiary	DKK	100%
Norway			
Nassa Topco AS	Subsidiary	NOK	100%
Nets Norge Infrastruktur AS	Subsidiary	NOK	100%
EDIGard AS	Subsidiary	NOK	100%
e-Boks AS	Associate	NOK	50%
Centurion NO AS	Subsidiary	NOK	100%
Centurion NNI AS	Subsidiary	NOK	100%
Sweden			
Nets Sweden AB	Subsidiary	SEK	100%
Nassa BidCo AB	Subsidiary	SEK	100%
Nets Spectracard AB	Subsidiary	SEK	100%
e-Boks Sverige AB	Associate	SEK	50%

Company	Structure	Currency	Ownership
Finland			
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%
Poland			
P24 Dotcard Sp. z o.o.	Subsidiary	PLN	51%
PayPro S.A.	Subsidiary	PLN	51%
eCard S.A.	Subsidiary	PLN	51%
Dotpay Sp. z o.o.	Subsidiary	PLN	51%
Dotpay Polska Sp. z o.o.	Subsidiary	PLN	51%

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 acquitions, divestments and foreign exchange adjustments from year-on-year comparisons
EBITDA 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

EURm	Note	2019	2018
Revenue	2	0.7	0.8
External expenses		(9.1)	(45.1)
Staff costs	3	(3.6)	(4.8)
Operating profit (EBIT)		**(12.0)**	**(49.1)**
Financial income	4	0.2	0.1
Financial expenses	4	(0.1)	(0.8)
Net financials		**0.1**	**(0.7)**
Profit before tax		(11.9)	(49.8)
Income taxes		(0.7)	3.4
Net profit for the year		**(12.6)**	**(46.4)**
Proposed profit appropriation			
Retained earnings		(12.6)	(46.4)
Total appropriation		**(12.6)**	**(46.4)**

Balance sheet for the Parent Company

EURm	Note	2019	2018
Assets			
Non-current assets			
Other intangible assets	5	60.0	-
Tax asset		0.4	-
Investment in subsidiaries	6	1,431.5	1,370.9
Total non-current assets		**1,491.9**	**1,370.9**
Current assets			
Other receivables		-	7.5
Prepayments (Prepaid wages)		0.1	0.1
Receivable from Group enterprises		11.2	6.6
Cash and cash equivalent		1.2	0.5
Total current assets		**12.5**	**14.7**
Total assets		**1,504.4**	**1,385.6**

EURm	Note	2019	2018
Equity and liabilities			
Equity			
Share capital		26.9	26.9
Reserves		1,344.3	1,296.6
Total equity		**1,371.2**	**1,323.5**
Current liabilities			
Trade and other payables	7	15.4	16.8
Current tax liabilities		0.4	-
Payable to Group enterprises		117.4	45.3
Total current liabilities		**133.2**	**62.1**
Total liabilities		**133.2**	**62.1**
Total equity and liabilities		**1,504.4**	**1,385.6**

Statement of changes in equity for the Parent Company

EURm	Share capital	Retained earnings	Total equity
2019			
Equity as at 1 January	26.9	1,296.6	**1,323.5**
Net profit for the year	-	(12.6)	**(12.6)**
Currency translation adjustment	-	(0.7)	**(0.7)**
Received Group contribution	-	61.0	**61.0**
Total changes in equity	**-**	**47.7**	**47.7**
Equity as at 31 December	**26.9**	**1,344.3**	**1,371.2**
2018			
Equity as at 1 January	26.9	1,336.1	**1,363.0**
Net profit for the year	-	(46.4)	**(46.4)**
Share based payment	-	(1.5)	**(1.5)**
Received contribution from share based payment	-	12.5	**12.5**
Currency translation adjustment	-	(4.1)	**(4.1)**
Total changes in equity	**-**	**(39.5)**	**(39.5)**
Equity as at 31 December	**26.9**	**1,296.6**	**1,323.5**

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, all Danish entities are assessed jointly. 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

EURm	2019	2018
Group services (Wages and salaries etc)	0.7	0.8
Total	**0.7**	**0.8**

Note 3

Staff costs

EURm	2019	2018
Staff costs		
Wages and salaries	(1.4)	(1.4)
Bonus	(1.9)	(0.3)
Retention bonus	-	(0.9)
Share-based payment cost	-	(1.9)
Pensions - defined contribution plans	(0.2)	(0.2)
Other employee costs	(0.1)	(0.1)
Total employee costs for the year	**(3.6)**	**(4.8)**
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

EURm	2019	2018
Financial income		
Interest income from Group enterprises	0.2	0.1
Total financial income	**0.2**	**0.1**
Financial expenses		
Interest expenses to Group enterprises	-	(0.6)
Other fees etc.	(0.1)	(0.2)
Total financial expenses	**(0.1)**	**(0.8)**

Note 5

Intangible assets

	Other intangible assets	
2019 EURm	**Software**	**Other intangible assets**
Additions	60.0	60.0
Accumulated cost as at 31 December	**60.0**	**60.0**
Accumulated amortisation and write-downs for impairment as at 31 December	**-**	**-**
Carrying amount as at 31 December	**60.0**	**60.0**

Note 6

Investment in subsidiaries

EURm	2019	2018
Investment in subsidiaries		
Accumulated cost as at 1 January	1,362.5	1,362.5
Addition during the year	61.0	-
Accumulated cost as at 31 December	**1,423.5**	**1,362.5**
Revaluation as at 1 January	8.4	12.5
Currency translation adjustment	(0.4)	(4.1)
Revaluation as at 31 December	**8.0**	**8.4**
Carrying amount at 31 December	**1,431.5**	**1,370.9**

EURm

Company name	Share	Currency	Annual report	Equity	Profit for the year
Nassa Topco AS	100%	DKK	2018	12,055	1,998
Total				**12,055**	**1,998**

Note 7

Trade and other payables

EURm	2019	2018
Employee cost payable	2.0	0.3
Trade payables	13.4	16.5
Total	**15.4**	**16.8**

Note 8

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 9

Related party transactions

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

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 and face recognition or behavioural patterns such as typing patterns, used a.o. for access control

Blockchain – a distributed ledger technology / decentral database

* Terms are explained in the context of this report

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

eFaktura – Nets' Norwegian e-billing service

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, password, and credit card details by posing as a trustworthy entity in an electronic communication

Point-of-sale (POS) – the check-out 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 certificates to the buyer and the buyer transfers money to the seller