Annual Report 2017

nets

Table of contents

Nets at a glance

Market reach

300,000+
merchants, including 30,000 online merchants

240+
banks

240,000+
corporates

500+
distributors and partners

Nets at a glance

Financial highlights

Revenue

DKKm

7,724

up

4.6%

on 2016, equivalent to organic growth of 5 %

Adjusted net profit

DKKm

1,591

up

59.6%

on 2016

EBITDA b.s.i.

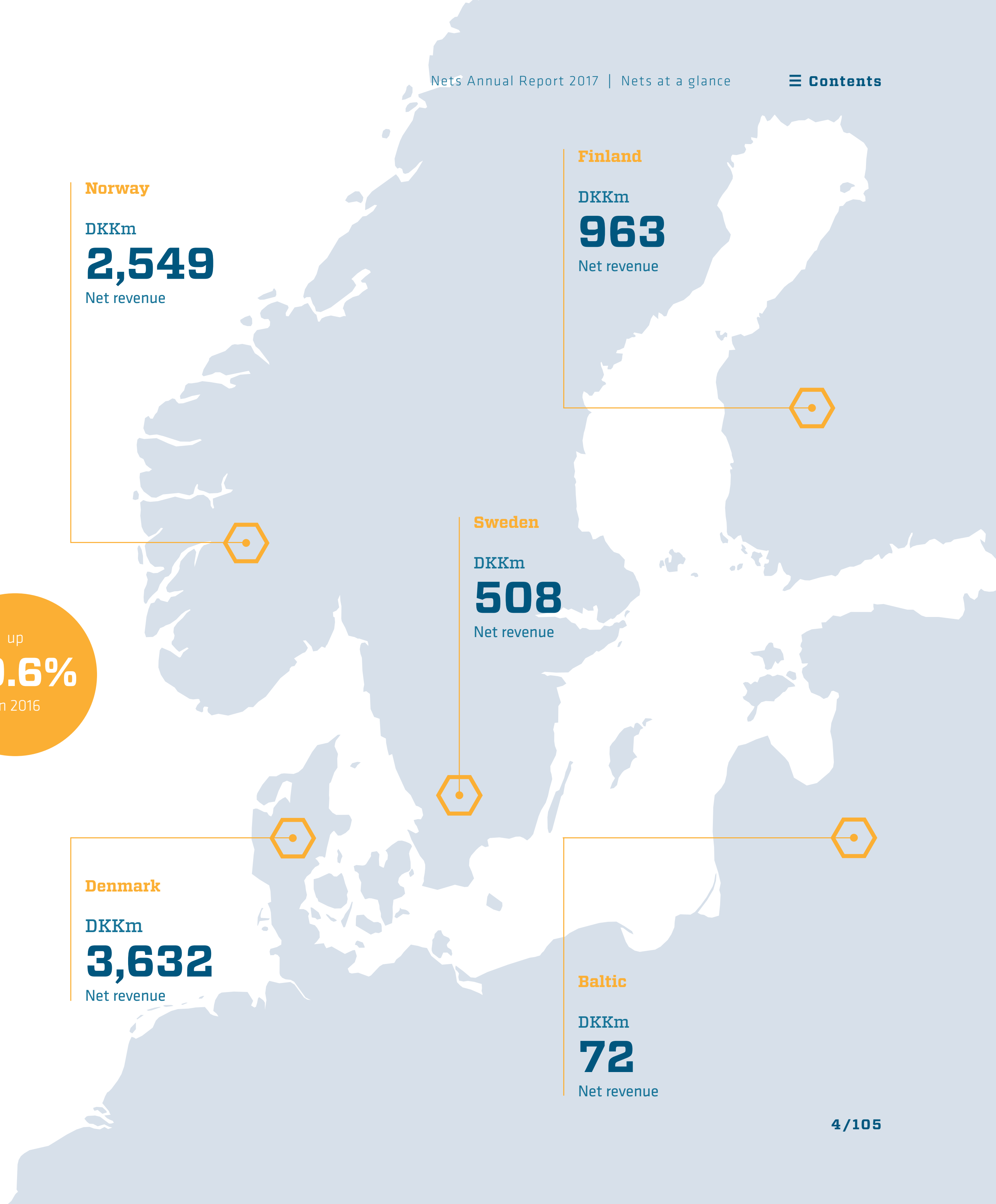
DKKm

2,835

up

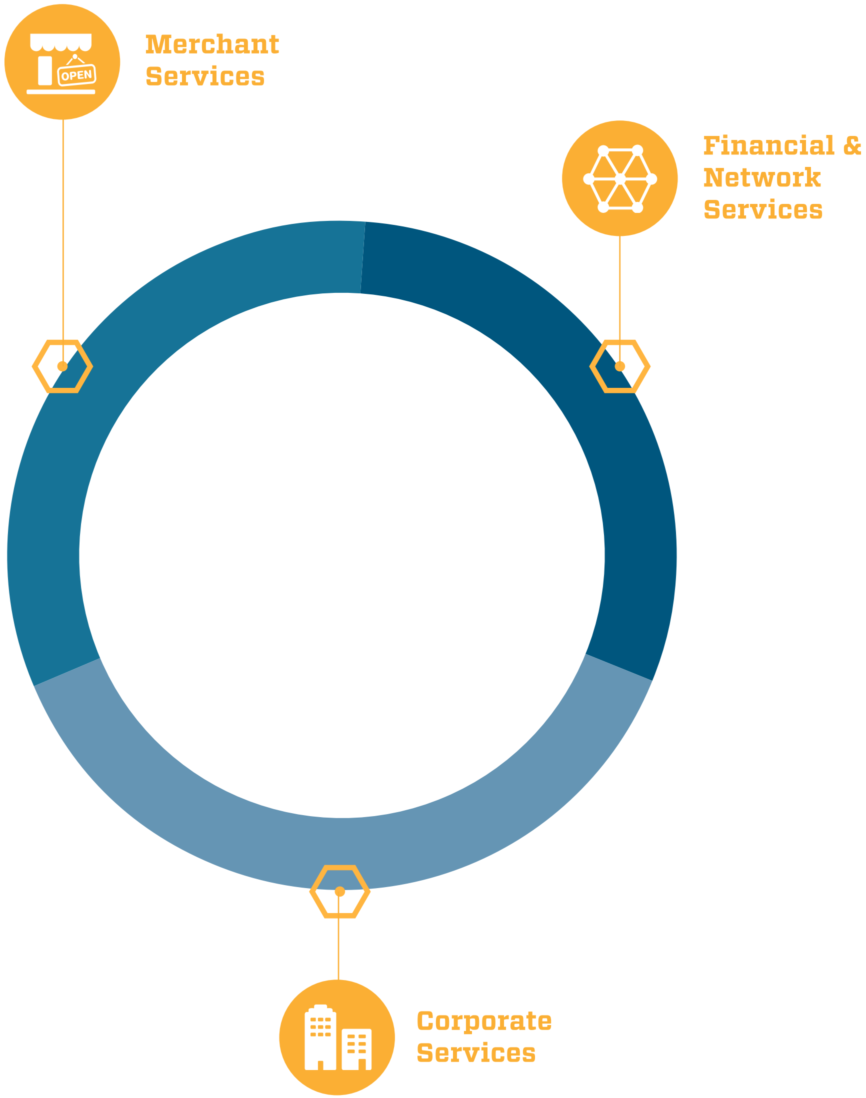
8.2%

on 2016, EBITDA b.s.i. margin amounts to an expansion of 120 basis points



Nets at a glance

Our business segments



Merchant Services

provides our merchant customers with payment acceptance solutions across channels (in-store, online and mobile) and with the broadest range of payment methods in the Nordic region.

Revenue

DKKm

2,519

up 8.7% on 2016, equivalent to organic growth of 8%.

EBITDA b.s.i.

DKKm

943

EBITDA b.s.i. margin amounts to 37.4%, up 320 basis points.

Financial & Network Services

operates the domestic debit card schemes Dankort and BankAxept and provides outsourced processing services, card management services, fraud & dispute services, etc. to banks in the Nordics.

Revenue

DKKm

2,313

up 1.8% on 2016, equivalent to organic growth of 3%.

EBITDA b.s.i.

DKKm

901

EBITDA b.s.i. margin amounts to 39.0%, down 30 basis points.

Corporate Services

comprises a.o. Betalingsservice and NemID in Denmark, eFaktura, AvtaleGiro and BankID in Norway as well as clearing services in several European countries.

Revenue

DKKm

2,892

up 3.5% on 2016, equivalent to organic growth of 4%.

EBITDA b.s.i.

DKKm

991

EBITDA b.s.i. margin amounts to 34.3%, up 90 basis points.

Nets at a glance

Delivering on our promises

Letter to shareholders

In 2017, we delivered on our expectations set out in our 2016 annual report and in the IPO prospectus released August 2016. The organic growth in net revenue was 5%, driven equally by a continued strong underlying growth in transaction volumes, and by the continued sale of value added services to our customers.

Bo Nilsson and **Inge K. Hansen**

Operational leverage and our continued focus on operational efficiency resulted in an EBITDA b.s.i. margin of 36.7%, which is an expansion of 120 basis points compared to 2016. Special items were higher than originally expected, primarily due to expenses related to the takeover by a consortium led by the American private equity funds Hellman & Friedman.

We continued to invest into our business with capital expenditures equating to 8.6% of net revenue. In addition, we continued our focus on bolt-on acquisitions. As promised at our IPO, we have continuously reduced our financial gearing despite also acquiring businesses. At the end of 2017, our gearing was 2.7x which is a reduction of 0.5x compared to the end of 2016 and around 1x compared to the time of the IPO.

"A key element in the strategy has been to build an even more customer-centric culture, and during 2017 we have focused intensely on delivering a seamless customer experience.

A year of continued transformation

In 2014, we began our journey of transformation set to end in 2017. Our financial performance in 2017 compared to our starting point in 2014 is a testament to a journey in which our operational performance has improved significantly.

In 2015, we launched our strategy, From Good to Great, focusing on enhancing our business deliveries even further. A key element in the strategy has been to build an even more customer-centric culture, and during 2017 we have focused intensely on delivering a seamless customer experience. Throughout the company, we have taken measures to ease the customer journey, find and help solve our customers' pain points and learn even more about what makes them and the end-users tick. When we asked our customers in 2017, they gave us credit for these efforts, with a rise in Nets' overall Customer Satisfaction Index (CSI) by five index points in 2017. This is our best result since we started using CSI in 2011, and it proves that the hearts and minds of our employees are behind our aspiration to be a truly customer-driven company. However, our customer survey also gave us important insight into where we can do things better, and we have a clear ambition to continue to improve our CSI score in the coming years.

Stability and security remain top priority

Nets' ability to deliver superior stability on our solutions and networks, and a very strong level of security, is our license to operate. Even though the payments sector is developing rapidly with new solutions being deployed continuously, ensuring that the payments infrastructure is running at all times, and that we adhere to the highest security standards, remain the bedrock of our company.

DKKm **7,724** Revenue

DKKm **2,835** EBITDA b.s.i.

5% Organic growth

In 2017, we completed our new data centre in Norway, the construction of which was begun in 2016 along with investments into network segregation. The investments have further improved our infrastructure, and in 2017 we had a 99.98% uptime on our platforms, which is satisfactory and a testament to the strength of our infrastructure.

On 13 January 2018, the Revised Directive on Payment Services (PSD2) was implemented in most EU member states. It will be a decisive moment for payment solutions as access to accounts will enable new players to innovate and offer new services. Nets' position at the centre of the digital payments ecosystem, and our ability to connect financial institutions, businesses and consumers, place us in a unique position to establish a PSD2-compliant infrastructure. In response to the new regulation, we have in 2017 developed and together with banks tested a new platform that will help fintechs, third parties and financial institutions become PSD2-compliant and allow them to connect fast and easily. The platform leverages our core assets, such as strong identification and fraud prevention, and will enable easy access to accounts through a common standard. This will contribute to a simple and frictionless integration across the Nordics, while at the same time ensuring the highest level of security.

In May 2018, we will also see the General Data Protection Regulation (GDPR) come into effect. Having prepared since 2016, we will take the necessary steps to ensure compliance in our role as controller and processor respectively. Ensuring transparency for our customers on GDPR is a central element of this.

Convenience is king

Promoting convenient solutions to customers and consumers is a main focus of ours. In August 2015, we launched the contactless Dankort in Denmark which enabled consumers to pay amounts below DKK 200 by simply tapping the card on the terminal. By the end of 2017, contactless payments accounted for approximately 43% of all in-store transaction which makes Denmark one of the countries in the world with the highest penetration of contactless payments. Approximately 70% of all physical Dankort are now contactless, and together with the Danish banks and merchants we have raised the limit for contactless in-store payments in February 2018 to DKK

> *"We launched Smart Payments in September - a new innovation business that will enable us to take our innovation efforts to the next level to provide our customers with tomorrow's payment services and solutions.*

350. This will enable an even more seamless payment experience as, eight times out of ten, consumers will not need to enter their pin.

In 2017, we saw a significant push for payments on mobile devices in the Nordics. We launched the mobile Dankort available for both iPhones and Android phones. We also saw ApplePay and SamsungPay launching their payment solutions in the Nordics, both running on international credit or debit cards. Mobile-based in-store payments still account for a modest share of all transactions. We believe the share of payments on mobile devices will increase, although the success of contactless card payments, however, could potentially reduce the pace of this conversion.

For e-commerce merchants, the goal is to drive higher conversion and fast check-out solutions, and in 2017, we brought Save My Card and Easy to the market, both with promising results in terms of higher conversion and ease of use for merchants.

Developing the payment solutions of tomorrow

Being customer-driven is key for succeeding with our innovation efforts. We started Digital Innovation in 2016 with a view to trying out emerging technologies such as biometrics, virtual reality (VR) and blockchain in our Digital Lab, and oftentimes our development work is carried out in close collaboration with our customers.

An example is a new artificial intelligence-based financial bot platform. The bot will connect our payment infrastructure to various social channels and thus enable end-users to handle their day-to-day finances and payments in a natural language, and they will be able to do so where they spend their time without having to install any apps. The solution has already been launched in Norway together with Nordea.

Building on the success of our development work at the Digital Lab, we launched Smart Payments in September – a new innovation business that will enable us to take our innovation efforts to the next level to provide our customers with tomorrow's payment services and solutions.

From private to public and back to private ownership

In September 2016, Nets was listed on Nasdaq Copenhagen, and 2017 was thus our first full year as a listed company. During 2017, we saw increased consolidation with European competitors gaining scale through acquisitions and by expanding their geographical footprint, and on 1 July 2017, we announced that Nets had drawn interest from potential buyers and that we were reviewing options.

On 25 September 2017, we announced that we had received a voluntary cash offer from a consortium led by Hellman & Friedman offering to buy all shares at a price of DKK 165 per share. The Board of Directors recommended shareholders to accept the offer, following careful consideration of all options available. The offer by Hellman & Friedman to buy all shares at a price of DKK 165 represented a 27% premium to the share price of Nets on 30 June 2017, and a 35% premium to the volume weighted average price of DKK 122 per share during the six months ended 30 June 2017. On 2 February 2018, the consortium led by Hellman & Friedman announced that all conditions were completed, including that 94.1% of Nets' shareholders had accepted the offer.

The payments industry is evolving fast, driven by changing consumer behaviour, new technologies and regulatory intervention.

Furthermore, consolidation is accelerating and Nets' competitors are gaining significant scale and expanding their geographical footprint. Payments companies need to invest to remain competitive in this dynamic and fast-moving environment.

Nets is better positioned to react to these developments under private ownership, backed by growth-oriented investors with a long-term perspective and the ability to deploy capital to support strategic initiatives.

Thank you

Navigating in a business and sector undergoing continuous transformation such as ours requires dedication and a certain willingness to change. On behalf of the Board and the Executive Management, we would like to thank our colleagues at Nets for their dedication, collaboration and enthusiasm during the past year. We would also like to thank our customers, shareholders and business partners for their continued collaboration and support.

Inge K. Hansen
Chairman of the Board

Bo Nilsson
Group CEO

2017 Key events

24/3
Nets enters into partnership with Chainalysis and strengthens product offering to banks working with virtual currencies on Blockchain

28/3
Together with the BOKIS banks, Nets launches the mobile Dankort, enabling Danish consumers to pay using their mobile

19/4
More than 1 million cards stored in Save My Card, Nets' new e-commerce service, since its launch in late 2016

8/6
Easy is launched – Nets' next-generation payment solution that makes shopping easier than ever before

22/6
The mobile Dankort app is launched, enabling consumers to pay with their mobiles from a locked screen and with fingerprint authentication

28/6
Nets buys 15,000 merchant acquiring contracts from OP in Finland, further consolidating its Nordic position

1/7
Nets confirms speculation in media about having been approached by a potential buyer

24/8
Two years after its launch in Denmark, the contactless Dankort has been used for over 250 million transactions, with 31% of all in-store transactions being contactless (43% by end 2017)

21/9
Nets wins contract for delivering instant clearing in Slovenia

25/9
Nets receives a takeover offer from a consortium led by Hellman & Friedman, offering to buy all shares in Nets for DKK 165 per share in cash, valuing Nets at DKK 31.1 billion

9/11
New innovative solution for pay-later transactions launched, giving consumers a seamless in-store experience similar to the online experience they have been accustomed to

29/11
Nets launches solution for payment of Norwegian bills via Facebook Messenger

1 / 2

Financial summary

DKKm	Nets A/S Group 2017	Nets A/S Group 2016	Nets A/S Group 2015	Nets A/S Group 2014*	Nets Holding A/S Group 2014	Nets Holding A/S Group 2013
Income statement						
Revenue, net	7,724	7,385	6,836	3,267	6,546	6,727
EBITDA before special items	2,835	2,619	2,248	1,000	1,663	1,525
EBITDA	2,581	2,013	1,710	714	1,252	1,324
Special items	(186)	(345)	(538)	(286)	(411)	(201)
Special items - IPO costs and costs related to takeover offer	(68)	(261)	-	-	-	-
Adjusted EBIT	2,399	2,203	1,977	912	1,365	1,194
EBIT	1,501	943	812	297	844	876
Net profit	1,218	(584)	119	63	652	613
Adjusted net profit	1,591	997	778	364	1,083	935
Financial position						
Total assets	30,247	28,299	29,558	26,699	11,102	11,729
Goodwill	14,592	14,720	14,646	13,423	1,318	719
Clearing-related balances, net	(602)	(658)	(778)	190	190	(1,374)
Own cash	140	703	1,532	1,926	1,919	506
Net interest-bearing debt	7,602	8,503	13,319	12,526	**	**
Equity	10,652	9,806	4,980	4,946	2,366	2,307
Cash flow						
Net cash from operating activities excl. clearing-related balances	2,015	(686)	1,105	650	1,088	1,056
Change in clearing-related balances	(56)	(120)	989	(1,563)	(1,564)	6
Net cash from investing activities	(1,124)	67	(2,081)	(14,949)	120	(150)
Net cash from financing activities	(1,758)	212	582	17,615	205	(498)
Net cash flow for the year	(923)	(527)	595	1,753	(151)	414
Net change in own cash	(563)	(829)	(394)	3,316	1,413	408
Operating free cash flow	1,728	1,434	1,235	591	1,022	942

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

Revenue
DKKm
7,724

EBITDA b.s.i.
DKKm
2,835

Adjusted net profit
DKKm
1,591

2 / 2

Financial summary

	Nets A/S Group				Nets Holding A/S Group	
DKKm	**2017**	**2016**	**2015**	**2014***	**2014**	**2013**
Growth in revenue, net						
Reported	4.6%	8.0%	4.4%	**	(2.7%)	12.8%
Organic	5%	7%	6%	**	**	**
Capital structure						
EBITDA before special items	2,835	2,619	2,248	1,000	1,663	1,525
Net interest-bearing debt/EBITDA before special items	2.7x	3.2x	4.2x	**	**	**
Other ratios						
EBITDA before special items margin	36.7%	35.5%	32.9%	30.6%	25.4%	22.7%
Capital expenditure/revenue	8.6%	9.0%	7.9%	**	**	**
Capitalised development costs (EBITDA before special items impact)/revenue	4.1%	3.9%	3.9%	**	**	**
Cash conversion ratio	70%	78%	79%	**	**	**
Equity ratio	35.2%	34.7%	16.8%	18.5%	21.3%	19.7%
Share information						
Number of shares ('000)	200,411	200,411	567	567	**	**
Earnings per share, basic, DKK	6.04	(3.00)	171.10	118.00	**	**
Earnings per share, diluted, DKK	6.04	(3.00)	171.10	118.00	**	**
Share price at the end of the year, DKK	163.20	123.60	**	**	**	**
Number of full time employees (FTE)	2,454	2,427	2,413	2,618	2,618	2,578

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

Organic growth

5%

EBITDA b.s.i. margin

36.7%

Nets A/S was formed on 5 February 2016 for the purpose of acquiring Nassa Topco AS (the former ultimate holding company of Nets Holding A/S). Nassa Topco AS acquired Nets Holding A/S in early July 2014. The consolidated financial statements of Nets A/S therefore only covers the activities for the period 1 July 2014 and until 31 December 2017. Therefore, in order to present financial information that reflects the operations of the business conducted by the Company, selected consolidated financial information for Nets Holding A/S for the years 2013 and 2014 has been included in the financial summary.

Nets at a glance

Performance highlights 2017

Revenue

In 2017, net revenue increased by 4.6% to DKK 7,724 million, corresponding to organic growth of 5%.

In 2017, organic growth was driven by a solid performance in Merchant Services with an organic growth of 8%, and a strong performance in Corporate Services with an organic growth rate of 4%. Financial & Network Services had an organic growth of 3%.

The growth in Merchant Services came primarily from higher value of transactions acquired and from e-commerce. In Norway, the interchange fees were lowered as of 1 September 2016 and subsequently impacted the organic growth positively in the first eight months of 2017 but had a negative effect on growth in the last four months of 2017. Adjusted for effect from lower interchange fees and effect of increased scheme fees in 2017, the underlying organic growth was 1 percentage point higher.

In Financial & Network Services, growth was driven by a higher number of card transactions processed and by value-added services within CMS and fraud prevention and dispute solutions. As expected, due to the implementation revenue related to the development of mobile-based payment solutions being extraordinarily high in 2016, its decrease in 2017 impacted growth negatively. Adjusting for all implementation revenues, the organic growth would have been around 2% higher.

The growth in Merchant Services came primarily from higher value of transactions acquired and from e-commerce.

Growth in Corporate Services was driven by a strong growt in e-bill payments volumes, both in Denmark and Norway, and higher implementation revenues relating to contracts in clearing solutions as well as on e-ID solutions.

Changes in exchange rates, especially the depreciation in NOK and SEK, impacted revenue negatively by approximately 0.3% while impact from acquisitions of business activities only had a minor positive effect on net revenue.

Operating expenses

Total operating expenses were DKK 4,889 million compared to DKK 4,766 million in 2016,

leading to total cost to net revenue dropping 2 percentage points to 63% from 65% in 2016.

Cost of sales decreased by 1.5% to DKK 949 million (12% of net revenue), compared to DKK 963 million (13% of net revenue) in 2016. Cost of sales is mainly related to external vendors to Corporate Services, such as payments to Danish banks for work carried out in connection with Betalingsservice, and the point-of-sale (POS) business in Merchant Services.

External expenses were DKK 1,816 million compared to DKK 1,769 million, leading to external expenses to net revenue at 24%. External expenses include consulting fees related to IT and costs driven by sourcing partnerships related to our technology development. The increase in external expenses was primarily driven by higher consulting fees partly offset by lower marketing activities. A continued optimisation of the IT sourcing mix and operational processes and improved procurement impacted external expenses positively.

Staff costs increased by 4.4% to DKK 2,124 million (27% of net revenue), compared to DKK 2,034 million (28% of net revenue) in 2016. The increase in staff costs was primarily driven by a new labour tax in Norway, full-year impact from a new incentive programme put in place after the IPO in 2016, and more employees in sales-related areas compared to 2016.

Nets had 2,454 FTEs (full-time equivalent) by the end of 2017, which is 27 more than in 2016. The increase was primarily related to sales-related activities, including outbound sales personnel predominantly in Merchant Services. The remaining business activities have seen staff reductions as a consequence of the continued effort to improve operational efficiency.

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

Capitalised development costs impacting EBITDA b.s.i. for 2017 were 4.1% of net revenue, compared to 3.9% in 2016. The capitalised costs were primarily related to e-commerce solutions and investments into PSD2.

EBITDA b.s.i.

In 2017, EBITDA b.s.i. grew by 8.2% to DKK 2,835 million, compared to DKK 2,619 million in 2016. The improvement in EBITDA b.s.i. was primarily driven by operating leverage.

The improvement has resulted in an EBITDA b.s.i. margin expansion of 120 basis points to 36.7% in 2017 from 35.5% in 2016.

Special items and IPO- and takeover-related costs

Special items amounted to DKK 254 million, of which DKK 68 million was related to the IPO-retention programme and costs related to the takeover process. The remaining DKK 186 million in 2017 was mainly related to the transformation programme, including accruals for extensive refurbishment costs in Denmark.

Compared to last year, special items were DKK 352 million lower as 2016 was impacted by the IPO.

EBITDA

The improved operating performance together with lower special items resulted in an improvement of DKK 568 million, equivalent to an increase of 28.2% in EBITDA to DKK 2,581 million. Subsequently, the EBITDA margin improved by 610 basis point to 33.4%.

Depreciation and amortisation

In 2017, underlying depreciation and amortisation were DKK 436 million, up from DKK 416 million in 2016. The increase was driven by higher investments in recent years and the completion of development projects.

Amortisation of business combination amounted to DKK 644 million compared to DKK 654 million in 2016. Amortisation on intangibles recognised as part of the sale of the Nets Group to private equity funds in 2014 amounted to DKK 438 million in 2017.

Adjusted EBIT

Adjusted EBIT calculated as EBITDA b.s.i. minus underlying depreciation and amortisation was DKK 2,399 million, showing an improvement of DKK 196 million compared to 2016.

Net financials

Net financials was an expense of DKK 220 million, compared to an expense of DKK 1,639 million in 2016, which was impacted by the refinancing in connection with the IPO.

Net financial expenses amounted to DKK 218 million, compared to DKK 1,055 million in 2016. Financial expenses in 2017 were positively impacted by foreign exchange adjustments of DKK 115 million compared to a negative effect of DKK 147 million in 2016.

EBITDA b.s.i. grew by 8.2% to DKK 2,835 million, compared to DKK 2,619 million in 2016.

Adjusted net financials mainly representing the financing cost related to the net interest-bearing debt were DKK 333 million in 2017 compared to DKK 908 million in 2016. The reduction is a result of both lower leverage and significantly reduced average funding costs following the refinancing completed in connection with the IPO in September 2016.

Tax

In 2017, taxes amounted to an expense of DKK 63 million compared to an income of DKK 112 million in 2016 equivalent to an effective tax rate of 5% in 2017 (16% in 2016).

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

In 2016, the effective tax rate was positively influenced by the tax impact on Visa proceeds (mainly obtained due to a binding ruling in Finland on deductibility of pass through expenses) of 10%, negatively impacted by non-deductible IPO expenses of 9%, and tax losses derived from financing expenses until the IPO and refinancing of 7%. Adjusted for those items, the effective tax rate was 22%.

Net profit

Net profit in 2017 was DKK 1,218 million, which is DKK 1,802 million higher than in 2016. Net profit in 2016 was significantly impacted by special items and refinancing expenses totaling DKK 1,344 million.

Adjusted net profit was DKK 1,591 million in 2017, which is an increase of DKK 594 million or 60% compared to 2016.

Balance sheet and cash flow

Tangible and intangible assets

As at 31 December 2017, total assets amounted to DKK 30,247 million, compared to DKK 28,299 million at year-end 2016. Total non-current assets amounted to DKK 19,688 million compared to DKK 19,935 million at year-end 2016.

Total current assets amounted to DKK 10,559 million, compared to DKK 8,364 million at year-end 2016, an increase of DKK 2,195 million. Other financial assets at year-end 2017 consisted of deferred considerations related to the Visa Europe transaction. In 2016, shares in Visa Europe were converted into cash, preferred shares in Visa Inc. and deferred considerations, and in 2017, the remaining part of received cash has been 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.

Clearing working capital

As at 31 December 2017, clearing-related assets (clearing debtors) amounted to DKK 7,791 million and clearing-related liabilities amounted to DKK 8,393 million, leading to a clearing working capital (CWC) of minus DKK 602 million (positive funding), representing a reduction of DKK 56 million compared with CWC of minus DKK 658 million at the end of 2016, driven by day of month-end.

Equity

Total equity amounted to DKK 10,652 million compared to DKK 9,806 million at the beginning of the year. The increase was related to the positive net result partly offset by the buyback of shares totaling DKK 153 million, to cover the liabilities under the obligations under the long-term incentive programme and currency translation adjustments related to investments in foreign enterprises mainly in Norway.

Net interest-bearing debt

As at of 31 December 2017, net interest-bearing debt amounted to DKK 7,602 million, or 2.7x EBITDA b.s.i. compared to 3.2x end of 2016.

Net interest-bearing debt includes DKK 140 million of own cash, but excludes the deferred consideration of DKK 266 million, which is related to future earn-out payments in

relation to past acquisitions, since this amount is non-interest-bearing. The net interest-bearing debt to EBITDA b.s.i. ratio was 2.8x, if the deferred consideration is included.

Cash flow

In 2017, net cash flow from operating activities, excluding clearing working capital, was DKK 2,015 million which is DKK 2,701 million higher compared to 2016. In 2016, cash flow was significantly impacted by IPO-related interest payments, including the early settlement of the payment in kind of DKK 1,616 million and payment of taxes related to the Visa transaction of DKK 452 million.

Cash flow from investing activities amounted to DKK 1,124 million in 2017. Investments were impacted by the acquisition of OP's merchant acquiring business of DKK 176 million, and acquisitions of the remaining shares in EDIGard AS, Paytrail and DIBS, in total DKK 105 million, and payments to former shareholders in Nets related to the Visa transaction of DKK 166 million.

In 2016, cash flow from investing activities was positive by DKK 67 million in 2016, including net proceeds from the Visa transaction of DKK 783 million. Adjusted for Visa proceeds, cash flow from investing activities amounted to minus DKK 716 million in 2016.

In 2017, capital expenditure amounted to DKK 665 million compared to DKK 646 million in 2016, equivalent to a capital expenditure/net revenue ratio of 8.6% and 9.0% respectively. The higher ratio in 2016 was primarily driven by investments related to network segregation and the establishment of a third data centre in Norway which was initiated in 2016 and completed in 2017.

Net cash flow from financing activities in 2017, excluding clearing-related balances, was negative at DKK 1,535 million compared to negative at DKK 11 million in 2016. Key components in 2017 were the purchase of treasury shares of DKK 153 million and proceeds from the bond issuance amounting to DKK 2,974 million which was offset by the repayment of borrowings of net DKK 4,281 million.

Operating free cash flow in 2017 was DKK 1,728 million, up 21% compared to 2016. The improvement was primarily driven by higher EBITDA before special items.

Cash conversion ratio

The cash conversion ratio was 70% in 2017 compared to 78% in 2016, predominantly due to a negative movement in narrow working capital, predominantly related to increased prepayments (asset) and seasonality in trade and other payables.

Outlook 2018

In 2018, Nets expects a year with solid organic growth in revenue and increasing EBITDA before special items margins. Nets will continue to streamline operations and processes and invest in innovative solutions with an ambition to create value for our customers, partners and shareholders, and deliver on stability, security and integrity to build the future of Nets.

Events after the balance sheet date

On 24 January 2018, Nets announced that the Swedish Financial Supervisory Authority (FSA) has provided its consent to the ownership assessment application submitted by the Offeror pursuant to the Swedish Payment Services Act and the Swedish Electronic Funds Act. Following receipt of the Swedish FSA's consent, all regulatory approvals upon which the Offer was conditioned have now been obtained. On 2 February 2018, Nets announced that a final count of the number of acceptances from shareholders in Nets showed that Hellman & Friedman had received acceptances representing 188,109,435 shares corresponding to 94.1% of the entire share capital and voting rights in Nets (excluding treasury shares). Referring to the voluntary recommended public takeover offer to buy the entire share capital of Nets A/S announced 25 September 2017, all conditions, inter alia, customary merger clearance and regulatory approvals and offer acceptance from more than 90% of the share capital and voting right of Nets were completed as announced on 2 February 2018.

On 5 February 2018, Nets, upon request from Hellman & Friedman, submitted an application for removal from trading and official listing of the shares of Nets A/S from Nasdaq Copenhagen. The last day of trading and official listing of the shares in Nets A/S was 12 February 2018.

The acquisition of Nets A/S by Hellman & Friedmann will trigger the existing change of control clause under the IPO facilities which will result in the refinancing of the existing term loans and RCF. Further, the change of ownership combined with a rating downgrade, which have been indicated by the rating agencies, will give the option to bondholders to put the bond at a price of 101. New loan facilities have been secured to refinance the IPO facilities as well as the bond. The existing clearing working capital facilities will remain in place after the takeover.

As a result of the take-over, vesting under the retention programme established for members of the Executive Committee and certain other employees has accelerated. Further, vesting of the established Post-IPO Long term-Incentive-Programme (LTIP) for the Management and certain key employees has accelerated.

Total costs related to the take-over and delisting has been estimated in the range of DKK 225 million – 275 million, excluding any financial impact from refinancing.

Nets at a glance

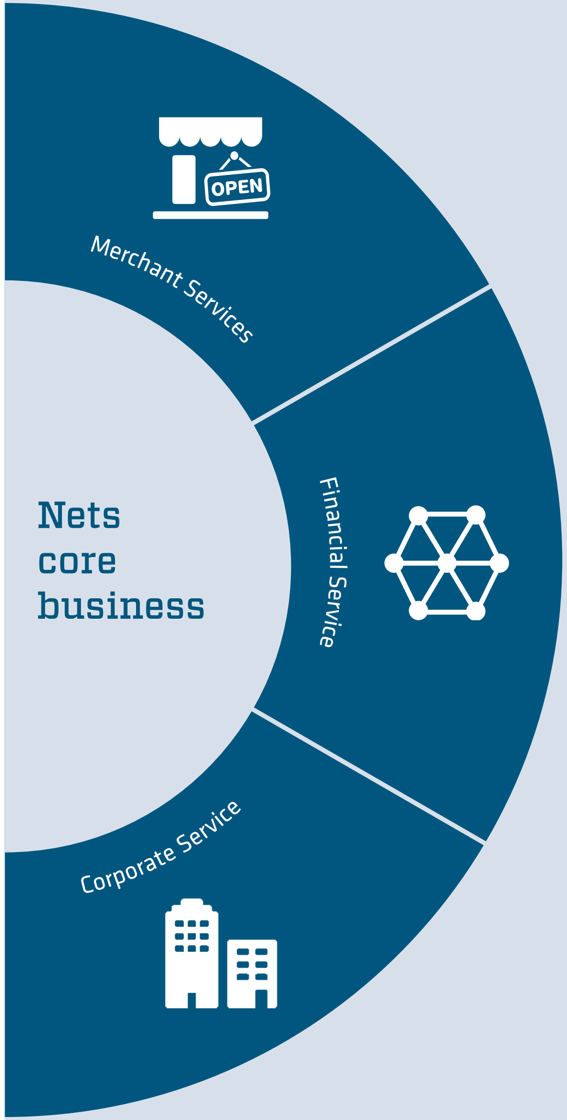
Our business model and strategy

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

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

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

Nets enables digital payments across all major channels – in person, online, and via a mobile device – and a large number of our services are used by the majority of consumers in Denmark and Norway, such as direct debit payments, card payments, digital authentication and invoice solutions. While we offer merchants acquiring solutions, point-of-sale terminals and e-commerce directly to the merchants, services delivered to corporates, such as direct debit and invoicing solutions, are offered in close co-operation with financial institutions. Other solutions, e.g. card payments and the national identity schemes NemID and BankID, are also offered in close co-operation with the financial institutions. In Denmark, we own some of our key services, such as Dankort and Betalingsservice, while we in Norway operate similar services, including invoice solutions, direct debit payments and BankAxept card payments, on behalf of and in close co-operation with our customers.



Stability

99.98%

Transaction value DKK

526

billion

8.8

million digital identities

All 2017 figures
*within issuing and acquiring

The 5% organic growth in 2017 was driven equally by a continued strong underlying growth in transaction volumes, and by the continued sale of value added services to our customers.

Business performance

Business performance

Merchant Services

Business performance

During the year, Merchant Services acquired approximately 2.0 billion card transactions from international branded cards with a value of transactions of around DKK 526 billion. Compared to 2016, the total value of processed transactions grew by 10.7%. Excluding the effect of the acquisition of OP's acquiring business, the growth in value of transactions was around 6.7%.

Revenue is primarily driven by fees related to the value of transaction and subscription fees for additional services

Financial performance

Gross revenue grew by 3.1% in 2017 compared to 2016, which reflects that Nets has adjusted prices on merchant acquiring following EU regulation lowering interchange fees.

Net revenue grew by 8.7% and amounted to DKK 2,519 million compared to DKK 2,317 million in 2016. The organic growth was 8%, primarily driven by increased value of transactions acquired and within e-commerce, and thus continued the momentum built in recent years.

Interchange fees and processing fees (incl. sales commission, network fees and handling fees) relative to gross revenue declined in 2017 compared to 2016, due to the changed regulation on interchange, partly offset by higher scheme fees.

In Norway, the interchange fees were lowered from September 2016 and subsequently continued to impact the organic growth positively in the first eight months of 2017, but had a negative effect on growth in the last four months of 2017. The underlying organic growth in net revenue would have been 1 percentage point higher if adjusted for effects from lower interchange fees and effect of increased scheme fees.

POS and related solutions were in line with last year driven by a continued push towards a higher proportion of rented terminals.

The difference between reported net revenue growth of 8.7% and organic growth of 8% was due to the completion of the acquisition of OP's merchant acquiring business and due to a negative development in NOK and SEK compared to DKK.

EBITDA before special items was DKK 943 million, equivalent to a margin of 37.4%, which is a strong improvement of 320 basis points compared to 2016. The growth in profitability is primarily driven by an increased top line supported by operating leverage.

DKKm	2017	2016	Change
Total transactions value (DKK bn)	526	475	10.7%
Revenue	2,519	2,317	8.7%
Organic growth	8%	13%	-
EBITDA b.s.i.	943	792	19.1%
EBITDA b.s.i. margin	37.4%	34.2%	+3.3 pp

Business performance

Financial & Network Services

Business performance

During the year, Financial & Network Services has seen a strong growth in processed transactions of 8.7% compared to 2016, driven especially by international branded cards. Growth was also seen on the two national debit card schemes in Denmark and Norway. Dankort had a 4.7% increase, while BankAxept transactions grew by 4.0%.

Revenue is primarily driven by a fee per transaction with monthly subscription fees for additional services.

Financial performance

In 2017, Financial & Network Services' net revenue amounted to DKK 2,313 million, up 1.8%. This corresponds to a 3% organic growth.

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

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

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

The successful acquisition of OP's merchant acquiring business in June 2017 which positively impacted Merchant Services meant that the previous acquire processing contract between OP and Financial & Network Services was terminated. This, together with a negative development in currencies, primarily NOK, resulted in a reported net revenue growth of 1.8% which corresponds to an organic growth of 3% in 2017.

EBITDA before special items was DKK 901 million, equivalent to a margin of 39.0% which is 30 basis points lower than in 2016. The margin contraction was primarily related to changes to the project portfolio leading to a lower proportion of consultancy spend being capitalised compared to 2016. The capitalisation last year was primarily related to mobile development projects. In addition, the reduced prices for Visa/Dankort transactions also impacted margin negatively.

DKKm	2017	2016	Change
Total transactions value (DKK bn)	5.7	5.2	8.7%
Revenue	2,313	2,273	1.8%
Organic growth	3%	10%	-
EBITDA b.s.i.	901	893	0.9%
EBITDA b.s.i. margin	39.0%	39.3%	(0.3) pp

Business performance

Corporate Services

Business performance
In the Nordics, bill payments are already highly digitised, yet 2017 demonstrated a strong growth in volumes within our e-bill payment solutions. The volume growth of 5.3% was related to both the Danish Betalingsservice and the Norwegian e-bill solutions, including AvtaleGiro and eFaktura.

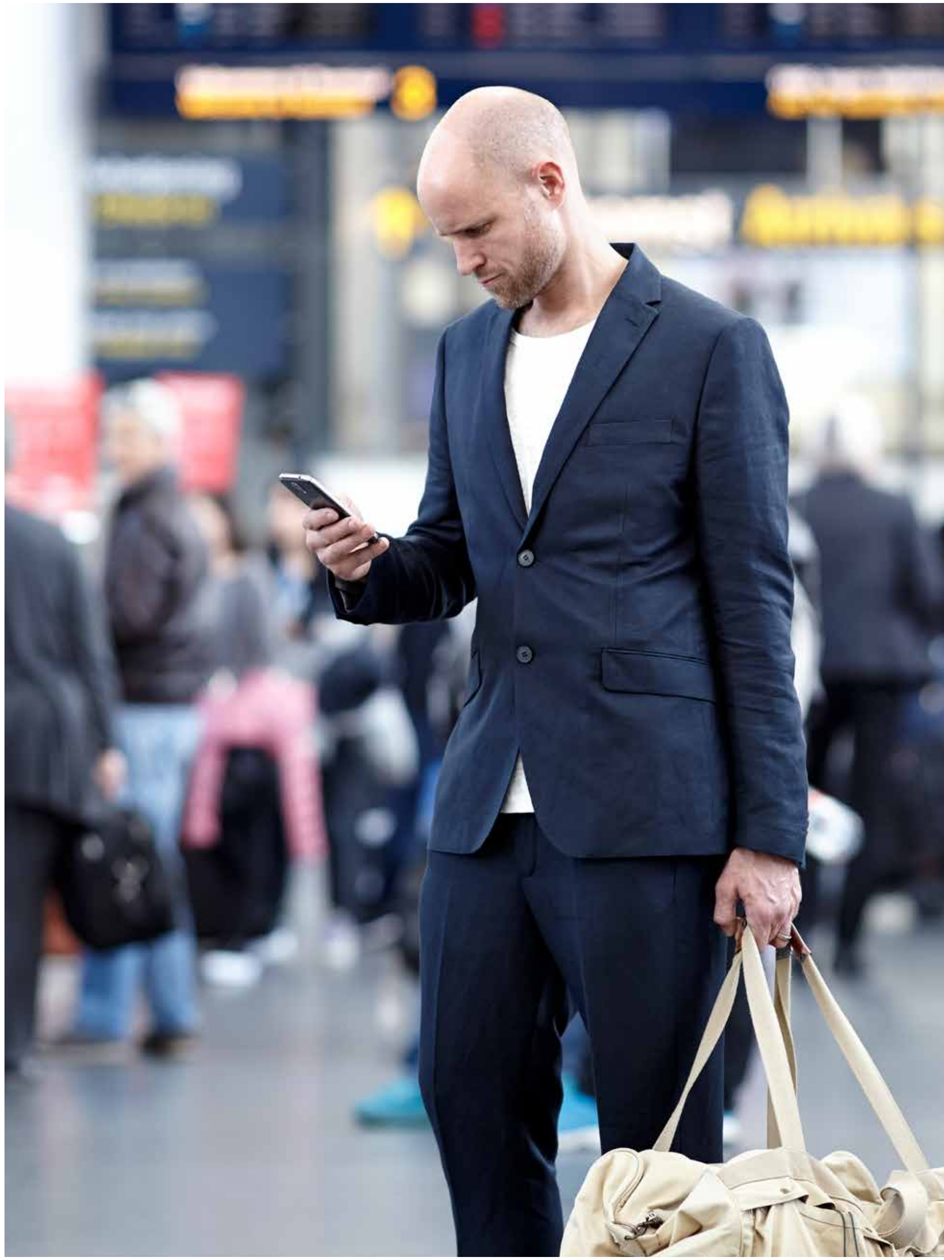
Revenue is primarily driven by a fee per transaction as well as monthly or annual fees.

Financial performance
In 2017, Corporate Services' revenue amounted to DKK 2,892, up 3.5% compared to 2016. This corresponds to strong organic growth of 4%, driven by an increase within our direct debit services but also supported by implementation revenue, primarily related to upgraded e-ID solutions, the final implementation related to instant clearing in Italy, and the implementation of instant clearing in Slovenia and clearing services to Norwegian banks.

As expected, the legacy paper-related business continues to decrease, which impacts growth negatively.

EBITDA before special items was DKK 991 million, equivalent to a margin of 34.3% which is an improvement of 90 basis points compared to 2016. The increase in margin was primarily due to the operating leverage and further digitisation of volumes.

DKKm	2017	2016	Change
Total transactions value (DKK bn)	0.92	0.87	5.3%
Revenue	2,892	2,795	3.4%
Organic growth	4%	2%	-
EBITDA b.s.i.	991	934	6.1%
EBITDA b.s.i. margin	34.3%	33.4%	+0.9 pp



Risk management

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

Risk Management

Risk management

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

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

This section describes Nets' key risks. Financial risks, including foreign exchange risks, interest rate risks and liquidity risks, and potential impact on operational profit elements and financial position are described in the Financial Statement, sections 2, 4 and 5.

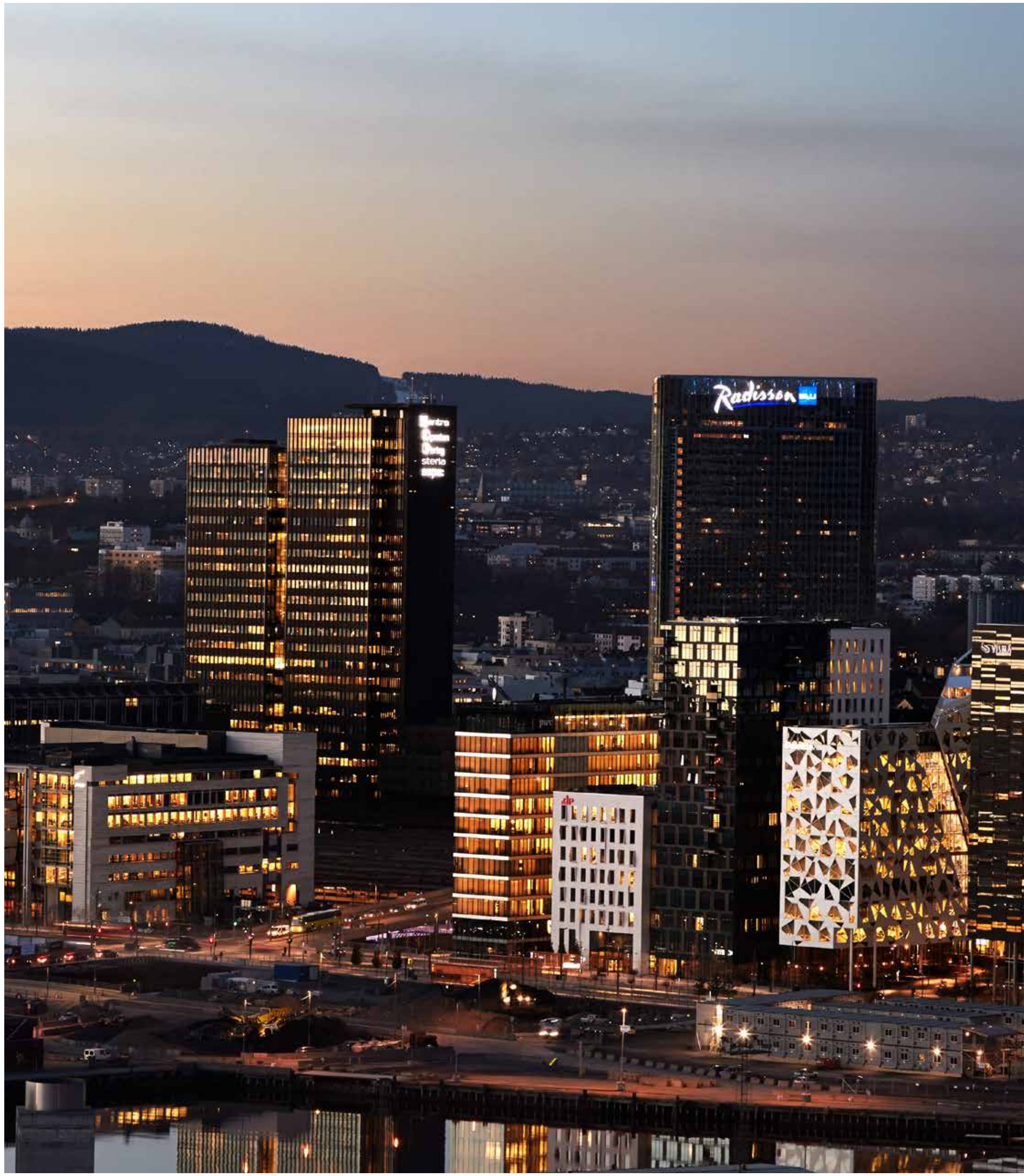
Risk Governance

The Board of Directors is responsible for the overall governance of Nets and oversees our risk landscape and approves strategies and policies within the areas of risk management, security, business continuity, merchant acquiring credit risk, treasury risk, anti-money laundering and competition law compliance[4].

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

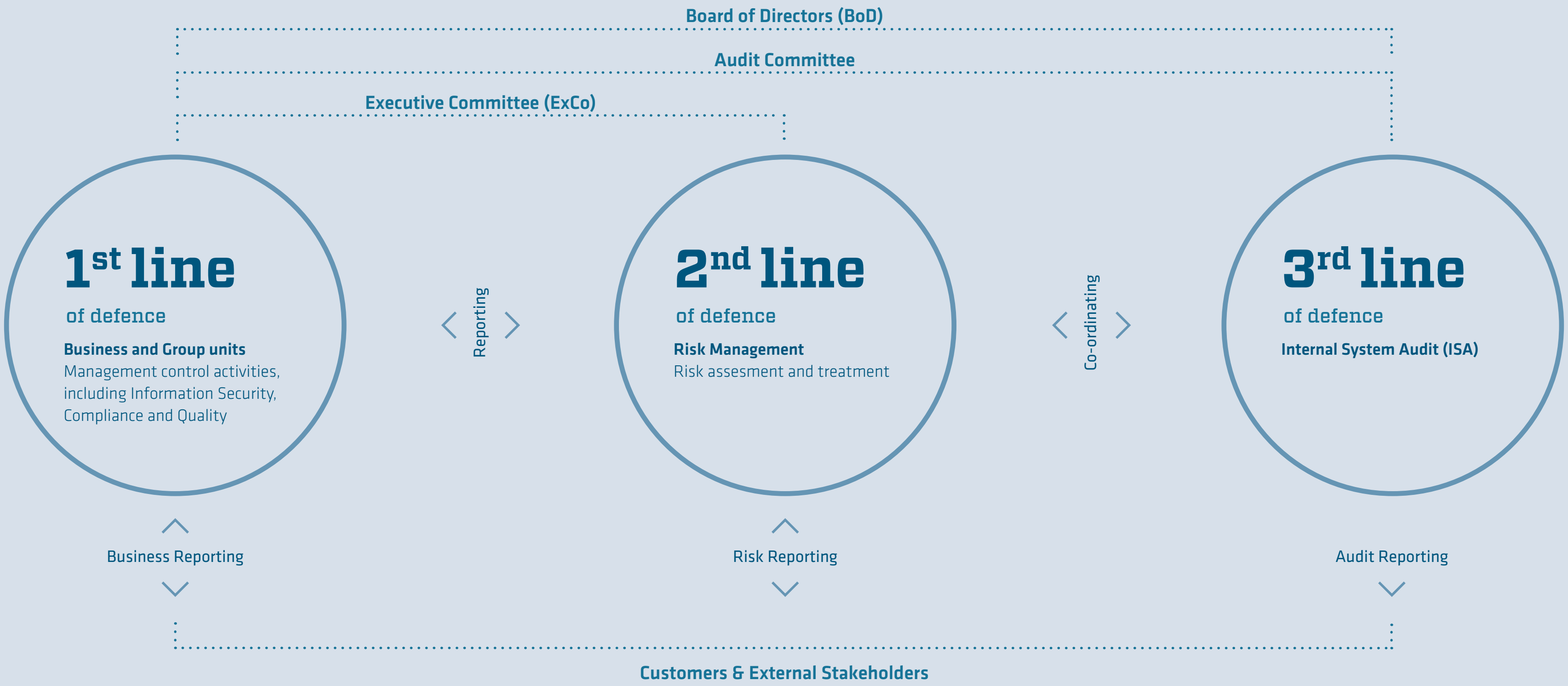
Risk Management facilitates the risk assessment process, provides domain expertise on selected risk areas and ensures that sufficient actions are taken to mitigate risk exposure. All assessments are performed in accordance with the requirements of the Risk Management Policy.

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



[4] The policy areas are not exhaustive

Governance model



First line
- Business segments and Group units

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

Second line
– Risk Management

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

Third line
– Independent assurance

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

Risk Management

Key risks

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

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

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

Industry & Market transformation

Description:

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

E-commerce, mobile commerce and digital products (e.g. app stores, streaming, in-app) are expected to drive much of the new growth as consumers, merchants and corporates expect transparent, digitised and readily available services. Increased competition could also result in an increased price pressure on services delivered by Nets.

Potential impact:

If Nets fails to adapt to new technologies and structural changes it may lead to loss of business. Failure to deliver would also have an impact on our reputation as a leading payments company in the Nordics.

New developments in 2017:

1. The launch of Easy, an e-commerce service offering one of the best checkout solutions in the market.
2. The launch and development of new mobile services such as the mobile Dankort.
3. Partnership with Shopbox, which services mainly SME markets with tablet-based ECR solutions.
4. Norwegian invoicing products made available in mobile channels such as Payr app and Facebook Messenger for Nordea.

Mitigants:

1. A merchant mobile strategy, including the development of an in-app solution.
2. Continue to make Nets' invoicing products available in new mobile channels with an aim to make the products available wherever the customer is.

Technology innovation

Description:

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

Potential impact:

These risks could challenge Nets' current business models and result in a loss of customers and market share

Selected actions in 2017:

1. Establishing Smart Payments, further extending the increased rate of innovation driven by the Digital Innovation Lab.
2. Implementing a new process and tool to identify, assess and monitor new and potentially disruptive technologies.
3. Strengthening the process and capabilities for building proofs of concept (PoC) and Minimum Viable Products (MVP) and hosting several internal hackathons to strengthen prototyping and concept development across the organisation.
4. Establishing partnerships with fintech companies such as MyMonii and becoming anchor partner with global fintech accelerator Plug and Play Tech Center (PnP), which provides an innovation platform that brings together start-ups, investors, and corporations.
5. A comprehensive User Experience strategy. This includes a build-up in capabilities and manpower to ensure that current and future services will be centred around customer needs and accelerated time to market.

Mitigants:

1. Continued investment in innovation through an increase in capabilities, new proofs of concepts, etc.
2. Continue to build partnerships with the best fintech companies.

Regulatory environment

Description (general):

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

GDPR

Description:

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

Potential impact:

If Nets is unable to demonstrate compliance with the GDPR requirements, or in the unlikely event of a data breach involving personal data, the result may be fines up to about DKK 148 million or up to 4% of the Group's annual global turnover, whichever is higher. Other impacts include potential class action lawsuits and a negative impact on Nets' reputation and corporate brand.

Selected actions in 2017:

1. Established an internal GDPR programme supervised by executive management to identify and assess any potential gaps and implement changes.
2. Mapping and assessment of all data flows involving personal data in order to meet the new demands in the regulation and in order for Nets' customers to be able to document accountability themselves.
3. Data privacy impact assessment of critical services and procedures documenting and assessing personal data risks, and identifying mitigations.
4. Update of data processor agreement standards towards customers and vendors.
5. Controlled communication towards banks and large merchants to increase external trust and minimise external requirements towards Nets.
6. Awareness training of employees and managers and introduction of Privacy Champions throughout the business.

Mitigants:

1. The GDPR programme will continue to drive the implementation of changes in personal data flows to comply with the new requirements on both a process and technical level, including design and documentation standards for Nets services.
2. Establish a permanent governance structure to ensure continuous compliance after the GDPR programme is finalised, linked to Nets' enterprise risk management process.
3. Nets will issue an ISAE 3000 assurance report type 1 covering the design and implementation of the general personal data protection controls established in Nets to ensure GDPR compliance.

PSD2

Description:

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

Potential impact:

The new financial infrastructure based on PSD2 may result in pressure on some of the traditional products, but it will also open up new opportunities for Nets.

Selected actions in 2017:

1. During 2017, our PSD2 programme has been developing a PSD2-compliant access-to-account platform (Nets Account Access Service).
2. A pilot of the platform was launched in close collaboration with customers.

Mitigants:

1. A commercial launch of the Nets Account Access Services platform (NAAS), where account access services and a distribution network will help to differentiate customer offerings. Our goal is to simplify connectivity between the players in an Open Banking ecosystem through the platform.
2. A new account-to-account (A2A)-based supporting service for Account Servicing Payment Service Providers (ASPSP) for fraud & dispute service.
3. Establish new partnerships and alliances to best position Nets for PSD2, increasing the reach of the NAAS platform and widening the scope from basic PSD2 access to commercial service distribution.

Information security

Description:

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

Potential impact:

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

Selected actions in 2017:

1. Established an operational threat intelligence capacity with dedicated internal resources and a strong co-operation with external parties and agencies.
2. A large security culture and awareness campaign towards all employees and contractors. This includes regular Nano learnings within selected security areas, such as Phishing, malware, etc.
3. Maintained Nets' PCI DSS compliance.
4. A new vendor security governance model was implemented, and security assessment completed for all major hosting providers and development centres.

Mitigants

1. Next-level security analytics based on additional data sources, incl. user behaviour analytics and machine learning.
2. Further automation and consolidation of access roles for all users such as the clean-up of business roles (Identity and Access Management) and the establishment of an Enterprise Password Vault solution.

Stability and operations

Descriptions:

Today, Nets operates several services critical to the national financial infrastructures in the Nordic countries, such as domestic debit card schemes, clearing systems, e-identity schemes and payment platforms. As these systems are critical for our customers, government organisations and authorities, stability has a high priority at Nets. Potential risk causes include insufficient application deployment and testing, change implementation issues and errors and Distributed Denial of Service (DDoS) attacks.

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 may also suffer reputational damage in case of a prolonged or repeated downtime incident.

Selected actions in 2017:

1. A new data centre in Norway established to mitigate current proximity risk and refresh infrastructure hardware.
2. Two new data centres in Denmark established to insource parts of the infrastructure from our Danish IT vendor.
3. New network infrastructure implemented, including network segregation.
4. A Technical Design Authority (TDA) has been established to ensure designs are robust and aligned with the Enterprise Architecture (EA) principles, security requirements and operations standards, and to guide projects and the line organisation.

Mitigants:

1. Strengthening Nets' infrastructure through migration to new data centres in Norway and Denmark during 2018.
2. Further improve our operational monitoring capabilities of IT Services and infrastructure.
3. Implement a centralised service model for IT Services and supporting infrastructure.
4. Further improve our operational monitoring capabilities of IT Services and infrastructure.

Merchant acquiring risk management

A) Fraud risk

Description:

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

Potential impact:

Fraudulent activities may result in both fines and high chargebacks. Fraud gets high attention in the press and may result in reputational damage.

Selected actions in 2017:

1. Strong focus on Merchant risk exposure.
2. Introduction of new fraud prevention technology in all major geographies.

Mitigants:

1. Improved screening and fraud detection monitoring systems.

B) Merchant 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 (risk) for goods or services that are prepaid to the merchant by the cardholder (i.e. the merchant first charges the cardholder and only later delivers the product/service). If the merchant is not able or willing to deliver the prepaid goods or services, the amount paid will be charged-back from Nets by the card issuer. Nets will then rightly claim a refund from the merchant, but if the merchant is insolvent/bankrupt, the loss will be on Nets.

Impact:

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

Selected actions in 2017:

1. New merchant credit risk policy
2. New merchant credit risk insurance programme to improve coverage of the most significant credit risk exposures

Mitigants:

1. Improved risk assessment for new merchants, and monitoring of existing merchants

Corporate Social Responsibility (CSR)

The following statutory assessment of CSR-related risks pertaining to our business model, cf. sections 99a and 99b of the Danish Financial Statements Act, comprises risks that are not considered to be among our top risks. A description of our business model can be found on page 16.

Description:

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

Nets has decided to base its specific corporate responsibility activities on (1) human and labour rights, including diversity, (2) supply chain management, (3) climate and environmental impact, (4) community involvement, (5) anti-corruption and bribery, and (6) social and staff matters. Each of these areas are closely followed up by management in Nets.

Potential impact:

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

Selected actions in 2017:

1. Updated the Human Resource part of Nets' security framework.

Mitigants:

1. Strong commitment from BoD and Executive Management through CSR policy and ethical guidelines
2. Continuous focus on security awareness training (all new employees take Nano-learning lessons covering central security aspects)
3. Developed new performance management programme, ImpACT (Increase growth, Motivation performance, ACT). ImpAct will be formally introduced in 2018.
4. Risk-resilient products and services to avoid security breaches and protect consumer and customer data
5. A Supplier Code that specifies our requirements towards our suppliers and other business partners to any part of the Nets Group
6. A whistleblower policy (https://nets.whistleblowernetwork.net/About/TermsAndConditions.aspx)

Nets has a whistleblower channel that ensures confidential access to the Board of Directors. The investigation of the reported incidents is performed by the Audit Committee and the external law firm LIND.

https://nets.whistleblowernetwork.net/WebPages/Public/FrontPages/Default.aspx

The management of Nets comprises the Board of Directors and the Executive Management.

Governance

Governance

Corporate governance

Management structure

The management of Nets is comprised of the Board of Directors and the Executive Management. The division of responsibility between the Board of Directors and the Executive Management is set out in the applicable rules of procedure.

The members of the Board of Directors are elected by the shareholders at general meetings. The Board of Directors decides on the overall visions, strategies and objectives for the development of the Nets Group's business.

The Executive Management, consisting of the CEO and CFO, is responsible for the day-to-day management of the Nets Group, including the implementation and execution of the strategies and objectives laid out by the Board of Directors.

For information of remuneration and economic ownership of Nets A/S by the Executive Management and the Board of Directors, we refer to note 6.2 in the Financial statements.

Board of Directors and Executive Management

The Board of Directors of Nets A/S consists of six members elected by the general meeting and three employee representatives. 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 composition of the Board of Directors is intended to ensure that the Board of Directors has a diverse competency profile enabling the Board of Directors to perform its duties in the best possible manner. Four of the six members of the Board of Directors elected by the general meeting are considered independent under the 'Recommendations on Corporate Governance' (please see below for further information on the 'Recommendations on Corporate Governance'). James Brocklebank and Robin Marshall, representatives of Advent and Bain Capital, respectively, are not considered independent.

During 2017, the Board of Directors conducted an evaluation of the effectiveness, performance, achievements and competencies of the Board of Directors, including an evaluation of the performance of the individual members of the Board of Directors as well as the collaboration with the Executive Management.

Board Committees

In order to support the Board of Directors and advise it on its responsibilities to shareholders, employees and other company stakeholders, the following three board committees have been established: Audit Committee, Remuneration Committee and Nomination Committee.

The committees perform preparatory tasks and make recommendations to the Board of Directors, but the final decisions are made by the Board of Directors. The main tasks, responsibilities and duties of each committee are set out in a separate charter for each committee. Each charter is reviewed, and, if deemed appropriate, updated, and approved annually by the Board of Directors.

The committee members, including the chairmen, are appointed by the Board of Directors amongst the members of the Board of Directors. All members of the committees are independent, and the committees therefore meet the independence requirement set out in the 'Recommendations on Corporate Governance' (please see below under 'Recommendations on Corporate Governance' for further information).

Audit Committee

The Audit Committee consists of three members of the Board of Directors, Monica Caneman (chairman), Jeff Gravenhorst and Per-Kristian Halvorsen. Its purpose is to review accounting and audit matters and assess the internal control and risk management system of the Nets Group. The Audit Committee's duties also include the supervision of the Nets Group's external auditors and review of the audit process as well as the supervision of the Nets Group's internal systems audit.

The Audit Committee meets at least four times a year.

Remuneration Committee

The Remuneration Committee consists of three members of the Board of Directors, Inge K. Hansen (chairman), Monica Caneman and Per-Kristian Halvorsen. Its purpose is to ensure that Nets maintains a remuneration policy for the members of the Board of Directors and the Executive Management, including incentive guidelines, and to evaluate and make recommendations for the remuneration of the members of the Board of Directors and the Executive Management.

The remuneration of both the Board of Directors and the Executive Management shall contribute to the creation of value and support both the short- and long-term objectives of Nets. The remuneration of the Board of Directors and the Executive Management is assessed annually.

The Remuneration Committee meets at least four times a year.

Nomination Committee

The Nomination Committee consists of three members of the Board of Directors, Inge K. Hansen (chairman), Monica Caneman and Per-Kristian Halvorsen. Its purpose is to assist the Board of Directors in ensuring that appropriate plans and processes are in place for the nomination of candidates to the Board of Directors, the Executive Management and the board committees.

Moreover, the Nomination Committee shall evaluate the composition of the Board of Directors and the Executive Management. This includes making recommendations for the nomination or appointment of members of (a) the Board of Directors, (b) the Executive Management and (c) the board committees established by the Board of Directors.

The Nomination Committee shall also monitor the composition of the management in the Nets Group's subsidiaries and ensure that proposed members of management in subsidiaries, where management is subject to statutory "fit and proper" requirements, are appointed in accordance herewith.

The Nomination Committee meets at least once a year.

1 Corporate Governance Guidelines

The corporate governance guidelines provide the overall direction for the Board of Directors and Executive Management when defining their working procedures and principles as well as contributing to ensuring reliable information, transparency and insight for stakeholders into Nets' business.

Recommendations on Corporate Governance

As a listed company on 31 December 2017, Nets observes the 'Recommendations on Corporate Governance' (issued in May 2013 and updated in November 2014) implemented by Nasdaq Copenhagen in its 'Rules for issuers of shares'. The 'Recommendations on Corporate Governance' contain 47 recommendations and are based on the comply-or-explain principle, which makes it legitimate for a company to explain why it does not comply with them. Nets fully complies with 45 of the 47 recommendations, and therefore complies with the 'Recommendations on Corporate Governance' in all material respects. Nets has opted not to comply with the recommendation that if share-based remuneration is provided, such programmes be established as roll-over programmes (recommendation no. 4.1.4 of the 'Recommendations on Corporate Governance').

The background for not complying with this recommendation is that Nets has implemented a share-based retention programme for the Executive Management and certain other employees, where the participant may be granted Nets shares 720 days after the Admission (the "Vesting Period") for an amount equal to 24 months' base salary (based on the salary in the last calendar month prior to Admission), provided, among other things, that the participant in question has retained a specific minimum holding of Nets shares at the end of the Vesting Period. Accordingly, the shares capable of vesting under the retention programme may be awarded earlier than three years after the programme was introduced. The retention programme has been established as a one-time programme with a view to bridging the intermediate period between the initial public offering and the first three-year vesting period under Nets' long-term incentive programme. Further, information about remuneration on an individual basis does not, in our opinion, serve any objective purpose. For this reason, Nets has decided to not comply with the recommendation to provide information on an individual level.

As a result of the take-over vesting under the retention programme established for members of the Executive Committee and certain other employees has accelerated. Further, vesting of the established Post-IPO Long term-Incentive-Programme (LTIP) for the Management and certain key employees has accelerated.

Please refer to Note 6.3 'Share-based payment' for a description of the programmes.

2 Report

The Danish Financial Statements Act Section 107b requires that a statement on corporate governance for the financial year is prepared. This statement forms part of the Management's Review and can be viewed at: https://investor.nets.eu/corporate-governance

Governance

The Board of Directors

Inge K. Hansen
Chairman

Born 1946
Male
Norwegian nationality
Independent
Member since 2014

Chairman of the Remuneration Committee and Nomination Committee

Special competences
Extensive experience within management of larger companies and from the capital market.

Other management duties
Inge K. Hansen is chairman of the board of directors of Gjensidige Forsikring ASA, Arctic Securities AS, Troms Kraft AS, Point Resources AS, Hotell- og Restauranthuset Continental AS and Sissener AS as well as a member of the board of directors of Fram Museum.

Previous positions
Inge K. Hansen has previously been the chairman of the board of directors of Harding AS, Core Energy AS, Aerospace Industrial Maintenance Norway SF, Bertel O. Steen AS (as well as acting chief executive officer thereof), Leonhard Nilsen & Sonner AS, Skiskytter VM 2016 AS and NorSun AS and deputy chairman of the board of directors of Norsk Hydro ASA as well as a member of the board of directors of Johan G. Olsen AS, Jiffy International AS and Master Marine AS.

Educational background
Inge K. Hansen holds a degree in Economics and Business Administration (Siviløkonom) from the Norwegian School of Economics and Business Administration (NHH).

Jeff Gravenhorst
Vice Chairman

Born 1962
Male
Danish nationality
Independent
Member since 2016

Member of the Audit Committee

Special competences
Broad global experience spanning executive management, senior finance and operational roles, including leading an organisation with 500,000 employees. Diversified board experience.

Other management duties
Jeff Gravenhorst is Group CEO of ISS A/S and the chairman of two of its subsidiaries. Jeff Gravenhorst is also chairman of the board of directors of Rambøll Gruppen A/S, and a member of the Confederation of Danish Industry's (DI) Permanent Committee on Business Policies.

Previous positions
Jeff Gravenhorst has previously been the deputy chairman of the board of directors of Rambøll Gruppen A/S and a member of the board of directors of Danish Crown A/S and Leverandørselskabet Danish Crown AMBA, a member of the board of directors of Statsautoriseret revisor Ove Haugsted og Hustru Lissi Haugsteds Familiefond (being dissolved), as well as a member of executive management and boards of directors in various ISS Group companies.

Educational background
Jeff Gravenhorst holds a BSc in Business Administration and an MSc in Business Administration and Auditing, both from the Copenhagen Business School.

James Brocklebank
Board Member

Born 1970
Male
British nationality
Not independent
Member since 2014

Special competences
James Brocklebank has over twenty years' experience as a private equity investor in business and financial services, particularly technology-enabled services. He has extensive experience in payments.

Other management duties
James Brocklebank joined Advent in 1997 and is co-head of Advent in Europe and co-chairs the firm's global Executive Committee. He co-chairs the European Investment Advisory Committee and is responsible for the European business and financial services sector team. James Brocklebank led Advent's investments in Nets, Worldpay and Equiniti, among others, and has participated in several other investments across Europe, including in Denmark. James Brocklebank is also a member of the board of directors of Williams Lea Tag, V.Group, Nexi (formerly known as ICBPI) and Advent International plc.

Previous positions
James Brocklebank has, among others, previously been a member of the board of directors of Worldpay Group plc and Equiniti Group plc, and various companies affiliated with each of them.

Educational background
James Brocklebank holds an MA degree from Cambridge University.

Governance

The Board of Directors

Monica Caneman
Board Member

Born 1954
Female
Swedish nationality
Independent
Member since 2016

Chairman of the Audit Committee, Member of the Remuneration Committee and Nomination Committee

Special competences
Deep understanding of banking, card and payment operations.

Other management duties
Monica Caneman is also the chairman of the board of directors of Bravida Holding AB as well as a member of the board of directors of Com Hem Holding AB and SAS AB.

Previous positions
Monica Caneman has previously been the chairman of the board of directors of VIVA Media AB, VIVA Media Group AB, Frösunda Omsorg AB, Allenex AB, SOS International AS, BIG BAG Group AB and Arion Bank hf as well as a member of the board of directors of Intermail A/S, mySafety AB, Schibsted Sverige AB, Storebrand ASA, Poolia AB, Schibsted ASA, Electronic Transaction Group Nordic AB, Electronic Transaction Group Nordic Holding AB, Investment AB Öresund, SPP Livförsäkring AB and SPP Pension & Försäkring AB. In addition, Monica Caneman has been the chairman of AP4 (The Fourth Swedish National Pension Fund).

Educational background
Monica Caneman holds a bachelor degree in Business Administration from the Stockholm School of Economics.

Per-Kristian Halvorsen
Board Member

Born 1951
Male
Norwegian nationality
Independent
Member since 2015

Member of the Audit Committee, Remuneration Committee and Nomination Committee

Special competences
Per-Kristian Halvorsen has extensive knowledge of technology having had a long career at leading technology centres such as MIT, the Xerox Palo Alto Research Center (PARC) and HP Laboratories. He is experienced in implementing system-level change to improve innovation capacity, having led the innovation and transformational change organisation at Intuit, a company widely recognised for its innovation capabilities. His work to establish research centres for both Xerox Corp. and HP in Europe, India and China has given him an international perspective on technology change.

Other management duties
Per-Kristian Halvorsen is also senior vice president and senior fellow of Intuit Corp. as well as a member of the board of directors of Iron Mountain Inc.

Previous positions
Per-Kristian Halvorsen has previously been chief innovation officer (and prior to that chief technology officer) of Intuit Corp. as well as a member of the board of directors of Autodesk Inc. and finn.no AS and Symantec Corp.

Educational background
Per-Kristian Halvorsen pursued undergraduate studies at Oslo University and holds a master and a Ph.D. in Linguistics from the University of Texas at Austin.

Robin Marshall
Board Member

Born 1970
Male
British nationality
Not independent
Member since 2014

Special competences
Executive experience within private equity.

Other management duties
Robin Marshall joined Bain Capital in 2009 and is Co-Head of Bain Capital in Europe. Robin led Bain Capital's investments in Nets, Worldpay, ICBPI, Securitas Direct and Concardis, amongst several others. In addition to Nets, he is currently a member of the board of directors of Nexi (formerly known as ICBPI), Concardis and MKM and is a member of the partnership Bain Capital Private Equity (Europe) LLP.

Previous positions
Robin Marshall has previously been a member of the board of directors of Worldpay Group plc, Ship Investors S.à r.l., Ship Luxco Holding S.à r.l., Ship Holdco Limited, Ship Midco Limited, NAGA UK Bidco Limited, NAGA UK Topco Limited, NAGA 1 (BC) S.à r.l., NAGA 2 (BC) S.à r.l., Bain Capital Ship S.à r.l. and Verisure Topholding AB and Quintiles.

Educational background
Robin Marshall holds an MA degree from the University of Glasgow.

Governance

The Board of Directors

Ove Kolstad
Employee Representative

(Born 1958)
Team manager, Operational Support Systems, Nets Branch Norway
Joined the Board in 2017
Term expires 2020
(every four years)

Frank A. Olsen
Employee Representative

(Born 1960)
Chief Shop Steward, Nets Danmark A/S
Joined the board in 2017
Term expires 2020
(every four years)

Ulrik R. Thomsen
Employee Representative

(Born 1965)
Technical Consultant, Shop Steward, Nets Danmark A/S
Joined the board in 2017
Term expires 2020
(every four years)

Governance

Executive Committee

Bo Nilsson

CEO*

(Born 1965)
Bo Nilsson joined Nets as CFO in May 2013, and was appointed CEO in August 2014.

Klaus Pedersen

CFO*

(Born 1967)
Klaus Pedersen joined Nets in 2015 as CFO.

Thomas Jul

Executive Vice President, Financial & Network Services - and Country Manager for Nets in Denmark

(Born 1967)
Thomas Jul joined Nets in 2017.

Asger Hattel

Executive Vice President, Merchant Services*

(Born 1971)
Asger Hattel joined Nets 2015.

Frode Åsheim

Executive Vice President, Corporate Services and Sector & Government - and Country Manager for Nets in Norway*

(Born 1978)
Frode Åsheim joined Nets in 2006.

Pia Jørgensen

Executive Vice President, Technology

(Born 1964)
Pia Jørgensen joined Nets in 2014.

Niels Mortensen

Executive Vice President, Customer Services

(Born 1965)
Niels Mortensen joined Nets in 2015.

Thomas Kolber

Executive Vice President, HR

(Born 1971)
Thomas Kolber joined Nets in 2017.

* Management and board duties in a number of companies within the Nets Group.

Governance

Corporate Social Resposibility

This statutory statement on corporate responsibility, cf. sections 99a and 99b of the Danish Financial Statements Act, forms part of the Management's Review in our 2017 annual report and covers the financial period 1 January – 31 December 2017.

Our products and services are integrated parts of the daily lives of the majority of the Nordic population, not least in Denmark and Norway, and to our customers and end-users, we provide a frictionless payment experience, a.o., while the reality behind this seemingly simple exchange of services is a complex web of processes initiated by a digital transaction such as a payment, an authentication or a digital login. Due to our presence throughout the Nordic payments ecosystem and through our services within digital identity and information services, we have a central role in the digitisation of the Nordic societies and the appertaining need for security and stability that is fundamental for the payments infrastructure.

We strive to support and power the digitalisation of the Nordic societies through the application of our core competences. We recognise and respect the social and environmental impact we have on each of the communities in which we operate, and we work continuously to earn the trust of our many stakeholders and the general public, aiming to make corporate responsibility an integral part of the daily running of our business.

Conducting our business in a responsible manner

Our corporate responsibility approach is based on the ten principles set out in the UN Global Compact and consists of the following themes:

A **Human rights**

B **Climate and environment**

C **Workplace responsibility**

D **Anti-corruption and bribery**

E **Community involvement**

F **Equal opportunities for both women and men***

* cf. section 99b of the Danish Financial Statements Act on the underrepresented gender.

We adhere to and respect the principles of the UN Global Compact and the UN Sustainable Development Goals but are currently not a member. During 2017, we revisited our CSR approach, and in 2018 we will build a new corporate responsibility framework with the ambition to work more strategically within the area in the years to come.

Our corporate responsibility approach is based on a foundation of ethical guidelines that are mandatory to comply with for all our employees. The ethical guidelines are publicly available on our website. We are very conscious of our obligation to act diligently in every way and therefore carefully review, assess and conduct our business and recruitment of employees.

For corporate social responsibility-related risks pertaining to our business model, please refer to Risk Management, on p. 22. Our business model is described on p. 16.

A

Human rights

Policies

Our approach to human rights is firmly based in our three core values Accountable, Customer Driven and Together (ACT), and our ethical guidelines. Our Policy on Human and Labour Rights is guided by the United Nations' Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. The policy covers key issues of importance to Nets and our employees. Our policy on Human and Labour Rights applies to all wholly-owned subsidiaries and all employees in those companies.

As a Nordic employer operating in a highly regulated private sector labour market, we naturally comply with the rules and regulations of the countries in which we operate. We respect the rights of all workers to form and join a trade union of their choice without any fear of intimidation or reprisal, in accordance with national law. In Denmark, Norway, Finland and Sweden, we co-operate with different employers' organisations and trade unions. Employees are covered by collective agreements in the respective countries.

Our Policy on Human and Labour Rights covers items such as non-discrimination, forced compulsory labour, the freedom of association and the right to collective bargaining as well as harassment and minimum wage and working hours, many of which are also covered in our Ethical Guidelines. For our Diversity Policy, please refer to section f) under the heading: 'Equal opportunities for both women and men', cf. section 99b of the Danish Financial Statements Act on the underrepresented gender. In addition to these and national legislation, our HR Handbook includes local language items such as a Dignity Policy.

We recognise a diverse workforce as a prerequisite for a sound and sustainable company, able to tap into the entire talent pool. We aspire to be an attractive workplace for all current and future employees, and we aim to offer employment on an equal basis, ensuring that all our colleagues have equal opportunities for furthering their careers and securing management roles in the company, regardless of their national or ethnic origin, disability, age, gender, sexual orientation, or religion/belief.

Operating in an international context, we are fully committed to complying with legislation and recognised international business standards that apply to our field of work. Moreover, we consider it our responsibility to ensure sound business practices throughout our value chain. In the light of that commitment, we have a Supplier Code that carves out our requirements towards our suppliers and other business partners for any part of Nets.

Actions

With regards to our employees, we follow national legislation and our Ethical Guidelines concerning anti-discrimination and anti-harassment, and received no complaints within these areas in 2017.

We will be launching an automatic gender bias screening feature in our recruitment system, which will help to ensure that we are gender neutral in future job adds. This will be in place by Q1 2018.

Our Supplier Code is included in all agreements between suppliers and us, and in cases where specific issues arise that require documentation, we work closely with our suppliers to handle these. When initiating discussions with potential suppliers and subcontractors, we are focused on their past track records, production facilities, working environment, use of materials, etc. Compliance with our Supplier Code is a prerequisite for initiating or continuing a business relationship with us, and we select suppliers not only based on economic criteria and the ability to deliver the required services in a professional manner, but also on the ability to meet the principles of our Supplier Code.

Results

At year-end, we employed eleven different nationalities, which is two more than at year-end in 2016. Our ambition is to access the global talent pool within areas such as information technology and software development and thus also attract non-locals going forward.

In terms of supply chain management, we have a list of preferred suppliers with whom we have close business relationships. The list is divided into several categories such as human resources, marketing, travel, professional services, hardware, network and telecoms and terminals.

B

Climate and environment

Policies

We aim to run our operations in an environmentally conscious way. We support a preventative approach to environmental challenges and we are committed to being an environmentally conscious service provider and business partner, working strategically and systematically based on international good practice towards minimising our environmental impact at every level of our organisation.

The Nets Group Environmental Policy is available on our Group intranet and on nets.eu

Actions

Overall, we continuously work to improve our processes for the registration of consumption, non-conformities and suggestions for improvements, both locally and globally.

In 2017, we continued to raise awareness of our environmental policy throughout the organisation, and encouraged our employees to recycle waste, reduce paper consumption , and to save electricity, a.o., by setting up signs and posters regarding energy, waste and paper usage on strategic places in our locations.

In 2017, we decided to discontinue our environmental ISO 14001 certification for efficiency purposes. We remain, however, equally committed to furthering our goal of reducing our environmental impact which means that we will continue to adhere to high standards in our processes and work flows.

Going forward, we shall keep regular contact between our locations and inspire one another to think environmentally friendly. We will continue to keep a global track of our consumption in order to compare and analyse differences between the locations.

Results

Our environmental focus areas and targets for 2012 – 2020 are:

Reducing CO2 emissions from travel between locations by 50%

We implemented changes to our travel policies in the latter part of 2017 which has significantly impacted our CO2 emissions as we have saved 3,302 tonnes during the year. This means that we have reached our 2020 goal of reducing CO2 emission from travel between locations by 50%.

2015	2016	2017
2,584 tonnes CO_2 saved - a 57% decrease compared to 2014	2,917 tonnes CO_2 saved - a 13% decrease compared to 2015	3,302 tonnes CO_2 saved – a 13% decrease compared to 2016

In 2018, we will continue our work to reduce CO2 emissions, and we will update our ambitions within the area.

Reducing energy consumption for building operations by 15%

In 2017, we experienced an increase in energy consumption of 3% compared to 2016 due to increased activity and more employees at several of our locations. Furthermore, we have carried out a number of large upgrades of technical systems, which requires substantial energy consumption.

Nevertheless, our overall energy consumption is down 5.5% from our 2014 baseline, but we need to continuously ensure high awareness among employees in order the adjust to the activity level. Additionally, we consider setting new baseline targets in 2018 that take fluctuation in activity levels into account, for example by measuring consumption according to the average number of employees during the year.

2015	2016	2017
Energy consumption reduced by 7% compared to 2014	Energy consumption reduced by 1% compared to 2015	Energy consumption increased by 3% compared to 2016

Reducing quantity of waste and ensuring improved recycling

Regarding unsorted waste, we have had an increase of 17% compared to 2016 which is a consequence of increased activity and additional employees at some of our locations. Furthermore, several of our locations have conducted larger clean-ups from storages this year, which causes more waste than anticipated.

In 2018, we will continue our work on reducing quantities of waste and on improving our sorting and recycling procedures.

2015	2016	2017
Total unsorted waste in 2015 was 166 tonnes	Total unsorted waste in 2016 was 176 tonnes	Total unsorted waste in 2017 was 207 tonnes

Reducing usage of paper for internal print by 15%

We have continued with the follow-me-printing system that was implemented in 2016 and have through posters and signs encouraged our employees to reduce their paper consumption. As a result, we have reduced our paper consumption by 24% in 2017 compared to 2016. We have reached our 2020 target of reducing paper for internal use by 15%, and will in 2018 update our ambitions as we have, in fact, decreased our paper consumption by 62% compared to our 2014 baseline.

In 2018, we will continue to reduce paper usage going forward, map our paper consumption and work on assessing and changing existing processes into paperless processes, promoting electronic archiving and minimising printing through awareness campaigns.

2015	2016	2017
Paper consumption in 2015: 5.7m sheets A reduction by 20% compared to 2014.	Paper consumption in 2016: 3.3m sheets A reduction by 42% compared to 2015	Paper consumption in 2017: 2.5m sheets A reduction by 24% compared to 2016

C

Workplace responsibility

Policies

Our performance is driven by the advanced skills and competencies, dedication and passion of our employees. We are committed to providing the best possible conditions for our people to develop, thrive and be empowered to make the right decisions. As a knowledge-based company with dedicated and highly skilled employees, such as IT and commercial specialists, we recognise that the expertise and experience of our employees are the core competencies of our business, and we work continuously to offer our colleagues development and career opportunities to improve their employability, motivation and job satisfaction.

We recognise the importance of having a balanced work-life, and hence we offer our employees a range of options such as compassionate leave, parental leave and part-time working hours for parents in accordance with the collective agreement. We support our employees with numerous sports activities and wellness options in Nets.

Actions

Internal and external candidates are encouraged to apply for vacant positions in Nets. When assessing which applicants should fill vacant positions in Nets – irrespective of the level of recruitment – the applicants are reviewed and evaluated carefully. The screening of applicants not only involves a thorough assessment of the applicants' education and experience, but also an assessment of the cultural fit with respect to our company values and how the candidate will fit into the team in which he or she will work.

We conduct a thorough background check on applicants in our recruitment process. We usually hold two rounds of interviews before offering an applicant employment. Applicants invited for the final interview round are requested to complete a psychometric assessment and cognitive ability assessment when being invited for an interview. In order to ensure that all recruitment processes are conducted in an ethically responsible manner, recruitment processes follow our 'Ethical guidelines for recruitment'.

Given the fact that part of Nets is subject to strict financial and payments regulation, all applicants will be subject to background checks in accordance with local legislation, and we will also perform additional security screenings of some candidates depending on the position in question. The requirement of adequate background checks and additional security screenings, if relevant, also applies to temporary workers and any contractors having access to Nets' premises.

In order to increase the likelihood of a new employee becoming a success with us, we have an extensive on-boarding programme during the first six months of employment. The main focus of the on-boarding process revolves around the following intertwined areas: (i) administrative on-boarding, (ii) cultural on-boarding, (iii) on-boarding to own work role and job, (iv) interpersonal network development within the organisation and (v) on-boarding to strategy and direction.

Our ACT values guide us as teams and individuals in our daily decision-making and not least when facing a business dilemma. To support this, we on-board new employees to our company values shortly after their first day at work, and all other employees have been introduced to our values throughout 2016 and 2017 by having discussions and solving dilemmas close to their daily operations.

In order to provide our employees with the best possible work environment and to support collaboration and flexible ways of working, it has been decided to relocate our headquarters in Denmark in 2019. Furthermore, in 2017 we have refurbished our physical working space in Norway and Finland to create an inspiring work environment.

In 2017, we employed a full-time health and safety officer with the ambition of professionalising our activities towards creating an even healthier work environment. As a consequence, we will in 2018 implement a new work environment management set-up headed by top-management that will revisit and optimise existing policies and processes. In 2018, we will revisit many of our health activities with the aim of further encouraging employees to lead a healthy lifestyle and increase focus on their physical and mental well-being.

During 2018, we will implement a new performance management set-up called ImpACT, which is deeply rooted in our values. In addition, we will adjust our incentive structure to make it fully transparent, simpler and designed to reward both achievements and good behaviour. This entails that 50% of the evaluation of all employees' individual performance will be directly linked to their ability to live our company values in their daily work.

Results

To measure employee engagement, leadership quality and the daily work environment, a survey is conducted every year during Q3. In 2017, the engagement score among employees across all locations increased by 3 percentage points compared to 2016, indicating that 2017 initiatives focusing on strengthening our culture and leadership, together with local initiatives to build motivation and engagement, have paid off.

In Norway, we were awarded the prize 'Årets klatrer' (Climber of the year) in the category 'Attractive companies for IT Professionals' by Universum, having climbed 26 steps up the list since 2016.

D

Anti-corruption and bribery

Policies

Nets is fully committed to complying with regulations and conventions to prevent corruption and bribery. We recognise international business standards that apply to the industries in which we operate, and we advocate for sound business practices throughout our value chain, with a zero-tolerance stance on corruption. Operating mainly in the Nordic region characterised by an advanced level of regulation and which, according to Transparency International, is the least corrupt region globally, we estimate that we are covered well by local legislation. Nets has established internal policies and guidelines that convey our strict stance on corruption and bribery, and which aim to ensure that employees act with integrity and do not engage in any actions involving corruption and/or bribery.

Whistleblower

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

Actions and due diligence

In 2017, our colleagues were reminded of our whistleblower scheme by means of a news article on our group intranet, which also features a subsite informing about the scheme and links on how to submit a report under the whistleblower scheme.

Customers, vendors, consultants and other external parties are able to report under the whistleblower scheme through our website. Any reports received are investigated by an external law firm.

Results

In 2017, the number of reports through our whistleblower function was zero.

E

Community involvement

With activities spanning across the Nordic region and part of the Baltics, we support causes that are close to our business and will have a positive impact on people and communities in general.

Progress in 2017

During the year, we have supported a number of organisations and causes. Save The Children across our locations have received donations from our customer satisfaction survey, where we donate DKK 100 per respondent along with the proceeds from the sale of second-hand hardware through our broker. At the national fundraising campaigns 'Danmarks Indsamling' and 'The Danish Cancer Society', we made donations to each cause. As our corporate headquarter is located in Ballerup, Greater Copenhagen, we also support local top-level sport through a donation to Team Ballerup.

In addition, we have continued our partnership with the Danish Fundraising Association to support more effective collection methods as well as by contributing to the training of organisational staff.

In 2017, we have continued our strong commitment to and partnership with Copenhagen Fintech with the ambition of contributing to the creation of a Nordic hotbed for innovation and start-ups within financial services. We truly believe that the Nordic region holds great potential for building world-class fintech companies, services and products if given the right framework conditions, and we wish to support this.

In 2018, we will revisit the causes that we support with the aim of streamlining and maximising the societal impact of this effort.

F

Equal opportunities for both genders

This statutory statement on the underrepresented gender, cf. section 99b of the Danish Financial Statements Act, forms part of the Management's Review in our 2017 annual report.

This section addresses the reporting requirements on the underrepresented gender under section 99b of the Danish Financial Statements Act. The reporting requirements under the Danish Financial Statements Act requires a status on the set target to increase gender diversity on the Board of Directors, cf. section 99b (1), and a description of the development and initiatives to achieve a gender balance amongst other executives, cf. section 99b (2).

Further, this section only describes targets set, status and development in the Nets Group companies which, due to their size and geographical location, are subject to the requirements, i.e. Nets A/S and Nets Denmark A/S.

As we report upon target figures on a corporate level, the companies subject to the requirements within the Nets Group need not report company-specific target figures for gender balance on a board level, but may refer directly to this statement.

3 Board of Directors

Targets

The Board of Directors of Nets A/S has set the following targets for the Boards in question:

- at least two female board members of the Board of Directors of Nets A/S, consisting of a total of six members elected by the general meeting
- at least one female board member of the Board of Directors of Nets Denmark A/S, consisting of a total of four members elected by the general meeting

The above targets shall apply until the end of 2020.

Continuing effort to maintain gender balance

In the Nomination Committee's continuous work to attract competent and diverse members to the Board of Directors of Nets A/S it will maintain its focus on gender balance on the Board of Directors.

In regard to Nets Denmark A/S, the members of the Board of Directors are employees of the Nets Group. The Nets Group focuses on increasing the qualifications of both female and male employees and has implemented a number of procedures to accomplish this, which are described in further detail under "Other executives" below.

Current status

By the end of 2017, the Board of Directors of Nets A/S consisted of one female director and five male directors. The objective with regard to gender diversity on the Board of Directors was initially met in March 2016 when we had the opportunity to include Monica Caneman on the Board of Directors.

In Nets Denmark A/S, one out of four members of the Board of Directors elected at the general meeting is female, and hence the target of one female board member on Nets Denmark A/S' Board of Directors has already been achieved. Nets Denmark A/S aims to retain this gender balance for the next year.

4 Other executives

Policy

Nets continues to strive for a gender balance (40/60) of capable female and male executives.

In order to achieve this goal, we have set out a range of initiatives in our Diversity Policy, which is available on our website:

- all management vacancies are advertised internally;
- the end of each job advertisement encourages anyone interested in the job to apply, irrespective of gender, age, race, religion or ethnicity;
- all executives are offered continuous management development;
- regular management development appraisals are held with the line manager;
- a sensible work/life balance is offered to reconcile the demands of working life and family life;
- executives are given constructive feedback and evaluations with a focus on how they can improve their performance via annual employee satisfaction surveys which also include manager evaluation;
- managerial desires and ambitions are covered in annual employee development interviews;

- when conducting job interviews, we endeavour to ensure that both genders are represented on the list of relevant candidates;
- as far as possible, at least one manager/employee of each gender participates in the recruitment committee.

Continuing efforts to achieve gender balance

It is important for Nets to attract many skilled candidates of both genders to choose from when filling management positions, and we therefore strive to broaden the field of candidates as much as possible. Further, the employment procedures are designed to give men and women equal opportunities to apply for and obtain management positions.

Progress in 2017

We continuously seek to ensure gender balance in the existing team when recruiting new team members. This involves a dialogue with the hiring manager about the composition of his or her team for the purpose of ensuring diversity in terms of gender, personal profiles and other competencies.

In additional, several of our leaders are part of a network for women within IT in Norway, and from 2018 we plan to expand this collaboration to include a sponsor partnership with the aim of enabling our female colleagues within IT to be part of a community and a forum for professional sparring. By this, we also wish to convey that we would like to attract both male and female talent to our company.

In 2018, we will continue our focus on increasing gender balance at board and management level through, i.a.:

- a boilerplate text in all job ads encouraging all interested and qualified parties to apply irrespective of gender, age, race, religion or ethnicity;
- a tool to weed out gender-biased language in job ads, allowing us access to all talent regardless of gender;
- discussing managerial aspirations and ambitions in regular annual employee development dialogues;
- a sensible work/life balance being offered to reconcile the demands of working life and family life;
- when conducting job interviews, we endeavour to ensure that both genders are represented on the list of relevant candidates

Current status

The Executive Committee consists of the registered Executive Management (consisting of the CEO and CFO) as well as the top management of the business units and Group functions of the Nets Group, and the Executive Committee therefore functions across the Nets Group as a whole. The Executive Committee consists of eight members of which one is female, corresponding to 12.5%. The percentage of women in the Executive Committee declined during the course of 2017, when Thomas Jul on 1 October 2017 replaced Susanne Brønnum as a member of the Executive Committee.

In other managerial positions (management levels three to six) as of 31st December 2017, the number of women in management positions accounted to 32%, which is similar to in 2016 (32%) and below our target of 40%.

The representation of women at management levels three to six corresponds in overall terms to the gender distribution of our entire workforce. This again reflects the gender distribution among graduates within areas such as information technology and software development, which are profiles we typically employ.

Nets is a leading provider of digital payment services and related technology solutions across the Nordic region. Nets sits at the centre of the digital payments ecosystem and operates a deeply entrenched network, which connects merchants, corporate customers, financial institutions and consumers enabling them to make and receive payments as well as, increasingly, utilise value-added services to help them improve their respective activities.

Financial statements

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 2017.

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 2017, the results of the Group and parent company's operations and consolidated cash flows for the financial year 1 January – 31 December 2017.

In our opinion, the Management Review includes a true and fair account of the development in the Group's and the parent company'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 22 March 2018.

Ballerup, 26 February 2018

Executive Management

Bo Nilsson
CEO

Klaus Pedersen
CFO

Board of directors

Inge K. Hansen
Chairman

Jeff Gravenhorst
Vice Chairman

James Brocklebank

Monica Caneman

Per-Kristian Halvorsen

Robin Marshall

Ove Kolstad

Frank A. Olsen

Ulrik R. Thomsen

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 2017 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2017 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 2017 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2017 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 2017, 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 Financials 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 Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibility 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.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 26 February 2018
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 33 77 12 31

Mikkel Sthyr
State Authorised Public Accountant
mne26693

Rasmus Friis Jørgensen
State Authorised Public Accountant
mne28705

Consolidated income statement

(DKKm)	Note	2017	2016
Revenue, gross	2.1	10,422	10,084
Interchange fees and processing fees		(2,698)	(2,699)
Revenue, net of interchange fees and processing fees	2.1	**7,724**	**7,385**
Cost of sales		(949)	(963)
External expenses		(1,816)	(1,769)
Staff costs	2.4	(2,124)	(2,034)
Operating profit before depreciation and amortisation (EBITDA) before special items		**2,835**	**2,619**
Special items	2.3	(186)	(345)
Special items - IPO costs and costs related to takeover offer	2.3	(68)	(261)
Operating profit before depreciation and amortisation (EBITDA)		**2,581**	**2,013**
Amortisation of business combination intangibles, customer agreements & impairment losses	4.2 & 4.3	(644)	(654)
Underlying depreciation and amortisation	4.2 & 4.3	(436)	(416)
Operating profit (EBIT)		**1,501**	**943**
Profit from associates after tax	4.5	4	4
Fair value adjustment of Visa shares	7.2	93	413
Fair value adjustment on liability related to Visa shares	7.2	(83)	(448)
Fair value adjustment of Visa shares related to Teller Branch Norway	7.2	14	185
Financial income and expenses, net	5.4	(218)	(1,055)
Financial expenses - refinancing costs	5.4	(30)	(738)
Net financials		**(220)**	**(1,639)**
Profit before tax		**1,281**	**(696)**
Income taxes	6.1	(63)	112
Net profit for the year		**1,218**	**(584)**

(DKKm)	Note	2017	2016
Profit is attributable to:			
Owners of Nets A/S		1,206	(601)
Non-controlling interests		12	17
		1,218	**(584)**
Earnings per share for profit attributable to the owners of Nets A/S (DKK)			
Basic earnings per share	5.1	6.04	(3.00)
Diluted earnings per share	5.1	6.04	(3.00)

Non-GAAP performance measures

(DKKm)	Note	2017	2016
Operating profit before depreciation and amortisation (EBITDA) before special items		2,835	2,619
Underlying depreciation and amortisation		(436)	(416)
Adjusted EBIT		**2,399**	**2,203**
Adjusted net financials		(333)	(908)
Adjusted tax, 23%		(475)	(298)
Adjusted net profit for the year		**1,591**	**997**

Consolidated statement of other comprehensive income

(DKKm)	Note	2017	2016
Net profit for the year		**1,218**	**(584)**
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	(2)	(6)
Total items never reclassified to the consolidated income statement		**(2)**	**(6)**
Items that will be reclassified subsequently to the consolidated income statement, when specific conditions are met:			
Currency translation adjustments, foreign enterprises		(251)	(33)
Reclassification of interest swap to the consolidated income statement		2	15
Net gains/(loss) on cash flow hedges		(1)	36
Total items that may be reclassified to the consolidated income statement subsequently		**(250)**	**18**
Other comprehensive income for the year, net of tax		**(252)**	**12**
Total comprehensive income for the year, net of tax		**966**	**(572)**
Total comprehensive income for the year is attributable to:			
Owners of Nets A/S		958	(580)
Non-controlling interests		8	8
		966	**(572)**

Consolidated balance sheet as at 31 December

(DKKm)	Note	2017	2016
Assets			
Non-current assets			
Goodwill	4.2	14,592	14,720
Other intangible assets	4.2	3,987	4,198
Plant and equipment	4.3	459	383
Investment in associates	4.5	235	231
Derivative financial instruments		28	27
Deferred tax asset	6.1	387	376
Total non-current assets		**19,688**	**19,935**
Current assets			
Inventories	3.1.1	66	66
Trade and other receivables	3.1.2	841	801
Clearing-related assets	3.2	7,791	4,477
Prepayments		222	194
Other financial assets	7.2	240	957
Current tax receivables		10	-
Cash and cash equivalent	3.3	1,389	1,869
Total current assets		**10,559**	**8,364**
Total assets		**30,247**	**28,299**

(DKKm)	Note	2017	2016
Equity and liabilities			
Equity			
Share capital	5.1	200	200
Reserves		10,305	9,405
Equity, owners of Nets A/S		**10,505**	**9,605**
Non-controlling interests		147	201
Total equity		**10,652**	**9,806**
Non-current liabilities			
Borrowings	5.2	7,624	9,084
Pension liabilities, net	7.1	61	66
Deferred consideration		249	195
Finance lease	5.3	59	17
Deferred tax liabilities	6.1	715	851
Total non-current liabilities		**8,708**	**10,213**
Current liabilities			
Borrowings	5.2	-	223
Bank overdraft	5.2	647	91
Trade and other payables	3.1.3	1,572	1,614
Clearing-related liabilities	3.2	8,393	5,135
Deferred consideration		17	89
Finance lease	5.3	24	5
Other financial liabilities	7.2	154	1,064
Current tax liabilities		80	59
Total current liabilities		**10,887**	**8,280**
Total liabilities		**19,595**	**18,493**
Total equity and liabilities		**30,247**	**28,299**

Consolidated statement of cash flows for the year

(DKKm)	Note	2017	2016
Operating profit (EBIT)		1,501	943
Depreciation, Amortisation & Impairment losses	4.2 & 4.3	1,080	1,070
Other non-cash items		41	6
Change in narrow working capital	3.1	(188)	67
Interest and similar items, net		(219)	(2,119)
Tax paid	6.1	(200)	(653)
Net cash flow from operating activities excluding clearing-related balances		**2,015**	**(686)**
Change in clearing-related balances	3.2.1	(56)	(120)
Net cash from operating activities		**1,959**	**(806)**
Purchase of intangible assets	4.2	(431)	(391)
Purchase of plant and equipment	4.3	(234)	(255)
Purchase of investments	4.1	(296)	(70)
Proceeds from Visa shares	7.2	3	2.070
Payment of proceeds from Visa shares	7.2	(166)	(1,287)
Net cash from investing activities		**(1,124)**	**67**
Capital increase (sale of primary)		-	5,500
Base fee in connection with primary		-	(70)
Proceeds from borrowings		550	9,040
Repayment of borrowings		(4,831)	(14,466)
Proceeds from bonds		2,974	-
Base fee in connection with bonds		(52)	-
Repayment of finance lease liabilities		(21)	-
Purchase of treasury shares		(153)	-
Settlement of interest swap		(2)	(15)
Net cash flows from financing activities exclusive of clearing-related activities		**(1,535)**	**(11)**
Borrowings (clearing-related)		(223)	223
Net cash flows from financing activities		**(1,758)**	**212**

(DKKm)	Note	2017	2016
Net cash flow for the year		**(923)**	**(527)**
Cash and cash equivalents as at 1 January		1,778	2,310
Exchange gains/(loss) on cash and cash equivalents		(113)	(5)
Net cash and cash equivalents as at 31 December		**742**	**1,778**
Bank overdraft (clearing-related balances)		482	91
Bank overdraft (own cash)		165	-
Cash and cash equivalents as at 31 December	3.3	**1,389**	**1,869**

Non-GAAP performance measures

(DKKm)	Note	2017	2016
Net cash and cash equivalents as at 31 December		742	1,778
Clearing-related assets as at 31 December		7,791	4,477
Clearing-related liabilities as at 31 December		(8,393)	(5,135)
Cash related to pass through Visa proceeds	7.2	-	(194)
Borrowings (clearing-related)		-	(223)
Own cash as at 31 December		**140**	**703**
Own cash as at 1 January		**703**	**1,532**
Net cash flow from operating activities, excluding clearing-related balances		2,015	(686)
Net cash from investing activities in the year		(1,124)	67
Net cash flows from financing activities, excluding clearing-related activities		(1,535)	(11)
Net cash flow from pass through Visa proceeds	7.2	163	(194)
Adjustment of pass through Visa proceeds		31	-
Exchange gains/(loss) on cash and cash equivalents		(113)	(5)
Own cash as at 31 December		**140**	**703**

Consolidated statement of changes in equity as at 31 December

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

Consolidated statement of changes in equity as at 31 December

	2016						
(DKKm)	Share capital	Hedge reserves	Currency translation reserves	Retained earnings	Equity, owners of Nets A/S	Non-controlling interests	Total equity
Equity as at 1 January	50	(39)	(227)	4,532	**4,316**	664	**4,980**
Net profit for the year	-	-	-	(601)	**(601)**	17	**(584)**
Other comprehensive income for the year							
Actuarial gain/(loss) related to defined benefit pension plans	-	-	-	(6)	**(6)**	-	**(6)**
Currency translation adjustments, foreign enterprises	-	-	(24)	-	**(24)**	(9)	**(33)**
Net gain/(loss) on cash flow hedges	-	36	-	-	**36**	-	**36**
Settlement of interest swap	-	15	-	-	**15**	-	**15**
Other comprehensive income for the year	**-**	**51**	**(24)**	**(6)**	**21**	**(9)**	**12**
Total comprehensive income for the year	**-**	**51**	**(24)**	**(607)**	**(580)**	**8**	**(572)**
Capital increase (share exchange)	113	-	-	358	**471**	(471)	**-**
Capital increase (sale of primary)	37	-	-	5,463	**5,500**	-	**5,500**
IPO-related costs	-	-	-	(170)	**(170)**	-	**(170)**
Share-based payments (Employee share bonus)	-	-	-	60	**60**	-	**60**
Share-based payments	-	-	-	8	**8**	-	**8**
Total changes in equity	**150**	**51**	**(24)**	**5,112**	**5,289**	**(463)**	**4,826**
Equity as at 31 December	**200**	**12**	**(251)**	**9,644**	**9,605**	**201**	**9,806**

Contents

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

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

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

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

Section 1:

Basis of preparation

In this section:

Section 1

Basis of preparation

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), as adopted by the European Union, and further requirements in the Danish Financial Statements Act have been applied in the preparation of these consolidated financial statements. Included within these financial statements is the following disclosures which are non-IFRS:

- Adjusted EBIT
- Adjusted net profit
- Own cash

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

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

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

1.2 Summary of key accounting estimates and judgements

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

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

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

- Use of special items (Note 2.3)
- Business combinations and asset acquisitions (Note 4.1)
- Useful life of intangible assets (Note 4.2)
- Recoverable amount of goodwill and capitalised development projects (Note 4.4)
- Deferred tax assets (Note 6.1)
- Value of Visa shares and related contingent consideration liability (Note 7.2)

Section 1

Basis of preparation (continued)

1.3 Changes in accounting policies and disclosures – New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. None of these amendments have had material impact on the Group. A summary of standards issued but not yet effective is included in note 7.4.

Accounting policies pervasive to the consolidated financial statements

1.4 Basis for consolidation

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

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

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

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

1.5 Foreign currency translation

Functional and presentational currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial information is presented in Danish kroner (DKK), which is also the functional and presentational currency of the parent company.
On recognition of foreign branches which are integrated entities, monetary items are translated at the exchange rates at the balance sheet date. Non-monetary items are translated at the exchange rates at the acquisition date or at the date of any subsequent revaluation or impairment of the asset. Items in the consolidated income statements are translated at the exchange rates at the transaction date, although items derived from non-monetary items are translated at the historical exchange rates applying to the non-monetary items.

Translation of transactions and balances

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

Translation of Group companies

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

All effects of exchange rate adjustment are recognised in the consolidated income statement, with the exception of 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 the revenue, staff costs and earnings development of the Group. This section also discloses information regarding foreign currency exposure.

DKKm

7,724
Revenue

5%
Organic growth

In this section:

Note 2.1

Revenue

Significant accounting policies

Revenue recognition

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

Transaction-based revenue – includes revenue generated through a combination of (a) a fee per transaction processed (which represents the primary revenue model in the Corporate Services and the Financial & Network Services segments) and (b) an ad valorem fee based on the value of transactions acquired (which represents the primary revenue model of the Merchant Services segment).

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

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

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

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

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

Revenue is recognised as the gross amount excluding VAT, taxes and duties and discounts in relation to the sale. Revenue is measured at the fair value of the consideration received or receivable.

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)

Specification of revenue (DKKm)	2017	2016
Gross revenue per transaction type		
Transaction services	9,261	8,890
Non-transactional services	1,161	1,194
Total	**10,422**	**10,084**
Gross revenue per business area		
Merchant Services	4,662	4,519
Financial & Network Services	2,862	2,763
Corporate Services	2,898	2,802
Total	**10,422**	**10,084**
Net revenue per business area		
Merchant Services	2,519	2,317
Financial & Network Services	2,313	2,273
Corporate Services	2,892	2,795
Total	**7,724**	**7,385**

Specification of revenue (DKKm)	2017	2016
Gross revenue per geographical area		
Denmark	4,945	4,808
Norway	2,814	2,753
Finland	1,549	1,354
Sweden	1,020	1,071
Baltics	94	98
Total	**10,422**	**10,084**
Net revenue per geographical area		
Denmark	3,632	3,576
Norway	2,549	2,314
Finland	963	885
Sweden	508	542
Baltics	72	68
Total	**7,724**	**7,385**

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

Note 2.2

Segment information

Description of segments

Nets is a leading provider of payment services and related technology solutions across the Nordic region. We operate in the centre of the payment ecosystem and operate a secure, reliable and deeply entrenched network, which connects merchants, corporations, financial institutions and consumers, enabling them to make and receive payments as well as, increasingly, utilise value added services to help them improve their respective activities. Our primary focus is on the Nordic region.

The Executive Management considers the business from a business unit perspective and has identified three reportable segments:

Merchant Services provide in-store, online and mobile payment acceptance solutions to more than 300,000 merchants across the Nordic region, from large corporate chains to small and medium-sized enterprises (SMEs) and micro-merchants. We serve our merchants through a broad set of distribution channels, including indirect partnership relationships 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 allow us to be a one-stop shop for merchants in the countries in which we operate.

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

Corporate Services provide the payment platform for recurrent bill payments and credit transfer transactions for more than 240,000 corporations, primarily in Denmark and Norway. At the centre of this business is the ability to provide a seamless and integrated solution for recurring bill payments to corporations and consumers (e.g. Leverandørservice and Betalingsservice). It also includes solutions for real-time clearing providing instant payments.

Segment information provided to the Executive Management

The segment information provided to the Executive Management for the reportable segments for the year 2017 is as follows:

2017 (DKKm)	**Merchant Services**	**Financial & Network Services**	**Corporate Services**	**Group**
Income statement				
Revenue	2,519	2,313	2,892	7,724
Reported growth	8.7%	1.8%	3.5%	4.6%
Organic growth	8%	3%	4%	5%
EBITDA before special items	943	901	991	2,835
EBITDA before special items margin	37.4%	39.0%	34.3%	36.7%
Reconciliation of EBITDA before special items to profit before tax:				
Special items				(254)
Amortisation, depreciation and impairment losses				(1,080)
Finance items - net				(220)
Profit before tax				**1,281**

2016 (DKKm)	**Merchant Services**	**Financial & Network Services**	**Corporate Services**	**Group**
Income statement				
Revenue	2,317	2,273	2,795	7,385
Reported growth	24.2%	3.0%	1.1%	8.0%
Organic growth	13%	10%	2%	7%
EBITDA before special items	792	893	934	2,619
EBITDA before special items margin	34.2%	39.3%	33.4%	35.5%
Reconciliation of EBITDA before special items to profit before tax:				
Special items				(606)
Amortisation, depreciation and impairment losses				(1,070)
Finance items - net				(1,639)
Profit before tax				**(696)**

Note 2.3

Costs and Special items

Significant accounting policies

Cost of sales

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

External expenses

External expenses incurred in generating the revenue for the year comprise IT operation, operating leases for software, maintenance and development costs that do not qualify for capitalisation, lease expenses and other marketing, sales and distribution costs, loss 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 are costs or income that are recognised in the income statement which cannot be attributed directly to the Group's ordinary activities. Such costs and income include the cost of extensive restructuring or processes and fundamental structural adjustment, IPO-related costs and takeover costs. They are therefore separately disclosed to allow a more comparable view of underlying trading performance.

Special items in the year amounted to DKK 254 million (2016: DKK 776 million) and included the following costs:

(DKKm)	External expenses	Staff costs	2017	External expenses	Staff costs	2016
Reorganisation, restructuring costs and refurbishment	(20)	(40)	**(60)**	-	(113)	**(113)**
Costs associated with business set-ups, acquisitions and disposals	(13)	(2)	**(15)**	(14)	-	**(14)**
Transformation programme	(101)	(9)	**(110)**	(202)	(17)	**(219)**
Other costs and income, net	(1)	-	**(1)**	1	-	**1**
Special items, excluding IPO costs and costs related to takeover offer	**(135)**	**(51)**	**(186)**	**(215)**	**(130)**	**(345)**
IPO-related costs	-	(31)	**(31)**	(183)	(78)	**(261)**
Costs related to takeover offer	(29)	(8)	**(37)**	-	-	**-**
Total special items, income statement	**(164)**	**(90)**	**(254)**	**(398)**	**(208)**	**(606)**
IPO-related costs	-	-	**-**	(170)	-	**(170)**
Total special items, equity	**-**	**-**	**-**	**(170)**	**-**	**(170)**
Total special items	**(164)**	**(90)**	**(254)**	**(568)**	**(208)**	**(776)**

Key accounting estimates and judgements

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

Note 2.3

Costs and Special items (continued)

Financial comments

Reorganisation, restructuring costs and refurbishment

Costs of reorganisation, restructuring and refurbishment amounted to DKK 60 million (2016: DKK 113 million) and mainly include costs related to termination of employees as part of making Nets more cost-efficient and competitive in meeting the strategy of being operationally excellent, and costs related to refurbishment of the current head office.

Costs associated with business set-ups, acquisitions and disposals

Costs associated with business set-ups, acquisitions, and disposals amounted to DKK 15 million (2016: DKK 14 million) and include costs related to external advisors in connection with acquisitions.

Transformation programme

Costs related to the transformation programme amounted to DKK 110 million (2016: DKK 219 million) and included costs related to the launch and execution of the transformation programme. These costs related to the development of a target operating model, and 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.

IPO-related costs and costs related to takeover offer

The costs in 2017 were related to the takeover offer from Hellman & Friedman and IPO-related costs which in total amounted to DKK 68 million. In 2016 IPO-related costs amounted to DKK 431 of which DKK 261 million affecting the income statement and DKK 170 million affecting Equity and comprised costs for external advisors mainly fees to bookrunners, lawyers, auditors and other advisors, as well as transaction bonuses, employee share bonus and retention bonus of total DKK 78 million. Advent Funds and the Bain Capital Funds and ATP Investment Vehicles have invoiced the Group for consulting and other advisory service fees of DKK 82 million in connection with the IPO.

Note 2.4

Staff costs

Significant accounting policies

Staff costs

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

(DKKm)	2017	2016
Staff costs		
Wages and salaries	(1,714)	(1,738)
Share-based payment cost - reference Note 6.3	(43)	(72)
Pensions - defined contribution plans	(192)	(191)
Pensions - defined benefit obligations - reference Note 7.1	(5)	(5)
Other social security contributions	(110)	(125)
Other employee costs	(258)	(205)
Total employee costs for the year	**(2,322)**	**(2,336)**
Employee costs included in development projects	108	94
Total employee costs expensed in the income statement	**(2,214)**	**(2,242)**
Employee costs included in special items	90	208
Total employee costs included in EBITDA before special items	**(2,124)**	**(2,034)**
Actuarial losses recognised in other comprehensive income - reference Note 7.1	(2)	(6)
Average number of full-time employees	2,476	2,454
Year-end number of full-time employees	2,454	2,427

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

Note 2.5

Foreign currency exposure

Financial comments

Transaction risk

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

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

Business activities

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

Group financial assets and liabilities

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

- Cash at bank – the Group has cash at bank which is in different currencies relevant to underlying card-clearing structure. This and the Group's own cash are not being hedged.

- Borrowings – the Group has term loans denominated in euros and Norwegian kroner (refer to Note 5.2 for further information).

Foreign exchange sensitivity analysis

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

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

		2017		2016	
(DKKm)	Probable change in currency	Net revenue	EBITDA	Net revenue	EBITDA
NOK	+10%	245	115	225	79
SEK	+10%	64	40	73	39
EUR	+1%	12	(0)	9	3

Exchange rate (DKK per 100)	2017			2016		
Key currencies	NOK	SEK	EUR	NOK	SEK	EUR
Average	79.86	77.01	743.80	80.18	78.63	744.52
End of year	75.66	75.63	744.49	81.82	77.85	743.44
Year-end change	(7.5%)	(2.9%)	0.1%	5.4%	(4.1%)	(0.4%)

Note 2.5

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 reference Note 5.2.

	2017								
Exposure of balance in foreign currency (DKKm)	**Cash and cash equiva-lents**	**Goodwill**	**Recei-vables[1]**	**Borrowings**	**Liabilities[2]**	**Net assets[3]**	**Probable change in currency**	**Hypotheti-cal impact on profit before tax**	**Hypotheti-cal impact on equity**
NOK	631	1,157	1,686	(2,704)	(2,098)	**(1,328)**	+10%	(296)	(133)
SEK	327	1,176	802	-	(1,247)	**1,058**	+10%	45	106
EUR	40	1,458	1,557	(3,113)	(2,012)	**(2,070)**	+1%	(41)	(21)
Total	**998**	**3,791**	**4,045**	**(5,817)**	**(5,357)**	**(2,340)**			

	2016								
Exposure of balance in foreign currency (DKKm)	**Cash and cash equiva-lents**	**Goodwill**	**Recei-vables[1]**	**Borrowings**	**Liabilities[2]**	**Net assets[3]**	**Probable change in currency**	**Hypotheti-cal impact on profit before tax**	**Hypotheti-cal impact on equity**
NOK	953	1,252	1,114	(2,892)	(1,679)	**(1,252)**	+10%	(278)	(125)
SEK	846	1,210	(25)	-	(215)	**1,816**	+10%	37	182
EUR	408	1,457	1,770	(1,324)	(2,128)	**183**	+1%	(17)	2
Total	**2,207**	**3,919**	**2,859**	**(4,216)**	**(4,022)**	**747**			

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

Section 3:

Working capital

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

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

Clearing-related balances comprises the aggregate of settlement assets less the aggregate of merchant creditors and settlement obligations, as these balances have a tendency to off-set each other.

However, Management has limited ability to influence the working capital of clearing-related balances on a day-to-day basis, as these are principally 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 described in Note 3.2.

Separate credit lines have been established to cover day-to-day fluctuations ref. 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 profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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.

Subsequent measurement

Loans and receivables

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

Loans and receivables 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 in external expenses.

Financial assets at fair value through profit or loss

Listed securities are classified as held for trading and are measured at fair value through profit or loss.

Impairment of financial assets

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

- Trade receivables – Note 3.1.2
- Clearing-related assets – 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

Amounts are initially recognised at fair value. Subsequently, these items are measured at amortised cost.

Trade and other receivables

Amounts are initially recognised at fair value and subsequently measured at amortised cost, less allowances for doubtfull trade receivables.

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

Note 3.1

Change in narrow working capital

(DKKm)	2017	2016
Change in narrow working capital		
Inventories	(3)	(8)
Trade and other receivables	(37)	34
Prepayments	(28)	(41)
Trade and other payables	(120)	82
Total change in narrow working capital	**(188)**	**67**

Note 3.1.1

Inventories

(DKKm)	2017	2016
Inventories		
Finished goods and merchandise	79	76
Total inventories (gross)	**79**	**76**
Inventory write-downs at year-end	(13)	(10)
Total inventories (net)	**66**	**66**
Movements in the inventory write downs		
Inventory write-downs as at 1 January	(10)	(1)
Inventory write-downs during the year	(5)	(9)
Provisions used	2	-
Inventory write-downs as at 31 December	**(13)**	**(10)**

Write-downs of inventories to net realisable value amounted to DKK 5 million net (2016: DKK 9 million) and are included in cost of sales.

Note 3.1.2

Trade and other receivables

(DKKm)	2017	2016
Trade receivables		
Trade receivables	777	714
Allowances for doubtful debts	(11)	(14)
Trade receivables, net	**766**	**700**
Deposit	16	16
Other receivables	59	85
Total	**841**	**801**
Allowances for doubtful debts as at 1 January	(14)	(17)
Impairment losses	10	6
Adjustment of allowances for bad debt	(7)	(5)
Exchange rate adjustment	-	2
Allowances for doubtful debts as at 31 December	**(11)**	**(14)**
Receivables past due but not impaired	**108**	**72**
Receivables past due but not impaired can be specified as follows:		
Receivables past due less than 6 months	105	68
Receivables past due between 6 and 12 months	3	4
Receivables past due more than 12 months	0	-
Total	**108**	**72**

Related credit risk

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

Note 3.1.3

Trade and other payables

(DKKm)	2017	2016
Trade and other payables		
Trade payables	575	593
Prepayments from customers	70	82
Payables to associates	14	6
Other liabilities	913	933
Total	**1,572**	**1,614**
Other liabilities		
Employee costs payable	417	513
Other payables	351	413
Interest payable	78	-
VAT and duties payable	67	7
Total	**913**	**933**

Note 3.2

Clearing-related balances

(DKKm)	2017	2016
Clearing-related assets		
Settlement assets	7,791	4,477
Total	**7,791**	**4,477**
Clearing-related liabilities		
Merchant creditors	3,370	2,622
Settlement obligations	5,023	2,513
Total	**8,393**	**5,135**

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 consists 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 transaction. The settlement assets and settlement obligations are primarily clearing transactions and fees that are cleared at the beginning of the following month with card issuers and card acquirers respectively.

Note 3.2.1

Change in clearing-related balances

(DKKm)	2017	2016
Change in clearing-related balances		
Change in settlement assets	(3,314)	(772)
Change in settlement obligations	2,510	96
Change in merchant creditors	748	556
Total	**(56)**	**(120)**

Credit risk management

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

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

Note 3.3

Cash and cash equivalents

Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents comprises cash, and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

(DKKm)	2017	2016
Cash at bank and on hand	1,389	1,869
Cash and cash equivalents as at 31 December	**1,389**	**1,869**
Bank overdrafts	647	91
Net cash and cash equivalents as at 31 December	**742**	**1,778**
Restricted cash included in cash at bank and on hand	22	37

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.

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 has also 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:

	2017						2016					
(DKKm)	Note	< 1 month	1-3 months	4-12 months	> 1 year	Total	Note	< 1 month	1-3 months	4-12 months	> 1 year	Total
Trade and other receivables		681	128	22	10	**841**		769	32	-	-	**801**
Settlement assets		7,791	-	-	-	**7,791**		4,477	-	-	-	**4,477**
Total financial assets at the end of the year by maturity		**8,472**	**128**	**22**	**10**	**8,632**		**5,246**	**32**	**-**	**-**	**5,278**
Borrowings	5.2	667	39	178	8,549	**9,433**	5.2	314	35	177	9,460	**9,986**
Trade and other payables		757	304	438	73	**1,572**		655	379	579	1	**1,614**
Merchant creditors		3,370	-	-	-	**3,370**		2,622	-	-	-	**2,622**
Settlement obligations		5,023	-	-	-	**5,023**		2,513	-	-	-	**2,513**
Deferred consideration		-	4	13	249	**266**		-	41	-	243	**284**
Finance lease	5.3	2	4	18	59	**83**	5.3	1	1	3	17	**22**
Total financial liabilities at the end of the year by maturity		**9,819**	**351**	**647**	**8,930**	**19,747**		**6,105**	**456**	**759**	**9,721**	**17,041**

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.

Section 4:

Strategic investment and disvestment

This section includes disclosure information related to how the Group executed its growth strategy related to:
- Expansion of geographic 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 geographic footprint.

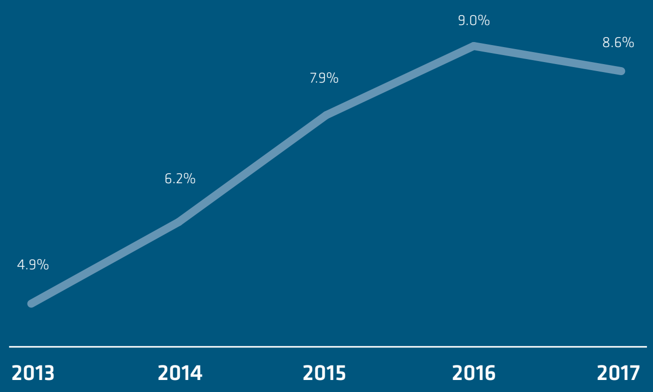
This section provides information on the consideration paid by the Group for acquiring these entities and shows how these businesses have impacted the Group's balance sheet at their respective acquisition dates, including details on goodwill and other intangible assets acquired.

Investments in development projects
Nets' vision is "Powering digital payments". The Group continuously innovates to bring to market products and services relevant to our focus areas in new payment instruments, analytics and authentication.

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

In this section:

Capital expenditure to net revenue



2016 and 2017 were extraordinarily affected by investments in a new data centre in Norway and network segregation

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 recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, at either at fair value (full goodwill) or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable assets.

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

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

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

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

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

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

Key accounting estimates and judgements

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

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

Note 4.1

Business combinations and asset acquisitions (continued)

Acquisition of businesses

The Group made no acquisition in 2017. In 2016 the acquisitions had the following effect on the Group's consolidated financial statements as at the reporting date:

	2016		
	Storebox ApS		
(DKKm)	Book value on acquisition date	Opening balance	**Total acquisitions (Opening balance)**
Goodwill	-	125	125
Development projects	-	17	17
Cash and cash equivalent	11	11	11
Deferred tax	-	(3)	(3)
Trade and other payables	(2)	(2)	(2)
Total payment regarding acquisitions of business transferred		**148**	**148**
Cash and cash equivalent in aquisition of business		11	11
Total cash consideration		**137**	**137**
Contingent and deferred consideration		67	67
Cash consideration transferred		**70**	**70**

Storebox ApS

An agreement to acquire 70% of the share capital of Storebox A/S was signed in December 2015 with closing date in January 2016 for the total consideration of DKK 81 million with a put/call option to acquire the remaining 30% at an exercise price, based on a number of elements, including growth and EBITDA in the following years.

The acquisition of Storebox ApS has strengthened the Group's total product and service offering towards Nordic merchants and consumers and there is a strong strategic match between the core business and competences of Storebox ApS and the Merchant Services business in the Group.

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

In the period from the acquisition date to 31 December 2016, Storebox ApS contributed revenue of DKK 8 million and operating loss of DKK 3 million to the Group. Acquisition costs relating to the purchase of Storebox ApS amount to DKK 2 million.

After the acquisition of Storebox ApS, the Group made a capital increase of DKK 10 million, increasing the Groups ownership to 72.73%.

Asset acqusitions

In 2017 the Group has had asset acquisitions amounted to DKK 296 million. This mainly relates to the purchase of remaining shares in previous not fully owned subsidiaries, Paytrail, EDIGard and DIBS (DKK 105 million) and the purchase of customer agreements in Finland (DKK 188 million).

Note 4.2

Intangible assets

Significant accounting policies

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.

Software

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

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.

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.

Key accounting estimates and judgements

Development projects in progress

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

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.

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.

Note 4.2

Intangible assets (continued)

	2017					
		Other intangible assets				
(DKKm)	Goodwill	Customer agree-ments	Software	Develop-ment projects in progress	Other intangible assets	Total intangible assets
Accumulated cost as at 1 January	14,720	2,075	3,798	197	**6,070**	**20,790**
Additions	-	259	80	370	**709**	**709**
Transfer between asset groups	-	-	352	(352)	**-**	**-**
Currency translation adjustment	(128)	(2)	(25)	(3)	**(30)**	**(158)**
Accumulated cost as at 31 December	**14,592**	**2,332**	**4,205**	**212**	**6,749**	**21,341**
Accumulated amortisation and write-downs for impairment as at 1 January	-	(592)	(1,280)	-	**(1,872)**	**(1,872)**
Amortisation	-	(301)	(609)	-	**(910)**	**(910)**
Currency translation adjustment	-	1	19	-	**20**	**20**
Accumulated amortisation and write-down for impair-ment as at 31 December	**-**	**(892)**	**(1,870)**	**-**	**(2,762)**	**(2,762)**
Carrying amount as at 31 December	**14,592**	**1,440**	**2,335**	**212**	**3,987**	**18,579**
Carrying amount of finance lease as at 31 December	**-**	**-**	**22**	**-**	**22**	**22**

	2016					
		Other intangible assets				
(DKKm)	Goodwill	Customer agree-ments	Software	Develop-ment projects in progress	Other intangible assets	Total intangible assets
Accumulated cost as at 1 January	14,615	2,070	3,123	513	**5,706**	**20,321**
Adjustment to opening	41	-	-	-	**-**	**41**
Additions through business combinations	125	-	17	-	**17**	**142**
Additions	-	-	28	363	**391**	**391**
Transfer between asset groups	-	-	683	(683)	**-**	**-**
Assets disposed of or fully amortised	-	-	(39)	-	**(39)**	**(39)**
Currency translation adjustment	(61)	5	(14)	4	**(5)**	**(66)**
Accumulated cost as at 31 December	**14,720**	**2,075**	**3,798**	**197**	**6,070**	**20,790**
Accumulated amortisation and write-downs for impairment as at 1 January	31	(291)	(693)	**-**	**(984)**	**(953)**
Amortisation	-	(300)	(617)	-	**(917)**	**(917)**
Write-downs for impairment*	-	-	(11)	-	**(11)**	**(11)**
Assets disposed of or fully amortised	-	-	39	-	**39**	**39**
Currency translation adjustment	(31)	(1)	2	-	**1**	**(30)**
Accumulated amortisation and write-down for impair-ment as at 31 December	**-**	**(592)**	**(1,280)**	-	**(1,872)**	**(1,872)**
Carrying amount as at 31 December	**14,720**	**1,483**	**2,518**	**197**	**4,198**	**18,918**

* Consists of write-downs for impairment for development projects due to a negative development in forecasted revenue and earnings.

DKKm	**2017**	**2016**
Development costs recognised in the consolidated income statement	(438)	(422)

Note 4.3

Plant and equipment

Significant accounting policies

Plant and equipment

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

Depreciation is provided on a straight-line basis over the expected useful economic life of the assets concerned.

The estimated useful life for this purpose is:

Leasehold improvements	10 years
Terminals	3 years
Plant and machinery	2–5 years

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

(DKKm)	2017 Leasehold improvements	2017 Terminals	2017 Plant and machinery	2017 Total	2016 Leasehold improvements	2016 Terminals	2016 Plant and machinery	2016 Total
Accumulated cost as at 1 January	109	346	244	**699**	74	251	137	**462**
Additions	26	113	145	**284**	29	117	131	**277**
Assets disposed of	(50)	(91)	(65)	**(206)**	-	(25)	(44)	**(69)**
Currency translation adjustment	(10)	(16)	(37)	**(63)**	6	3	20	**29**
Accumulated cost as at 31 December	**75**	**352**	**287**	**714**	**109**	**346**	**244**	**699**
Accumulated depreciation and write-downs for impairment at 1 January	(40)	(198)	(78)	**(316)**	(18)	(121)	(60)	**(199)**
Depreciation	(19)	(93)	(58)	**(170)**	(18)	(81)	(43)	**(142)**
Assets disposed of	48	75	65	**188**	-	8	42	**50**
Currency translation adjustment	3	11	29	**43**	(4)	(4)	(17)	**(25)**
Accumulated depreciation and write-downs for impairment as at 31 December	**(8)**	**(205)**	**(42)**	**(255)**	**(40)**	**(198)**	**(78)**	**(316)**
Carrying amount as at 31 December	**67**	**147**	**245**	**459**	**69**	**148**	**166**	**383**
Carrying amount of finance lease at 31 December	**-**	**-**	**57**	**57**	**-**	**-**	**22**	**22**

Terminals are leased by the Group to third-party merchants under operating leases. These operating leases are under various agreements which terminate between 2017 and 2018. The agreements include an extension option.

Note 4.4

Impairment tests

Significant accounting policies

Impairment of goodwill

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

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

A cash-generating unit is a group of assets that together generate cash flow. There is talking about the smallest identifiable group of assets that generate cash inflow. When determining a cash-generating unit various factors have to be considered including who management monitors the operations and makes decisions.

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

Any impairment loss for goodwill is recognised directly in the income statements 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 profit or loss on disposal.

Impairment of other intangible assets and plant and equipment

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

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

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

Key accounting estimates and judgements

Recoverable amount of goodwill and capitalised development projects

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

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

Impairment tests of goodwill

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

The tests were carried out towards the end of 2017 and did not identify any impairment.

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

(DKKm)	2017	2016
Cash-generating unit		
Merchant Services	5,978	6,030
Financial & Network Services	2,299	2,319
Corporate Services	6,315	6,371
Total	**14,592**	**14,720**

Note 4.4

Impairment tests (continued)

The recoverable amount of goodwill recognised is determined based on value in use calculations, which use cash flow projections covering a five-year period incorporating the assumptions used in financial budgets, including expected impact from changes in business models, approved by Executive Management. Cash flows beyond the five-year budget period have been extrapolated using a steady 1.5% per annum growth rate. Executive Management believes that the growth rates are reasonable based on the services/products being developed, the continued digital conversion of cash, and any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount. Key growth drivers per business are described below.

In 2017, discount rates used for impairment calculations pre-tax were 9.4% for Merchant Services, 9.4% for Financial & Network Services, and 9.5% for Corporate Services for the individual cash-generating units to reflect the business and related risk. Discount rates have been updated compared to last year to reflect the newest external analyst input. Key factors that could trigger an impairment test include the following:

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

The calculation of value in use is based on a number of assumptions containing a high level of judgement. To ensure that changes in the assumptions will not affect the recoverable amount in such way that an impairment is required a sensitivity analysis has been performed. The analysis is performed on the growth rate and the discount rate, because both parameters are signification in calculation of the recoverable amount. The analysis did not indicate any impairment needs.

Merchant Services

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

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

Financial & Network Services

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

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

Corporate Services

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

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

Note 4.5

Investment in associates

Significant accounting policies

Associates

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

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

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

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

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

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

(DKKm)	2017	2016
Investment in associates		
Accumulated cost as at 1 January	**238**	**238**
Addition during the year	-	-
Accumulated cost as at 31 December	**238**	**238**
Revaluation as at 1 January	(7)	(11)
Adjustment for previous year	(5)	(3)
Share of profit after tax	9	7
Revaluation as at 31 December	**(3)**	**(7)**
Carrying amount as at 31 December	**235**	**231**
Fair value recognition from business combinations	**216**	**216**
Carrying amount excluding fair value recognition from business combinations as at 31 December	**19**	**15**

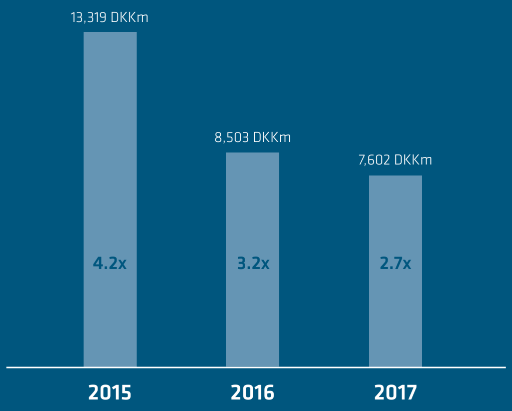
	2017							2016						
						Nets' share							Nets' share	
(DKKm)	Share	Currency	Revenue	Profit for the year	Net assets	Equity	Profit for the year	Share	Currency	Revenue	Profit for the year	Net assets	Equity	Profit for the year
Company name														
e-Boks A/S	50%	DKK	193	18	38	19	9	50%	DKK	179	14	30	15	7
Total			**193**	**18**	**38**	**19**	**9**			**179**	**14**	**30**	**15**	**7**

Section 5:

Funding and capital structure

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

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



In this section:

Note 5.1

Share capital

Significant accounting policies

Equity

Dividends

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

Foreign currency translation reserve

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

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

Hedge reserve

The hedge reserve comprises fair value of hedging instruments qualifying for hedge accounting. Hedge accounting ceases when the hedging instrument matures or is no longer effective. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the income statement in the same period that the non-financial asset or liability affect 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 are registered as payment institutions in Denmark (Nets Denmark A/S), in Finland (Nets Oy and Paytrail Oyj) and in Sweden (DIBS Payment Services AB), and therefore such subsidiaries are subject to minimum capital requirements by local authorities.

Note 5.1
Share capital (continued)

Share capital (DKKm)	2017 Shares ('000)	2017 Nominal value (DKKm)	2016 Shares ('000)	2016 Nominal value (DKKm)
Nets A/S at 5 February (2015: Nassa Topco AS)	200,411	200	567	50
Additions	-	-	199,844	150
Nets A/S as at 31 December	**200,411**	**200**	**200,411**	**200**

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

Earnings per share

Basic earnings/(loss) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of Ordinary Shares in issue during the financial period. Diluted earnings/(loss) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of Ordinary Shares in issue during the financial period adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive Ordinary Share options granted by the Group, including performance-based options, which the Group considers to have been earned. When a loss is recognised during a financial period, a basic loss per share rather than a basic earnings per share will be recognised. The dilutive effects will not be considered in calculating the diluted loss per share as this would reduce the loss per share. The weighted average number of shares used to determine earnings per share has been calculated in accordance with the principle of reverse acquisition accounting. Underlying basic and diluted earnings per share are included, as the Executive Management believe this provides a better reflection of the Group's performance.

	2017	2016
Profit (DKKm)		
Total profit for the year	1,206	(601)
Average number of shares ('000)		
Basic	200,411	200,411*
Treasury shares	747	-
Dilutive share-based incentives	60	-
Basic earnings per share (DKK)		
Total basic earnings per share	6.04	(3.00)
Total diluted earnings per share	6.04	(3.00)

* Number of shares and calculation of EPS are based on the number of shares following the completion of the IPO

Treasury shares	2017 Shares ('000)	2017 Nominal value (DKKm)
Acquistion of treasury shares	1,203	(1,203)
Treasury shares as at 31 December	**1,203**	**(1,203)**

Treasury shares are used to finance the Groups share option programme, note 6.3.

Note 5.2

Borrowings and related risks

Significant accounting policies

Financial liabilities

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

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

Loans and borrowings

This is the category most relevant to the Group.

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

Derecognition

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

Derivative financial instruments and hedge accounting

Derivative financial instruments 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.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as financial items.

Amounts recognised as OCI are transferred to the income statement when the hedged interest expense is recognised in the income statement.

Loans and borrowings

The IPO facilities are senior unsecured, but benefit from cross-guarantees provided by Nassa Topco AS, Nassa A/S, Nets A/S, Nets Holding A/S and Nets Denmark A/S.

They consist of a combination of a two-year term loan (NOK 842 million) and four-year term loans (DKK 2,034 million, NOK 1,797 million and EUR 18 million) as well as a four-year multi-currency, revolving credit facility ('RCF'). The RCF amounts to EUR 475 million (DKK 3,531 million), of which EUR 75 million (DKK 558 million) are carved out in an overdraft facility ('Overdraft Facility').

Together, the RCF and the Overdraft Facility are available for general corporate purposes of the Group. As of 31 December 2017, the RCF was drawn DKK 620 million, DKK 585 million netted of unamortised debt cost (2016: DKK 1,980 million, DKK 1,936 million netted of unamortised debt cost), leaving DKK 2,353 million (2016: DKK 996 million) undrawn. The Overdraft Facility was drawn DKK 165 million (2016: DKK 0 million) as of 31 December 2017 leaving DKK 393 million (2016: DKK 558 million) available. All of the two-year and four-year term loans in DKK and NOK have been swapped to fixed interest rates until maturity, leaving only the EUR denominated term loan, the RCF and the Overdraft Facility at variable interest rate.

Refinancing

Following the Bond issue, the proceeds, were used to refinance existing debt and pay fees, costs and expenses associated with the Bond issue. Of the existing debt, the two-year term loans (DKK 2,028 million, EUR 19 million and NOK 925 million) were repaid and replaced by the Bond (EUR 400 million).

New loans and borrowings

The Bond (EUR 400 million) is issued by Nassa Topco AS with cross-guarantees provided by Nassa Topco AS, Nassa A/S, Nets A/S, Nets Holding A/S, Nets Denmark A/S. The Bond (EUR 400 million) has been swapped to DKK (DKK 2,194 million) and NOK (NOK 965 million) with fixed interest rates until maturity and final exchange of notional at maturity.

Clearing working capital facilities

In addition to the bank facilities, the Group has separate bank lines available for clearing working capital purposes; EUR 175 million (DKK 1,303 million) on a committed basis and additional EUR 30 million (DKK 223 million) on an un-committed basis. On 31 December 2017, the over-draft facilities for clearing working capital was drawn by DKK 482 million (2016: DKK 91 million), leaving DKK 1,044 million (2016: 1,510 million) un-drawn. In addition, the Group also has a number of intra-day facilities available.

Note 5.2

Borrowings and related risks (continued)

Term and maturity of the Group's interest-bearing loans and borrowing (DKKm)	2017 Interest rate Nominal	Effective	Year of maturity	Currency	Available facility	Drawn amount	Amount hedged	Carrying amount	2016 Carrying amount
Term Loan 1 (EUR)	EURIBOR[1] + 2.0%	2.0%	2019	EUR	-	-	-	-	139
Term Loan 1 (NOK)	NIBOR[1] + 1.75%[2]	2.8%	2019	NOK	637	637	637	632	1,429
Term Loan 1 (DKK)	CIBOR[1] + 2.0%	1.9%	2019	DKK	-	-	-	-	2,006
Term Loan 2 (EUR)	EURIBOR[1] + 2.25%[1]	2.3%	2021	EUR	135	135	-	134	134
Term Loan 2 (NOK)	NIBOR[1] + 2.25%[2]	3.4%	2021	NOK	1,337	1,337	1,337	1,325	1,429
Term Loan 2 (DKK)	CIBOR[1] + 2.25%[2]	2.6%	2021	DKK	2,034	2,034	2,034	2,016	2,011
Revolving Credit Facility[3]	IBOR[1] + 2.25%[2]	2.3%	2021	Multi	2,978	620	-	585	1,936
Senior Notes	2.875%	3.4%	2024	EUR	2,978	2,978	2,978	2,932	-
Total long-term borrowings (non-current liabilities)								**7,624**	**9,084**
Overdraft facility (own cash)[2]	IBOR[1] + 2.5%	2.5%	2021	Multi	558	165	-	165	-
Overdraft facility (clearing-related balances)[4]				Multi	1,303	482	-	482	91
Money market (clearing-related balances)				Multi	223	-	-	-	223
Total short-term borrowings (current liabilites) - Included in own cash calculation								**647**	**314**
Total loans and borrowings								**8,271**	**9,398**

[1] For the Term Loans, Revolving Credit Facility, there is a floor of 0.0% on the EURIBOR, NIBOR and CIBOR.
[2] As per 21 August 2017, the margin on Term Loans and Revolving Credit Facility is reduced by 25 basispoints.
[3] Revolving Credit Facility commitment is EUR 475 million and overdraft carveout of EUR 75 million.
[4] Overdraft facility for clearing working capital ("CWC") with commitment of EUR 175 million in bank lines.

Note 5.2

Borrowings and related risks (continued)

Net interest-bearing debt (DKKm)	2017	2016
Total long-term borrowings exclusive of finance lease liability (non-current liabilities)	7,624	9,084
Capitalised debt costs included in carrying amount	118	122
Own cash	(140)	(703)
Net interest-bearing debt	**7,602**	**8,503**

2017

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

2016

Maturity (DKKm)	Carrying amounts	Contractual cash flow	<1 year	1-2 years	3-4 years	> 5 years
Term Loan	7,148	8,019	205	205	3,910	3,699
Revolving Credit Facility	1,936	1,653	7	7	15	1,624
Overdraft facilities	314	314	314	-	-	-
Total	**9,398**	**9,986**	**526**	**212**	**3,925**	**5,323**

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

Note 5.3

Finance lease

The Group has entered into a number of finance lease agreements related to purchase of software and equipment. The leasing period is 3-5 years and none of the agreements include any conditional payments. Some of the agreements give the Group an option to purchase the assets to a price lower or equal to the assets' nominal amount, while others gives the Group an option to extend or renew the agreement.

Finance lease (DKKm)	2017	2016
Commitments in relation to finance lease are payable as follows:		
> 1 year	28	6
1-5 years	61	18
Minimum lease payments	**89**	**24**
Future finance charges	(6)	(2)
Recognised as a liability	**83**	**22**
The present value of the finance lease liabilies is as follows:		
> 1 year	24	5
1-5 years	59	17
Minimum lease payments	**83**	**22**

Note 5.4

Net financials

Significant accounting policies

Financial items

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

(DKKm)	2017	2016
Financial income		
Net foreign exchange gains	115	-
Interest income	-	-
Other income etc.	8	-
Total financial income, exclusive of refinancing costs	**123**	**-**
Financial expenses		
Net foreign exchange loss	-	(147)
Interest expense	(265)	(826)
Fair value adjustment of financial liabilities	(17)	(7)
Amortisation of transaction costs	(29)	(41)
Other fees etc.	(30)	(34)
Total financial expenses, exclusive of refinancing costs	**(341)**	**(1,055)**
Extraordinary amortisation of transaction costs in connection with refinancing	(28)	(245)
Payment in Kind interest in connection with early settlement	-	(478)
Settlement of interest swaps	(2)	(15)
Financial expenses - refinancing costs	**(30)**	**(738)**
Net financials, inclusive of refinancing costs	**(248)**	**(1,793)**

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 basis interest rates. Cash held at variable rates partly offsets risk arising from changing interest rates on the Group's loans and credits.

Exposure to changes in interest rates (DKKm)	**Variable, non-contractual**	**Contractual variable rates < 1 month**	**Total**
Cash and cash equivalent	1,389	-	**1,389**
Bank loans	-	7,624	**7,624**
Overdraft facilities	-	647	**647**
Net	**1,389**	**8,271**	**(6,882)**

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.

		2017		**2016**	
(DKKm)	**Probable change in interest**	**Hypothetical impact on profit for the year**	**Hypothetical impact on equity**	**Hypothetical impact on profit for the year**	**Hypothetical impact on equity**
Borrowings	1 p.p.	(8)	86	(23)	180

The interest rate on the Term Loans in NOK and DKK are hedged (reference note 5.2). An increase in the interest rate of 1 p.p. would therefore only affect the Term Loans in EUR and the revolving credit facility. An increase in the interest rate of 1 p.p. would result in a gain on equity related to the value of the derived financial instruments (interest hedge).

Note 5.6

Commitments, contingencies and collaterals

Significant accounting policies

Leases

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

The Group as 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 2017 and 2016 were DKK 115 million and DKK 107 million, respectively.

Commitments

The Group has entered into a number of long-term agreements for the purchase of services.

Contingencies

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

Group as a Lessee:

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

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

2016 (DKKm)	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
Operating leases	100	149	69	206	**524**
Total contractual obligations	**100**	**149**	**69**	**206**	**524**

Section 6:

Tax and Governance

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

In this section:

Note 6.1

Income and deferred income taxes

Significant accounting policies

Income taxes

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

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

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

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

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

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

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

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

Note 6.1

Income and deferred income taxes (continued)

Key accounting estimates and judgements

Deferred tax assets

The Group recognises deferred tax assets, including the expected tax value of tax loss carry-forwards if management assesses that these tax assets can be offset against positive taxable income in the near future. This judgement is made annually and based on budgets and business plans for the coming years, including planned commercial initiatives. As at 31 December 2017, the carrying amount of the deferred tax assets are DKK 386 million (2016: DKK 376 million) and unrecognised tax losses are DKK 828 million (2016: DKK 1.117 million).

(DKKm)	2017	2016
Income taxes expensed		
Current tax on profit for the year	(220)	(659)
Deferred tax on profit for the year	150	769
Adjustments related to previous years - current tax	7	2
Income taxes in the income statement	**(63)**	**112**

(DKKm)	2017	2016
Income taxes paid		
Income taxes paid in Denmark	(137)	(534)
Income taxes paid outside Denmark	(63)	(119)
Total income taxes paid *)	**(200)**	**(653)**

*) In 2017 tax paid related to Visa pass-through proceeds was DKK 23 million (2016: DKK 388 million) in Denmark and DKK 5 million (2016: DKK 63 million) in Finland

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

(DKKm)	2017	2016
Profit before tax	**1,281**	**(696)**
Income tax expense calculated at domestic tax rate	(282)	153
Deviation in foreign subsidiaries' tax rates compared with Danish tax rate	(5)	35
Permanent differences[1]	165	(279)
Adjustments related to previous years - deferred tax	3	14
Adjustments related to previous years - current tax	4	2
Previous years not recognised tax losses utilised or capitalised	72	104
Exchange rate adjustment	(20)	10
Tax effect of fair value adjustment of Visa shares and related contingent consideration liability[2]	-	73
Income tax expense recognised in the income statement	**(63)**	**112**

(DKKm)	2017	2016
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	0.4%	5.1%
Permanent differences[1]	(12.9%)	(40.0%)
Adjustments related to previous years - deferred tax	(0.2%)	2.0%
Adjustments related to previous years - current tax	(0.3%)	0.3%
Previous years not recognised tax losses utilised or capitalised	(5.6%)	14.9%
Exchange rate adjustment	1.5%	1.4%
Tax effect of fair value adjustment of Visa shares and related contingent consideration liability[2]	-	10.4%
Effective tax rate	**4.9%**	**16.1%**

[1] Permanent differences in 2017 mainly include losses in Norway due to foreign currency translation adjustments on external debt that is only recognised for tax purposes.

[2] In 2016, the tax effect of pass-through proceeds related to Visa shares includes a deferred tax income of DKK 115 million related to prior years. In 2016, Nets Oy received an advance ruling from the Finnish tax authorities allowing Nets Oy to deduct a certain amount of the proceeds from the Visa shares that is passed on to the rightful owners of the proceeds. As the full expense was treated as non-deductible in 2015, a deferred tax income of DKK 115 million related to prior years is recorded. See note 7.2.

Note 6.1

Income and deferred income taxes (continued)

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

Development in deferred income tax assets and liabilities (DKKm)	2016						
	Intangible assets	Plant & equipment	Other receivables	Employee benefits obligation	Deferred tax losses carried forward	Other financial assets	Total
Net deferred tax asset/(liability) as at 1 January	(863)	32	(38)	13	96	(515)	**(1,275)**
Additions through business combinations	(3)	-	-	-	-	-	**(3)**
Deferred tax on profit for the year	102	(1)	(47)	1	174	400	**629**
Adjustment relating to previous years	(1)	-	14	-	-	115	**128**
Other changes to deferred tax	-	-	34	-	-	-	**34**
Exchange rate adjustment	1	2	1	-	8	-	**12**
Net deferred tax asset/(liability) as at 31 December	**(764)**	**33**	**(36)**	**14**	**278**	**-**	**(475)**
Classified as follows:							
Deferred tax asset as at 31 December							376
Deferred tax liability as at 31 December							851

Note 6.2

Related party transactions

Related party transactions

As at 31 December 2017 there are no shareholders with controlling interest. Large shareholders are:
AB Toscana (Luxembourg) Investment S.à r.l 39.9%.

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

Transactions with e-Boks A/S comprise mainly administrative services amounting to DKK 52 million (2016: DKK 44 million).

There were no transactions with members of Group Management or members of the Board of Directors of the Group, other than remuneration, and furthermore no loans were granted to the Board of Directors or Group Management in 2017 or 2016.

Remuneration of the Board of Directors and Group Management

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

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

At year-end 2017, Group management consisted of seven members (six in 2016).

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

Ownership

The economic ownership of Nets A/S by Executive and Group management is as follows:

Bo Nilsson	1.5% (2016: 1.5 %)
Klaus Pedersen	0.4% (2016: 0.4 %)
Group Management	1.1 % (2016: 1.3 %)

	2017				2016			
(DKKm)	Board of Directors	Executive Management	Group Management	Total	Board of Directors	Executive Management[1]	Group Management	Total
Fixed base salary	(5)	(11)	(21)	**(37)**	(3)	(11)	(16)	**(30)**
Bonus	-	(10)	(9)	**(19)**	-	(15)	(13)	**(28)**
Pensions	-	(2)	(1)	**(3)**	-	(1)	(1)	**(2)**
Benefits	-	(0)	(1)	**(1)**	-	(0)	(1)	**(1)**
Total	**(5)**	**(23)**	**(32)**	**(60)**	**(3)**	**(27)**	**(31)**	**(61)**
Retention bonus	-	(11)	(13)	**(24)**	-	(3)	(3)	**(6)**
Share-based payment	-	(5)	(5)	**(10)**	-	-	(1)	**(1)**
Total remuneration	**(5)**	**(39)**	**(50)**	**(94)**	**(3)**	**(30)**	**(35)**	**(68)**

[1] On 27 September 2016 CFO Klaus Pedersen was nominated to Executive Management. Presented remuneration to CFO Klaus Pedersen includes total remuneration costs for entire 2016.

Note 6.3

Share-based payment

Significant accounting policies

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

Share option programme

Long-term share option programme was established in 2016 in connection with the IPO and granted to Management and certain key employees. In connection with the Annual General Meeting, and as determined by the Board of Directors, share options are granted annually for an amount equivalent to 20-100% of annual salary (however target of 0.75 % of the Share capital). Vesting is subject to fulfilment of certain key financial targets and continued employment at the vesting date. Each option gives the right to purchase one existing share in Nets A/S. The total value of the share option program granted in 2017 was DKK 20 million (2016: DKK 22 million). DKK 16 million (2016: DKK 2 million) was expensed in 2017 relating to the long-term share option program.

Retention programme

In connection with the IPO, a non-recurring share-based retention programme has been established for members of the Executive Committee and certain other employees (the "Retention Programme"). Under the Retention Programme, the participants may be granted shares at the end of a 720-day period subsequent to the date where the Company was listed. The shares equal an amount of 24 months' base salary, provided, among other things, that the participants have retained at least 25% of the total number of shares that were directly or indirectly held by the participant under the former management Incentive Programme. The total costs associated with the Retention Programme amount to DKK 53 million, and will be recognised in the Income Statements as staff costs over a two-year period. The cost recognised in 2017 amounts to DKK 27 million (2016: DKK 6 million).

Share option programme	2017	2016
Vesting conditions (KPIs)	Organic growth and EBITDA	Organic growth and EBITDA
Exercise price	DKK 133.20	DKK 165.00
Vesting	February 2020	February 2019
Weighted average share price during exercise period	Not vested	Not vested
Average Black-Scholes value of options	**DKK 16.80**	**DKK 19.40**
Assumptions:		
Risk-free interest rate	(0.46%)	(0.52%)
Retention rate	80%	80%
Volatility[1]	25.00%	25.00%
Dividend	0.80%	0.65%
Period	4.0 years	3.4 years

Number of share options	Executive Management	Group Management	Key employees	Total	Average exercise price
Outstanding as at 1 Janaury 2017	444,758	401,984	593,388	**1,440,130**	165.00
Granted in the year[2]	456,094	425,702	609,529	**1,491,325**	133.20
Cancelled in the year	-	-	(115,444)	**(115,444)**	153.33
Outstanding as at 31 December 2017[3]	**900,852**	**827,686**	**1,087,473**	**2,816,011**	**148.64**

[1] A peer group for the estimation of the volatility has been applied. The volatility estimation is based on daily, weekly and monthly returns for the last 4 years (2016: 3.4 years), which is the expected duration of the options in the LTIP

[2] The granting is based on a 100% fulfilment of the vesting conditions, but it is possible to achive 120%

[3] The remaining average vesting period for outstanding share options as at 31 December 2017 is 1 year and 8 month

Employee share award

Following the IPO, each full-time employee was awarded shares worth DKK 24,900. The consolidated Group expense in connection with the Employee share award amounted to DKK 64 million in total including social costs in 2016. The shares delivered under the Employee share award were covered by issuing bonus shares.

Note 6.4

Fee to statutory auditors

(DKKm)	2017	2016
Remuneration to Auditors (PwC as elected by the Annual General Meeting)		
Statutory audit	**(6)**	**(6)**
Non-statutory audit services:		
Other assurance engagements	(2)	(1)
Tax advisory services	(3)	(1)
IPO-related costs	-	(21)
Other services	(2)	(3)
Total non-statutory audit services	**(7)**	**(26)**
Total	**(13)**	**(32)**

Fee for other services than statutory audit of the financial statements provided by PwC Statsautoriseret Revisionsanpartsselskab to the Group consist of services related to bond issuance, takeover offer, Merger & 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 consists of the items: service costs, interest expenses and interest income on assets. Service costs are recognised in wages, salaries and pension costs. Interest expenses and interest income on assets, net, are recognised in pension costs.

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

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

Note 7.1

Pension assets and pension obligations, net (continued)

Key accounting estimates and judgements

Defined benefit pension plans

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

The actuarial assumptions used for the valuation of the pension obligation are based on regularly used assumptions within insurance for demographic factors. Nets has used the assumptions according to the guidance from the Norwegian Accounting Standards Board (NASB), as these reflect Nets' expectations regarding annual wage and price inflation. The actuarial valutation is from 7 January 2018 based on parameters from 31 December 2017.

Defined benefit plans (DKKm)	**2017**	**2016**
Assets and liabilities		
Specification of pensions		
Fair value of plan assets	74	76
Projected benefit obligations	(135)	(142)
Pension asset/(liability) recognised in the balance sheet	**(61)**	**(66)**
Change in pension assets/(obligations) recognised in the balance sheet		
Pension liability recognised in the balance sheets as at 1 January	(66)	(59)
Pension (costs)/income recognised in the income statements	(5)	(5)
Actuarial gains/(loss) on projected benefit obligations and plan assets recognised in other comprehensive income	(2)	(6)
Gain on plan assets	2	2
Nets' contribution	7	5
Benefit paid to employees	2	1
Exchange rate adjustments	1	(4)
Pension assets/(obligations) recognised in the balance sheet as at 31 December	**(61)**	**(66)**

	2017			**2016**		
		Sensitivity			Sensitivity	
	Assumptions	**+1%-point**	**-1%-point**	**Assumptions**	**+1%-point**	**-1%-point**
Discount rate	2.3%	(14)	18	2.6%	(14)	18
General wage inflation	2.5%	4	(4)	2.5%	4	(4)
Expected regulation of minimum payment	1.5%	13	(11)	1.5%	13	(11)

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.

The Group has used a mortality rate in accordance with the Norwegian K2013 table. Overall, an expected lifetime after retirement at age 65 is 18.1 years for men and 21.1 years for women.

(DKKm)	**2017**	**2016**
Expected maturity of projected benefit obligation		
Within 1 year	(7)	(6)
1 - 5 years	(27)	(23)
Beyond 5 years	(101)	(113)
Total	**(135)**	**(142)**

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, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

Key accounting estimates and judgements

Other financial assets

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

Other financial liabilities

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

The fair value adjustments of the Visa Inc. shares and contingent consideration (assets) and the obligation to pass on any proceeds (liability) have been measured based on available information and Executive Management's best estimate as at 31 December 2017.

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 Oy), 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 extend 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 Teller A/S, respectively.

In 2016, shares in Visa Europa were converted into cash, restricted shares in Visa Inc. and contingent considerations, where received cash net of tax effects have been partly passed through to the previous owners of Nets Holding A/S (the Danish and Norwegian banks) and Nets Oy and partly used for tax payments related to the gain on the Visa transaction. As of 31 December 2017 all cash has been passed through (2016: DKK 194 million not yet passed through).

Accounting treatment of the Visa transaction

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

In 2016, a Finnish ruling has been obtained, which allows payments to the original sellers of Luottokunta Oy to be deducted for Finnish tax purposes. There is no net P&L effect as the tax saving results in a corresponding increase in financial items. The adjustment of prior year amounts to DKK 115 million. Fair value adjustments are based on management's best estimate on received information as at 31 December 2017, although uncertainty exists with regard to the value of preference shares, deferred payments and leakage and transaction costs. Nets is working to mitigate any uncertainties/risks related to the Visa transaction, including (i) requesting binding rulings from the relevant tax authorities ("bindende svar") on the tax treatment of the pass-through arrangement and (ii) refraining from paying out any proceeds before (a) a receipt of binding tax rulings is obtained, and (b) a release has been received from all beneficiaries under the above agreements, primarily SLOK and the Nets Holding A/S sellers, stating that such payment is in full discharge of any obligations.

Note 7.2

Other financial assets and financial liabilities (continued)

(DKKm)	2017	2016
Consolidated income statement		
Value adjustment on shares (financial income)	93	413
Value adjustment on debt (financial expense)	(83)	(448)
Adjustment related to previous year's tax on pass through proceeds	-	115
Tax on pass through proceeds	-	(80)
Net profit for the year on pass through proceeds	**10**	**-**
Proceeds related to Teller Branch Norway (financial income)	14	185
Tax on proceeds related to Teller Branch Norway	-	(1)
Net profit for the year	**24**	**184**
Other financial assets		
Restricted shares in Visa Inc. and contingent consideration held by Teller Branch Norway	73	59
Restricted shares in Visa Inc. and contingent consideration held by Teller A/S	105	562
Restricted shares in Visa Inc. and contingent consideration held by Nets Oy	62	336
Other financial assets as at 31 December	**240**	**957**
Other financial liabilities		
Visa proceeds to be transferred to formor owners of Nets Holding A/S	95	721
Visa proceeds to be transferred to former owners of Nets Oy	59	343
Other financial liabilities as at 31 December	**154**	**1,064**

(DKKm)	2017	2016
Current tax liability		
Current tax on net fair value gain	-	(28)
Current tax liability as at 31 December	**-**	**(28)**
Cash flow		
Received cash consideration related to Visa Europe shares held by Teller Branch Norway	-	127
Received cash consideration related to Visa Europe shares held by Teller A/S	-	1,216
Received cash consideration related to Visa Europe shares held by Nets Oy	3	727
Proceeds from Visa Europe shares	**3**	**2,070**
Payment of Visa proceeds to former owner of Nets Holding A/S	(163)	(662)
Payment of Visa proceeds to former owner of Nets Oy	(3)	(625)
Payment of proceeds	**(166)**	**(1,287)**
Tax paid on pass through proceeds Teller A/S	(23)	(388)
Tax paid on pass through proceeds Nets Oy	(5)	(64)
Tax paid on pass through proceeds	**(28)**	**(452)**

In addition, the Group could potentially receive a share of proceeds payable by Visa Inc. to Visa Sweden, through the Group's branch in Sweden. These proceeds are subject to a number of uncertainties and therefore not recognised in the balance sheet as at 31 December 2017.

Note 7.3

Classification of financial assets and financial liabilities

Fair value measurement hierarchy

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

The methods and assumptions used in measuring the Group's financial assets and liabilities at fair value are unchanged from 2016.

The methods and assumptions are as follows:

- the fair value of financial assets traded in active markets is based on quoted market prices as at the balance sheet date (level 1)
- financial liabilities with variable interest rates, e.g. bank loans, are measured at par (level 2)
- financial assets and liabilities which are highly liquid and have a short duration are estimated to have a fair value that is identical with the book value (level 3).

2017

Financial assets and liabilities (DKKm)	Fair value through income statement	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortised cost	Total
Trade and other receivables	-	841	-	-	841
Settlement assets	-	7,791	-	-	7,791
Cash at bank and on hand	-	-	1,389	-	1,389
Other financial assets[1]	240	-	-	-	240
Total financial assets	**240**	**8,632**	**1,389**	**-**	**10,261**
Borrowings	-	-	-	7,624	7,624
Trade and other payables	-	-	-	1,572	1,572
Merchant creditors	-	3,370	-	-	3,370
Settlement obligations	-	5,023	-	-	5,023
Deferred consideration[2]	266	-	-	-	266
Finance lease	-	-	-	83	83
Other financial liabilities[1]	154	-	-	-	154
Total financial liabilities	**420**	**8,393**	**-**	**9,279**	**18,092**
Total net financial assets/(liabilities)	**(180)**	**239**	**1,389**	**(9,279)**	**(7,831)**

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

2016

Financial assets and liabilities (DKKm)	Fair value through income statement	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortised cost	Total
Trade and other receivables	-	801	-	-	801
Settlement assets	-	4,477	-	-	4,477
Cash at bank and on hand	-	-	1,869	-	1,869
Other financial assets[1]	957	-	-	-	957
Total financial assets	**957**	**5,278**	**1,869**	**-**	**8,104**
Borrowings	-	-	-	9,084	9,084
Trade and other payables	-	-	-	1,614	1,614
Merchant creditors	-	2,622	-	-	2,622
Settlement obligations	-	2,513	-	-	2,513
Deferred consideration[2]	284	-	-	-	284
Finance lease	-	-	-	22	22
Other financial liabilities[1]	1,064	-	-	-	1,064
Total financial liabilities	**1,348**	**5,135**	**-**	**10,720**	**17,203**
Total net financial assets/(liabilities)	**(391)**	**143**	**1,869**	**(10,720)**	**(9,099)**

[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.

Note 7.4

Standards issued but not yet effective

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

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9.

The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

The new standard has been reviewed and it has been concluded that the financial impact is immaterial, but there will be requirements to update hedging documentation and additional information in disclosures.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers.

Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.
The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

Either full or modified retrospective application is required for annual periods beginning on or after 1 January 2018.

A review of the different types of revenue have been performed to assess the impact of the new standard. The conclusion is that the new standard will not have any effect on the way Nets today recognise revenue related to the three types of revenue; 1) transaction services, 2) subscription-based fees related to the sale and rental of point-of-sales, and 3) fees related to value added services.

In relation to revenue from development projects, which in 2016 and previous years have been a minor part of the total revenue, there is a need for a contract-by-contract review to evaluate performance obligations and deliveries (value hereof) to determine revenue recognition which will expectedly result in more 'delivery'-recognition compared to applying percentage-of-completion method today.

Based on the assessment it has been concluded that the new standard will result in new disclosures, but it is expected that the impact on recognition and measurement is limited.

IFRS 16 Leases

IASB has issued IFRS 16 ´Leases´, with effective date 1 January 2019. IFRS 16 is part of the convergence project with FASB to replace IAS 17. The standard requires to recognise assets and liabilities for most leases.

Nets Group has made preliminary assessment of the impact of the standard and evaluated that the implementation of the standard is likely to result in capitalisation of the majority of the Group´s operational lease contracts.

The calculation of the effect has been done on Nets' contracts for office rentals as they are deemed the most significant. This will result in;

- an increase in Plant and Equipment of DKK 700-800 million,
- an increase in financial liabilies of DKK 700-800 million,
- a net effect in the income statement of DKK 10-20 million as additional costs, as an result of a decrease in external expenses of DKK 60-80 million, offset by increases in depreciations at DKK 50-70 million and financial expenses of DKK 10-30 million.

Note 7.5

Events after the balance sheet date

On the 24 January 2018, Nets announced that the Swedish Financial Supervisory Authority (FSA) has provided its consent to the ownership assessment application submitted by the Offeror pursuant to the Swedish Payment Services Act and the Swedish Electronic Funds Act. Following receipt of the Swedish FSA's consent, all regulatory approvals upon which the Offer was conditioned have now been obtained. On the 2 February 2018, Nets announced that a final count of the number of acceptances from shareholders in Nets showed that Hellman & Friedman has received acceptances representing 188,109,435 shares corresponding to 94.1% of the entire share capital and voting rights in Nets (excluding treasury shares). Referring to the voluntary recommended public takeover offer to buy the entire share capital of Nets A/S announced 25 September 2017 all conditions, inter alia, customary merger clearance and regulatory approvals and offer acceptance from more than 90% of the share capital and voting right of Nets were completed as announced 2 February 2018.

On 5 February 2018, Nets, upon request from Hellman & Friedman, submitted an application for removal from trading and official listing of the shares of Nets A/S from Nasdaq Copenhagen. The last day of trading and official listing of the shares in Nets A/S was 12 February 2018.

The acquisition of Nets A/S by Hellman & Friedman will trigger the existing change of control clause under the IPO facilities which will result in the refinancing of the existing term loans and RCF. Further, the change of ownership combined with a rating downgrade, which have been indicated by the rating agencies, will give the option to bondholders to put the bond at a price of 101. New loan facilities have been secured to refinance the IPO facilities as well as the bond. The existing clearing working capital facilities will remain in place after the takeover.

As a result of the takeover vesting under the retention programme established for members of the Executive Committee and certain other employees has accelerated. Further, vesting of the established Post-IPO Long term-Incentive-Programme (LTIP) for the Management and certain key employees has accelerated.

Total costs related to the take-over and delisting has been estimated in the range of DKK 225 million – 275 milion excluding any financial impact from refinancing.

Note 7.6

Companies in the Group

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

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

Note 7.7

Financial definitions

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

Growth in revenue, reported	Absolute revenue growth / Revenue in comparetive 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 before special items (b.s.i)	EBITDA before special items
EBITDA before special items margin, %	EBITDA before special items / net revenue
Special items	As defined in Note 2.3
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 at year-end excluding clearing-related balances and received Visa proceeds in cash to be passed through
Net interest bearing debt (NIBD)	Interest bearing debt net of own cash and clearing-related borrowings
Cash conversion ration	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
Earnings per share	As defined in Note 5.1

Financial statements:

Parent Company

In this section:

Income statement for the parent company

(DKKm)	Note	2017	2016
Revenue	2	7	1
External expenses	3	(59)	(79)
Staff costs	4	(38)	(10)
Operating profit (EBIT)		**(90)**	**(88)**
Financial income	5	2	2
Financial expenses	5	(3)	(0)
Net financials		**(1)**	**2**
Profit before tax		**(91)**	**(86)**
Income taxes		18	(4)
Net profit for the year		**(73)**	**(90)**
Proposed profit appropriation			
Retained earnings		(73)	(90)
Total appropriation		**(73)**	**(90)**

Balance sheet for the parent company

(DKKm)	Note	2017	2016
Assets			
Non-current assets			
Deferred tax asset		3	-
Investment in subsidiaries	6	10,237	10,144
Total non-current assets		**10,240**	**10,144**
Current assets			
Other receivables		1	13
Prepayments (prepaid wages)		1	1
Receivables from group enterprises		43	261
Cash and cash equivalent		-	1
Total current assets		45	276
Total assets		**10,285**	**10,420**
Equity and liabilities			
Equity			
Share capital		200	200
Reserves		9,947	10,130
Total equity		**10,147**	**10,330**
Current liabilities			
Borrowings		1	-
Trade and other payables	7	51	86
Payable to group enterprises		86	4
Total current liabilities		**138**	**90**
Total liabilities		**138**	**90**
Total equity and liabilities		**10,285**	**10,420**
Accounting policies	1		
Contingent liabilities	8		
Related party transactions	9		

Statement of changes in equity for the parent company

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

2016 (DKKm)			
Equity 5 February	1	-	**1**
Capital increase (share exchange)	162	4,859	**5,021**
Capital increase (sale of primary)	37	5,463	**5,500**
IPO-related costs	-	(170)	**(170)**
Net profit for the year	-	(90)	**(90)**
Share based payment (Employee share bonus)	-	60	**60**
Share based payment	-	8	**8**
Total changes in equity	**199**	**10,130**	**10,329**
Equity 31 December	**200**	**10,130**	**10,330**

Nets A/S was formed on 5 February 2016 with a share capital of DKK 500.000. Several capital increases was made in the year by issuing a total of 200.411.094 new shares, each with a nominal share value of DKK 1.

Moreover, a capital reduction was made during the year of DKK 500.000. At 31 December 2016, total outstanding shares in Nets A/S is 200.411.094, each with a nominal value of DKK 1. There have been no changes in share capital in 2017. All shares are ordinary shares.

Note 1
Accounting policies

The financial statements of the parent company have been prepared in accordance with the Danish Financial Statements Act (Class D).

The accounting policies for the financial statements of the Parent 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.

Nets A/S was formed on 5 February 2016 for the purpose of acquiring Nassa Topco AS (the former ultimate holding company of Nets Holding A/S).

The shareholders of Nassa Topco AS did, prior to the IPO, exchanged all shares in Nassa Topco AS for new shares in Nets A/S via a share-for-share exchange. Nets A/S is hereafter the new parent of the Group.

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 acquisition cost is adjusted only when the recoverable amount of investment decreases below acquisition cost.

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 are 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 employees' exercise of share options are, oppositely, deducted from the accumulated cost of investments in subsidiaries.

Tax

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

Statement of cash flows

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

Note 2
Revenue

(DKKm)	2017	2016
Group services (wages and salaries etc)	7	1
Total	**7**	**1**

Note 3
Fee to statutory auditors

(DKKm)	2017	2016
Remuneration to Auditors (PwC as elected by the Annual General Meeting)		
Statutory audit	**(2)**	**(1)**
Non-statutory audit services:		
Tax advisory services	(0)	(0)
Other services	(0)	-
Total non-statutory audit services	**(0)**	**(0)**
Total	**(2)**	**(1)**

Note 4

Staff costs

(DKKm)	2017	2016
Staff costs		
Wages and salaries	(11)	(7)
Bonus	(10)	(0)
Share-based payment costs	(16)	(3)
Pensions - defined contribution plans	(1)	(0)
Other social security contributions	(0)	(0)
Other employee costs	(0)	(0)
Total employee costs for the year	**(38)**	**(10)**
Average number of full-time employees	2	2
Year-end number of full-time employees	2	2

Staff costs comprise costs to Executive Management employed in Nets A/S from 1 October 2016.

For information regarding remuneration to 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 5

Net financials

(DKKm)	2017	2016
Financial income		
Interest income from Group enterprises	2	2
Total financial income	**2**	**2**
Financial expenses		
Interest expenses to Group enterprises	(1)	(0)
Other fees etc.	(2)	(0)
Total financial expenses	**(3)**	**(0)**

Note 6

Investment in subsidiaries

(DKKm)	2017	2016
Investment in subsidiaries		
Accumulated cost at 1 January	10,144	-
Addition during the year	-	10,144
Accumulated cost as at 31 December	**10,144**	**10,144**
Share based payments - Contributions	93	-
Revaluation as at 31 December	**93**	**-**
Carrying amount at 31 December	**10,237**	**10,144**

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

Company name (DKKm)	**Share**	**Currency**	**Annual report**	**Equity**	**Profit for the year**
Nassa Topco AS	100%	DKK	2016	9,849	(306)
Total				**9,849**	**(306)**

Note 7

Trade and other payables

(DKKm)	2017	2016
Employee cost payable	15	1
Trade payables	36	85
Total	**51**	**86**

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 tax for the individual companies is allocated in full on the basis of the expected taxable income.

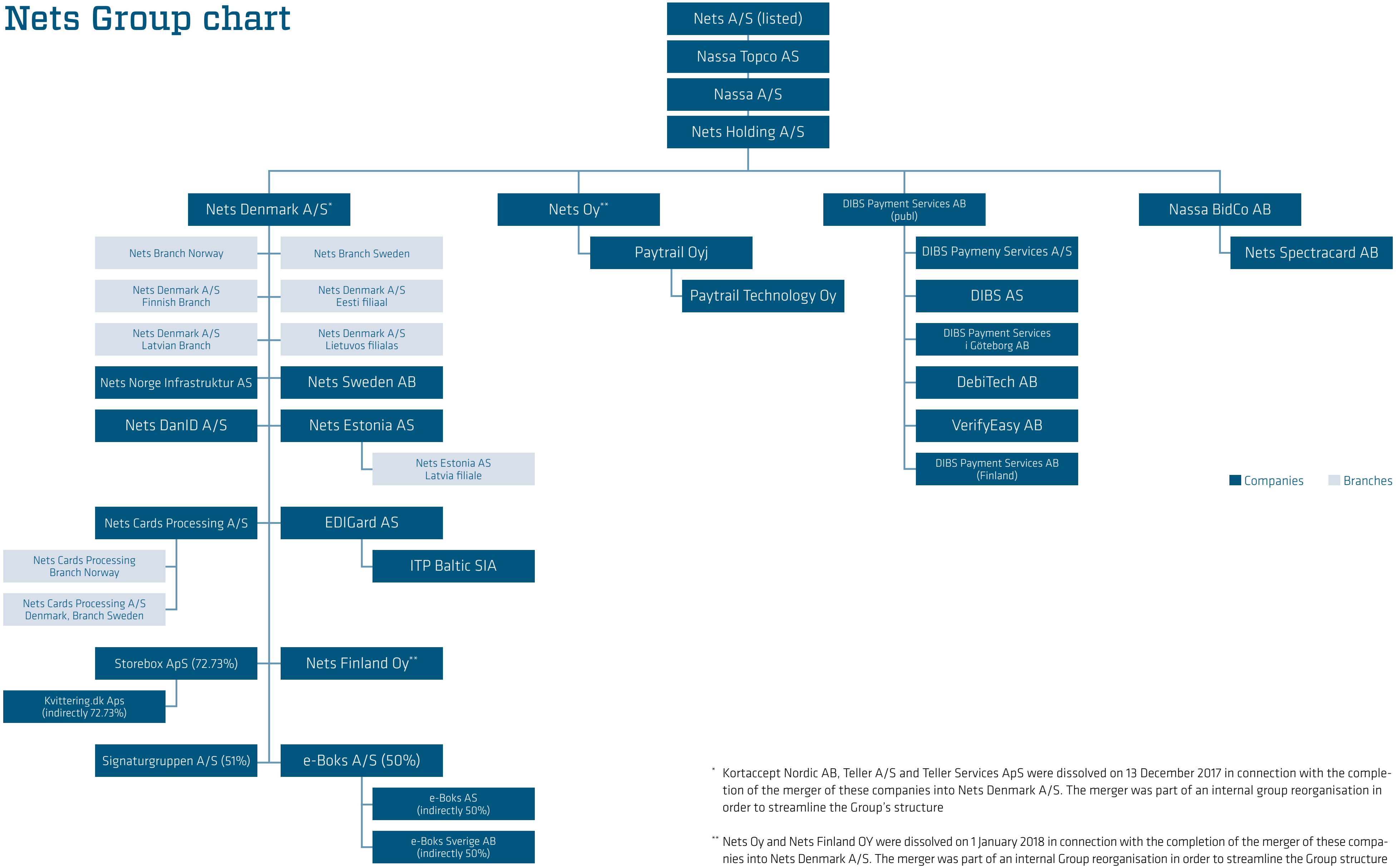
For information on pending litigation and other contingencies, please refer to Note 5.6 in the consolidated financial statements.

Note 9

Related party transactions

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

Nets Group chart



* Kortaccept Nordic AB, Teller A/S and Teller Services ApS were dissolved on 13 December 2017 in connection with the completion of the merger of these companies into Nets Denmark A/S. The merger was part of an internal group reorganisation in order to streamline the Group's structure

** Nets Oy and Nets Finland OY were dissolved on 1 January 2018 in connection with the completion of the merger of these companies into Nets Denmark A/S. The merger was part of an internal Group reorganisation in order to streamline the Group structure

Glossary*

3D Secure (secured by Nets) – an additional security layer for online credit and debit card transactions

A2A – account-to-account

Acceptance – a service that allows merchants to accept card payments

Account-based services – payments-based account infrastructure

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

API – 'application programme interface'. A language and message format used by software applications to communicate with each other

Artificial intelligence (AI) – intelligence exhibited by machines

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 finger print, iris og face recognition or behavioral patterns such as typing patterns, used a.o. for access control

Blockchain – a distributed ledger technology / decentral database

Blockchain Lab – Nets' blockchain lab established in May 2016 in a strategic partnership with Coinify

Bluetooth Low Energy (BLE) – a wireless technology standard for exchanging data over short distances between devices, e.g. a terminal and a mobile phone

Card issuer – most often a bank that issues payment cards, authorises and clears card transactions, and provides ongoing statementing, collections, and customer service

Card storage - a functionality offered by Nets, which allows consumers to shop online using only 3 digits instead of having to enter all card details

CERT – Computer Emergency Response Team

CERT Coordination Center – the worldwide center for coordinating information about internet security at Carnegie Mellon University

Clearing – the process of reconciliation of orders between transacting parties

Collecting Payment Service Provider (cPSP) – offers an integrated payment service to merchants that handles the technical facilitation of a transaction as well as the resulting financial settlement to the merchants' account

Contactless Dankort – the Danish domestic debit card with a contactless functionality. The Dankort scheme is owned by Nets

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

CMS – Consumer Management Services

CVC – card verification code – a 3-digit number at the back of a credit or debit card

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

Dankort app – a certified app for iOS and Android which will enable all Dankort cardholders to pay with their mobile

Data analytics – in this context, the process of examining very large data sets in order to draw conclusions about the information they contain, increasingly with the aid of specialised software

DDoS (Distributed Denial of Service) – a cyber-attack where the perpetrator uses more than one, often thousands, of unique IP addresses

Digital authentication – an electronic authentication process that confirms or certifies a person's identity and works

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 Innovation Lab – Nets' Digital Lab undertakes user-driven innovation with stakeholders across the business and in close dialogue with end-users and customers

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

Digital receipt – refer to 'e-receipt'

Digital wallet – software that allows an individual to carry out electronic transactions, in-store or online

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 dates of collection

DNS – Domain Name System

Dynamic Currency Conversion – a financial service in which credit card holders have the cost of a transaction converted to their home currency at the point of sale when shopping abroad

e-billing (electronic billing) – when a company sends its bills over the internet, and customers pay the bills electronically

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

ECR - Electronic Cash Registers

e-identity – refer to 'digital identity'

eFaktura – Nets' Norwegian e-billing service

e-receipt – an electronic receipt of any goods/services that have been purchased, opposed to a paper receipt

* Terms are explained in the context of this report

e-wallet – refer to 'digital wallet'

End-to-end payment services – a process that ensures comprehensive completion of payment, typically managed within a specified timeframe

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

FTE – full-time equivalent

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

Hackaton – a design sprint-like event in which computer programmers etc. collaborate intensively on developing software projects

HCE (Host Card Emulation) – an on-device technology that permits a phone to perform card emulation on an NFC-enabled device

Instant clearing – 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

Issuing services – a card issuing service on behalf of e.g. banks, from card creation and delivery to payment transaction authorisation

Know Your Customer (KYC) – processes and requirements in the banking sector that ensures detailed information about consumers' risk tolerance etc.

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'

Mobile acceptance – acceptance of payments carried out using a smartphone or another mobile device

Mobile Dankort – an open infrastructure allowing the payment mechanism of Dankort to be incorporated into third-party wallet solutions

Mobile payments – payments carried out using a smartphone or another mobile device

Mobile wallet – a solution which enables consumers to make contactless payments using their smartphone. Also capable of incorporating value-adding services

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

NFC (Near Field Communication) – a wireless connectivity technology that enables two electronic devices to establish communication

OEM – original equipment manufacturer

Omni-channel acceptance solutions – allow merchants to follow consumer payments across channels and benefit from a single view of their payments data across all channels

Open API – application programme interface, which is publicly accessible

Peer-to-peer (P2P) service – a decentralised platform whereby two individuals interact directly with each other

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

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

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

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

Proof of concept (PoC) – a demonstration to verify that certain concepts or theories have the potential for real-world application

PSD2 (PSDII) – the Directive on Payment Services in the Internal Market 2015/2366

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

Real-time clearing 24/7 – a Nets product allowing instant clearing and settlement of payments

Risk-based authentication – a non-static authentication system which allows the application to challenge the user for additional credentials

Security posture – a business' security plan, comprising technical and non-technical policies, procedures and controls

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

SIRT – Security Incident Response Team

SLA – Service Level Agreement

Tier 3 data centre – a location with redundant and dual-powered servers, storage, network links and other IT components, also known as a Level 3 data centre

Tokenisation – a system in which token numbers replace sensitive cardholder data to prevent fraud

Nets A/S
Lautrupbjerg 10 • DK-2750 Ballerup • www.nets.eu • CVR no. 37427497