

Financial results for H1 2018

Revenue

Net revenue in H1 2018 was DKK 3,781 million (2017, H1: DKK 3,816 million), down 0.9% year-on-year mainly due to non-recurring effects in Q1 2017 which overshadows the continued solid performance of the underlying business.

Organic growth¹ was 1%, driven by a strong performance, with the highlight being Financial & Network Services with an organic growth rate of 4% mainly driven by a strong growth in international credit and debit card transactions.

Merchant Services delivered a solid performance for the period and experienced a strong growth in eCommerce. Despite solid underlying performance by Merchant Services organic growth was negative (-2%) due to price pressure from MIF regulation and non-recurring effects.

Corporate Services remained at a stable level compared to the same period in 2017, due to solid underlying volume growth being offset by lower implementation revenue.

Operating expenses

The total operating expenses in H1 2018 were DKK 2,486 million (66.8% of net revenue) compared to DKK 2,500 million (65.5% of net revenue) in the same period in 2017.

Cost of sales

Cost of sales amounted to DKK 492 million (13.0% of net revenue) compared to DKK 490 million (12.8% of net revenue) in H1 2017. Cost of sales is mainly related to external vendors in Corporate Services like payments to the Danish banks for work done in connection with Betalingservice and to the POS business in Merchant Services.

External expenses

External expenses in H1 2018 amounted to DKK 943 million (2017, H1: DKK 940m). The external expenses to net revenue ratio was 24.9% (2017, H1: 24.6%). Other external expenses include consulting fees related to IT, cost related to sourcing partners and spending on hardware/software.

Staff cost

Staff cost in H1 2018 amounted to DKK 1,051 million (27.8% of net revenue) compared to DKK 1,070 million (28.0% of net revenue) in H1 2017. The decrease in staff cost was primarily driven by fewer employees, no Long-Term Incentive Programme in 2018 and capitalized development projects.

EBITDA before special items (b.s.i.)

EBITDA b.s.i. was DKK 1,295 million (2017, H1: DKK 1,316 million).

Special items

In total, special items were DKK 535 million compared to DKK 124 million in H1 2017. The increase is primarily due to cost related to M&A activities and the transformation programmes.

EBITDA

The operating performance, together with increased special items, resulted in an EBITDA of DKK 760 million for the period (2017, H1: DKK 1,192 million).

Depreciation and amortisation

In H1 2018, underlying depreciation and amortisation were DKK 259 million up from DKK 182 million in H1 2017. The increase is mainly driven by amortisation of certain development assets.

The amortisation of business combination and impairment losses amounted to DKK 320 million for the period (2017, H1: DKK 322 million).

EBIT

EBIT amounted to DKK 181 million (2017, H1: DKK 688 million) the decrease is mainly driven by special items related to transformation programmes and increased depreciation and amortisation expenses.

Adjusted EBIT calculated as EBITDA b.s.i. minus underlying depreciation and amortisation was DKK 1,036 million, down from the DKK 1,134 million generated in H1 2017.

Net financials

Net financials were an expense of DKK 437 million compared to an expense of DKK 101 million in the same period in 2017.

Financial expenses amounted to DKK 457 million compared to DKK 101 million in H1 2017. The increase is mainly driven by a higher leverage level than in the corresponding period in 2017 and amortisation of costs related to the redemption of existing Nets A/S debt in connection with the Hellman & Friedman-led take-private transaction in February 2018.

Impact from Visa shares was positive by DKK 20 million in H1 2018 compared to a positive value adjustment of DKK 5 million in the same period last year.

¹ Organic growth is calculated on a constant business scope (e.g. excluding the effect of M&A) and a constant currency basis

Tax

Taxes amounted to DKK 96 million for the period (2017, H1: DKK 52 million), profit before tax was a loss of DKK 256 million (2017, H1: profit of DKK 587 million).

Net profit/(loss)

Net loss for the period of DKK 352 million (2017, H1: net profit of DKK 535 million) driven by special items, financial items and increased depreciation and amortisations.

Adjusted net profit

Adjusted net profit was DKK 658 million in H1 2018 (2017, H1: DKK 742 million).

Balance sheet and cash flow

Cash flow

Net cash flow from operating activities excluding clearing-related balances was DKK 471 million in H1 2018 (2017, H1: DKK 807m). The change in net cash flow from operating activities was driven by EBITDA b.s.i. of DKK 1,295 million (2017, H1: DKK 1,316 million) offset by special items of DKK 535 million (2017, H1: DKK 124 million).

Cash flow from investing activities amounted to DKK 256 million in H1 2018 compared to cash flows of DKK 625 million in H1 2017.

Capital expenditures in H1 2018 amounted to DKK 289 million compared to DKK 355 million in the same period in 2017, equivalent to a capital expenditure to revenue ratio of 7.6% and 9.3%, respectively. Capital expenditure in H1 2018 was primarily related to internally developed software.

Operating free cash flow² amounted to DKK 475 million (2017, H1: DKK 621 million).

Net cash flow from financing activities, excluding clearing-related balances, was an outflow of DKK 70 million in H1 2018 (2017, H1: outflow of DKK 950 million).

Clearing working capital

On 30 June 2018, clearing-related assets (clearing debtors) amounted to DKK 6,637 million and clearing-related liabilities amounted to DKK 7,462 million leading to a clearing working capital (CWC) of minus DKK 825 million (positive funding), for comparison the CWC as of 30 June 2017 was DKK 1,060 million.

Net interest-bearing debt

As of 30 June 2018, net interest-bearing debt amounted to DKK 1,670 million.

Events in the reporting period

Take-over by H&F

On 12 February 2018 the take-private transaction was completed, and Nets A/S was de-listed from NASDAQ OMX.

Concardis merger announced

On 4 June 2018 Nets A/S and Concardis Payment Group announced the proposed merger of the two companies.

The transaction is a merger structured as a share exchange which will see Concardis shareholders contribute their shares in return for Nets shares.

The transaction is expected to close in Q4 2018 subject to regulatory approvals.

Dotpay/eCard acquisition announced

On 19 June 2018, Nets announced the acquisition of the Polish online service providers Dotpay/eCard. With the acquisition Nets further strengthens the Group's European presence and gains access to the sixth largest country in EU with high growth in digital payments.

The transaction is expected to close in Q4 2018 subject to regulatory approvals.

² Calculated as EBITDA adjusted for changes in narrow working capital and capital expenditures.

Income statement

Consolidated income statement		H1	H1
DKK ^m		2018	2017
	Note		
Revenue, gross		5,063	5,096
Interchange fees and processing fees		(1,282)	(1,280)
Revenue, net of interchange fees and processing fees	2	3,781	3,816
Cost of sales		(492)	(490)
External expenses		(943)	(940)
Staff costs		(1,051)	(1,070)
Operating profit before depreciation and amortisation (EBITDA) before special items		1,295	1,316
Special items	3	(535)	(110)
Special items - IPO related costs	3	-	(14)
Operating profit before depreciation and amortisation (EBITDA)		760	1,192
Amortisation of business combination intangibles and impairment losses		(320)	(322)
Underlying depreciation and amortisation		(259)	(182)
Operating profit (EBIT)		181	688
Profit from associates after tax		-	(5)
Fair value adjustment of Visa shares		-	110
Fair value adjustment on liability related to Visa shares		11	(110)
Fair value adjustment of Visa shares related to Teller Branch Norway		9	5
Financial income and expenses, net		(457)	(101)
Net financials		(437)	(101)
Profit/(loss) before tax		(256)	587
Income taxes		(96)	(52)
Net profit/(loss) for the period		(352)	535
Profit/(loss) is attributable to:			
Owners of Nets A/S		(360)	533
Non-controlling interests		8	2
		(352)	535

Non-GAAP performance measures		
Operating profit before depreciation and amortisation (EBITDA) before special items	1,295	1,316
Underlying depreciation and amortisation	(259)	(182)
Adjusted EBIT	1,036	1,134
Adjusted net financials	(182)	(170)
Adjusted profit/(loss) before tax	854	964
Adjusted tax, 23%	(196)	(222)
Adjusted net profit for the period	658	742

Statement of comprehensive income

Consolidated statement of other comprehensive income		H1	H1
DKKm		2018	2017
Net profit for the period		(352)	535
Other comprehensive income:			
<i>Items that will be reclassified subsequently to the consolidated income statement, when specific conditions are met:</i>			
Currency translation adjustments, foreign enterprises		38	(105)
Reclassification of interest swap to the consolidated income statement		(24)	2
Net gains/(losses) on cash flow hedges		-	(24)
Total items that may be reclassified to the consolidated income statement subsequently		14	(127)
Other comprehensive income for the period, net of tax		14	(127)
Total comprehensive income for the period, net of tax		(338)	408
Total comprehensive income for the period is attributable to:			
Owners of Nets A/S		(346)	408
Non-controlling interests		8	-
		(338)	408

Balance sheet

Consolidated balance sheet		30 Jun	30 Jun
DKKm	Note	2018	2017
Assets			
Non-current assets			
Goodwill		14,595	14,707
Other intangible assets		3,715	4,251
Plant and equipment		433	384
Investment in associates		230	227
Derivative financial instruments		6	5
Deferred tax asset		365	359
Total non-current assets		19,344	19,933
Current assets			
Inventories		65	51
Trade and other receivables		927	819
Clearing-related assets		6,637	3,542
Prepayments		297	280
Other financial assets		241	-
Current tax receivables		-	362
Cash and cash equivalent		1,154	1,792
Total current assets		9,321	6,846
Total assets		28,665	26,779
Equity and liabilities			
Equity			
Share capital		200	200
Reserves		10,023	9,699
Equity, owners of Nets A/S		10,223	9,899
Non-controlling interests		155	179
Total equity		10,378	10,078
Non-current liabilities			
Borrowings	4	1,845	8,373
Liabilities to Group enterprises		5,846	-
Pension liabilities, net		49	64
Deferred consideration for business combinations and asset acquisitions		175	308
Finance lease		39	33
Deferred tax		689	801
Total non-current liabilities		8,643	9,579
Current liabilities			
Deferred consideration		81	-
Finance lease		24	-
Borrowings - Clearing related balances		-	75
Bank overdraft - Clearing related balances	4	-	91
Bank overdraft - Own cash	4	80	329
Trade and other payables		1,688	1,505
Clearing-related liabilities		7,462	4,602
Other financial liabilities		181	412
Current tax liabilities		128	108
Total current liabilities		9,644	7,122
Total liabilities		18,287	16,701
Total equity and liabilities		28,665	26,779

Statement of cash flow

Consolidated statement of cash flows for the period		H1	H1
DKKm		2018	2017
	Note		
Operating profit (EBIT)		181	688
Depreciation, amortisation and Impairment losses		579	504
Other non-cash items		(23)	-
Change in narrow working capital	5	4	(216)
Interest and similar items, net		(241)	(129)
Tax paid		(29)	(40)
Net cash flow from operating activities excluding clearing-related balances		471	807
Change in clearing-related balances		223	401
Net cash from operating activities		694	1,208
Purchase of intangible assets		(217)	(261)
Purchase of plant and equipment		(72)	(94)
Purchase of investments		(14)	(216)
Proceeds from Visa shares		47	-
Payment of proceeds from Visa shares		-	(54)
Net cash from investing activities		(256)	(625)
Proceeds from shareholder loan		5,870	-
Base fee in connection with shareholder loan		(120)	-
Proceeds from bonds issuance		-	2,974
Base fee in connection with bond issuance		-	(50)
Proceeds from borrowings		223	550
Repayment of borrowings		(6,133)	(4,121)
Settlement of interest swap		23	(2)
Proceeds from LTIP programme		93	-
Repayment of finance lease liabilities		(26)	-
Purchase of treasury shares		-	(153)
Net cash flows from financing activities excluding clearing-related balances		(70)	(802)
Proceeds from borrowings (clearing related)		-	75
Repayment of borrowings (clearing-related)		-	(223)
Net cash flows from financing activities		(70)	(950)
Net cash flow for the period		368	(367)
Cash and cash equivalents at the beginning of the period		742	1,778
Exchange gains/(losses) on cash and cash equivalents		(36)	(39)
Net cash and cash equivalents at the end of the period		1,074	1,372
Bank overdraft (clearing-related balances)		-	91
Bank overdraft (own cash)		80	329
Cash and cash equivalents at the end of the period		1,154	1,792
Non-GAAP performance measures			
Cash and cash equivalents at the end of the period		1,074	1,372
Clearing-related assets at the end of period		6,637	3,542
Clearing-related liabilities at the end of period		(7,462)	(4,602)
Cash related to pass through Visa proceeds		(27)	(140)
Deposit from squeeze-out		(29)	-
Borrowings (clearing related balances)		-	(75)
Own cash at the end of the period		193	97
Own cash at the beginning of the period		140	703
Net cash flow from operating activities excluding clearing related balances		471	807
Net cash from investing activities in the year		(256)	(625)
Net cash flows from financing activities in the year excluding clearing related items		(70)	(802)
Net cash flow from pass through Visa proceeds and related tax payments		(27)	54
Deposit from squeeze-out		(29)	-
Exchange gains/(losses) on cash and cash equivalents		(36)	(40)
Own cash at the end of the period		193	97

Statement of changes in equity

Consolidated statement of changes in equity								
DKKm	Share capital	Treasury share reserve	Hedge reserves	Currency translation reserves	Retained earnings	Equity, owners Nets A/S	Non-controlling interests	Total equity
2018								
Equity 1 January	200	(153)	13	(498)	10,943	10,505	147	10,652
Net profit for the period	-	-	-	-	(360)	(360)	8	(352)
Currency translation adjustments, foreign enterprises	-	-	-	38	-	38	-	38
Settlement of interest swap	-	-	(24)	-	-	(24)	-	(24)
Other comprehensive income for the year	-	-	(24)	38	-	14	-	14
Total comprehensive income for the year	-	-	(24)	38	(360)	(346)	8	(338)
Share based payments	-	93	-	-	(29)	64	-	64
Total changes in equity	-	93	(24)	38	(389)	(282)	8	(274)
Equity as at 30 June	200	(60)	(11)	(460)	10,554	10,223	155	10,378

1. The share capital of Nets A/S was established on 5 February 2016. In 2016, four 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.

Consolidated statement of changes in equity								
DKKm	Share capital	Treasury share reserve	Hedge reserves	Currency translation reserves	Retained earnings	Equity, owners Nets A/S	Non-controlling interests	Total equity
2017								
Equity 1 January	200	-	12	(251)	9,644	9,605	201	9,806
Net profit for the period	-	-	-	-	533	533	2	535
Currency translation adjustments, foreign enterprises	-	-	-	(103)	-	(103)	(2)	(105)
Net gain/(loss) on cash flow hedges	-	-	(24)	-	-	(24)	-	(24)
Settlement of interest swap	-	-	2	-	-	2	-	2
Other comprehensive income for the year	-	-	(22)	(103)	-	(125)	(2)	(127)
Total comprehensive income for the year	-	-	(22)	(103)	533	408	-	408
Non-controlling interests from business combination	-	-	-	-	22	22	(22)	-
Share based payments	-	-	-	-	17	17	-	17
Purchase of treasury shares	-	(153)	-	-	-	(153)	-	(153)
Total changes in equity	-	(153)	(22)	(103)	572	294	(22)	(272)
Equity as at 30 June	200	(153)	(10)	(354)	10,216	9,899	179	10,078

Note 1 Significant accounting policies

The condensed consolidated interim financial statements of Nets A/S for the period 1 January – 30 June 2018 comprise Nets A/S and its subsidiaries (together referred to as "the group") and associates.

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union and additional Danish disclosure requirements.

Except for the changes described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017. A full description of the Group's accounting policies is included in the consolidated financial statements for 2017 for Nets A/S.

As of 1 January 2018, IFRS 15 "Revenue Recognition" and IFRS 9 "Financial Instruments" became applicable. The changes are described in the accounting policies in the consolidated financial statements for 2017. The impact of the implementation of IFRS 9 and IFRS 15 has been immaterial in relation to the recognition and measurement.

Key accounting estimates and judgements

The preparation of the Group's interim 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 in the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Except for the judgements and estimates commented upon in the notes of this interim report, the significant judgements made by Executive Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

Note 2 - Segment information

H1 2018

	Merchant Services	Financial & Network Services	Corporate Services	Smart Payments	Group
DKKkm					
Income statement					
Revenue, gross	2,235	1,380	1,448	-	5,063
Revenue, net	1,194	1,143	1,444	-	3,781
Reported growth	-1.8%	0.9%	-1.6%	n/a	-0.9%
Organic growth	-2%	4%	0%	n/a	1%
EBITDA before special items	364	454	498	(21)	1,295
EBITDA before special items margin	30.5%	39.7%	34.5%	n/a	34.3%
<i>Reconciliation of EBITDA before special items to profit before tax:</i>					
Special items					(535)
Amortisations, depreciation and impairment losses					(579)
Finance items - net					(437)
Profit before tax					(256)

H1 2017

	Merchant Services	Financial & Network Services	Corporate Services	Smart Payments	Group
DKKkm					
Income statement					
Revenue, gross	2,216	1,410	1,470	-	5,096
Revenue, net	1,216	1,133	1,467	-	3,816
Reported growth	10.4%	3.8%	5.2%	n/a	6.4%
Organic growth	11%	3%	4%	n/a	6%
EBITDA before special items	399	408	509	-	1,316
EBITDA before special items margin	32.8%	36.0%	34.7%	n/a	34.5%
<i>Reconciliation of EBITDA before special items to profit before tax:</i>					
Special items					(124)
Amortisations, depreciation and impairment losses					(504)
Finance items - net					(101)
Profit before tax					587

The Executive Management uses revenue, organic growth and EBITDA before special items as measures to assess the performance of the segments. This excludes significant items of costs and income that cannot be attributed directly to the ordinary activities in the segments.

Note 3 Special items

DKKkm			H1 2018			H1 2017
<i>Special items</i>	<i>Exter- nal ex- pense</i>	<i>Staff costs</i>		<i>Exter- nal ex- penses</i>	<i>Staff costs</i>	
Reorganisation and restructuring costs	(2)	(112)	(114)	-	(42)	(42)
Costs associated with business setups, acquisitions and disposals	(197)	(62)	(259)	(16)	-	(16)
Transformation programme	(160)	(6)	(166)	(31)	(21)	(52)
Other costs and income, net	(4)	8	4	-	-	-
<i>Special items, excluding IPO-related costs</i>	(363)	(172)	(535)	(47)	(63)	(110)
IPO-related costs	-	-	-	-	(14)	(14)
<i>Total special items</i>	(363)	(172)	(535)	(47)	(77)	(124)

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 and IPO-related costs. They are therefore separately disclosed to allow a more comparable view of underlying trading performance.

Note 4 Borrowings

DKKm	Interest Rate		Year of Maturity	Currency	Available facility	Drawn amount	Amount hedged	30 Jun 2018	30 Jun 2017
	Nominal	Effective						Carrying	Carrying
							Amount	Amount	
Revolving credit facility ²	IBOR ¹ + 3.25%	3.3%	2021	Multi	1,491	697	-	223	1,291
Senior Notes	2.875%	3.4%	2024	EUR	1,640	1,640	1,640	1,622	2,928
Term Loan 1 (NOK)	NIBOR ¹ + 2.0%	3.1%	2019	NOK	-	-	-	-	648
Term Loan 2 (EUR)	EURIBOR ¹ + 2.5%	2.5%	2021	EUR	-	-	-	-	133
Term Loan 2 (NOK)	NIBOR + 2.5%	3.6%	2021	NOK	-	-	-	-	1,359
Term Loan 2 (DKK)	CIBOR + 2.5%	2.8%	2021	DKK	-	-	-	-	2,014
Total long-term borrowings and finance leasing liabilities (non-current liabilities)								1,845	8,373
Overdraft facility (own cash) ²	IBOR ¹ + 2.5%	2.5%	2021	Multi	179	80	-	80	329
Overdraft facility (clearing-related balances) ³				Multi	1,304	-	-	-	91
Money market (clearing-related balances)				Multi	224	-	-	-	75
Total short-term borrowings (current liabilities) - Included in own cash calculation								80	495
Total loans and borrowings								1,925	8,868

1. For the term loans and the Revolving Credit Facility, there is a floor of 0.0% on the EURIBOR, NIBOR and CIBOR.

2. Revolving credit facility commitment is EUR 200 million and overdraft carveout of EUR 24 million.

3. Overdraft facility for clearing working capital ("CWC") with commitment of EUR 175 million in bank lines.

Net interest-bearing debt	30 Jun 2018	30 Jun 2017
Total long-term borrowings exclusive of Finance leasing liability (Non-current liabilities)	1,845	8,373
Capitalised debt costs included in carrying amount	18	126
Own cash	(193)	(97)
Net interest-bearing debt	1,670	8,402

Note 5 - Operating free cash flow	H1 2018	H1 2017
Operating profit before depreciation and amortisation (EBITDA)	760	1,192
Change in narrow working capital	4	(216)
Purchase of intangible assets	(217)	(261)
Purchase of plant and equipment	(72)	(94)
Operating free cash flow	475	621