

Financial results for H1 2019

Revenue

Net revenue in H1 2019 was EUR 510 million, up 0.6% from EUR 507 million in H1 2018 corresponding to an organic growth¹ of 1%.

Merchant Services delivered a strong first half year, organic growth increased to 5% (H1 2018: -2%). Underlying growth² was 7% in H1 2019, compared to 6% in H1 2018.

The continued progress for Merchant Services was driven by strong volume developments. Growth was furthermore supported by solid underlying growth in eCommerce, although partly countered by P2P players shifting to A2A.

The renewed growth in Merchant Services is a clear indicator showing that Merchant Services is beginning to reap the benefits of the commercial initiatives started in the second half of 2018.

Financial & Network Services saw negative organic growth of -8% for the half year. Financial & Network Services was, as expected, negatively impacted by the price impact from renegotiations of long-term bank contracts as well as a change away from principal license for some customers (with offsetting cost effects).

Corporate Services experienced strong organic growth of 4% driven by strong volumes in bill-payments and high implementation revenues in eSecurity.

Operating expenses

The total operating expenses in H1 2019 were EUR 316 million (62% of net revenue), a decrease of 5.4% (H1, 2018: EUR 334m).

Cost of sales

Cost of sales amounted to EUR 66 million, equal to 13% of net revenue (H1, 2018: EUR 66 million). 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 2019 amounted to EUR 107 million, this corresponds to a decrease of 16% (H1, 2018: EUR 127 million) mainly driven by migration away from principal license agreements in Norway and implementation of IFRS16.

External expenses to net revenue ratio was 21%, compared to 25% in H1 2018. 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 2019 amounted to EUR 143 million (28% of net revenue), largely unchanged compared to EUR 141 million (28% of net revenue) in H1 2018.

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

EBITDA b.s.i. grew by 12.1% to EUR 194 million (H1, 2018: EUR 173m).

Special items

In total, special items were EUR 45 million compared to EUR 72 million in H1 2018. In 2019 H1, special items costs, primarily related to transformation costs (EUR 31 million), Reorganisation, restructuring costs and refurbishment (EUR 7 million) and costs associated with business setups, acquisitions and disposals (EUR 6 million). The decrease compared to 2018 was primarily due to cost related to the H&F takeover and M&A activities.

EBITDA

The operating performance, together with lower special items, resulted in an EBITDA of EUR 149 million for the period (2018, H1: EUR 101 million).

Depreciation and amortisation

In H1 2019, underlying depreciation and amortisation were EUR 40 million (2018, H1: EUR 35 million). The increase is primarily due to IFRS 16 Financial Leasing becoming applicable per 1.1.2019, driving an increase in depreciations related to leasing assets of EUR 6 million.

Amortisation of business combination and impairment losses amounted to EUR 44 million compared to EUR 43 million in H1 2018. The increase is a consequence of the acquisition of Dotpay/eCard in 2019 and the amortisations of the related PPA.

EBIT

EBIT amounted to EUR 65 million (2018, H1: EUR 23 million). Adjusted EBIT calculated as EBITDA b.s.i. minus underlying depreciation and amortisation was EUR 154 million, compared to EUR 138 million generated in H1 2018.

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

² Underlying growth is calculated as organic growth adjusted for P2P scheme migration

Net financials

Financial expenses amounted to EUR 53 million compared to EUR 49 million in H1 2018. The increase is primarily a result of the change in the debt mix when most of the Group's external debt was refinanced in February 2018. The refinancing was executed by way of entering into intergroup loan agreements with the Group's new owners, which enabled a significant repayment of existing external debt. The new debt mix was in effect for four months of H1 2018, whereas the effect was full in H1 2019 driving an increase in the net financial expenses.

Tax

Taxes for the period was EUR 13 million corresponding to an effective tax rate of 81.3% (2018, H1: EUR 13 million, effective tax rate of -37.1%). The effective tax rate was driven primarily by non-deductible interest expenses, exchange rate losses and non-deductible M&A costs.

Net profit/(loss)

Net profit in the period of EUR 3 million (2018, H1: net loss of EUR 48 million).

Adjusted net profit

Adjusted net profit was EUR 98 million in H1 2019 (2018, H1: EUR 88 million), driven by increased operating profit b.s.i. offset by higher Underlying depreciations and amortizations, driven by IFRS 16 related depreciations and increased intercompany interests after refinancing.

Balance sheet and cash flow

Cash flow

Net cash flow from operating activities excluding clearing-related balances was EUR 111 million in H1 2019 (2018, H1: EUR 63 million). The improved net cash flow from operating activities was primarily driven by EBITDA b.s.i. of EUR 194 million (2018, H1: EUR 173 million) as well as lower special items of EUR 45 million (2018, H1: EUR 72 million).

Cash flow from investing activities amounted to an outflow of EUR 122 million in H1 2019 compared to an outflow of EUR 34 million in H1 2018. The EUR 88 million increase was primarily driven by EUR 68 million related to the purchase of Dotpay/eCard and an earn-out payment of EUR 12 million.

Proceeds from Visa shares was EUR 9 million. Capital expenditures in H1 2019 amounted to EUR 39 million compared to EUR 29 million in the same period in 2018. Capital expenditure in H1 2019 was primarily related to development projects including software.

The operating free cash flow³ amounted to EUR 104 million (2018, H1: EUR 63 million).

Net cash flow from financing activities, excluding clearing-related balances, was EUR 61 million in H1 2019 (2018, H1: EUR 9 million). In 2019, H1 financing activities excluding clearing-related balances was primarily driven by repayments of intercompany loans (EUR 65 million) repayment of Dotpay/eCard's existing loan facilities (EUR 10 million), repayment of leasing facilities debt (EUR 11 million) partly offset by drawings on the existing revolving credit facility (EUR 25 million).

IFRS 16 assets and liabilities

Per 1 January 2019, the group implemented IFRS 16, affecting operational expenses, depreciations, tangible assets and leasing liabilities. Per 30 June 2019, assets and liabilities, as a consequence of IFRS 16 implementation, amounted to total EUR 59 million. H1 EBITDA b.s.i. was positive affected by this, as operational expenses were reduced with EUR 7 million and underlying depreciations and amortizations was equally affected by further costs of EUR 6 million in H1 2019 and interests related to leasing costs, increased with EUR 1 million.

Clearing working capital

On 30 June 2019, clearing-related assets (clearing debtors) amounted to EUR 1,336 million and clearing-related liabilities amounted to EUR 1,583 million leading to a clearing working capital (CWC) of minus EUR 247 million (positive funding). The increase was mainly driven by increased debt to merchants.

Net interest-bearing debt

As of 30 June 2019, net interest-bearing debt, amounted to EUR 948 million (30 June 2018: EUR 1,005 million). The decrease was driven by prepayments under the intergroup loan agreements, partially offset by drawdowns under the revolving credit facility.

Events following the reporting period

Przelewy24 acquisition closed

On August 2nd, it was announced that all relevant regulatory authorities had approved the strategic alliance between Nets and Przelewy24 (P24) and that the transaction had closed.

The joint holding company "P24 DotCard" consolidates Przelewy24 and other recently Nets-acquired companies Dotpay and eCard. The strategic alliance creates one of the largest Online Payment Service Providers in Poland. With a stake of 51 percent, Nets is the majority shareholder of P24 DotCard.

³ Calculated as EBITDA adjusted for changes in narrow working capital and capital expenditures.

Sale of Nets' account-to-account based services to Mastercard

In August 2019, Nets entered into an agreement to sell its account-to-account based services and e-billing solutions to Mastercard for EUR 2.85 billion.

The operations sold to Mastercard represent the majority of Nets' Corporate Services division and comprise the clearing and instant payment services and the e-billing solutions, including Betalingsservice in Denmark and AvtaleGiro/eFaktura in Norway. Nets' e-ID and Digitisation services are not part of the transaction and will be retained by Nets as core capabilities.

The transaction is subject to regulatory approvals and customary closing conditions.

Thomas Cook Group entering liquidation

On 23 September, the Thomas Cook Group entered into compulsory liquidation. Through its subsidiaries, Nets A/S provides card acquiring services to Thomas Cook's Nordic Tour Operators.

In light of evidence of increasing financial stress at Thomas Cook, Nets closely monitored the situation and engaged with the Thomas Cook senior management team as early as January 2019. In the 8 months which have elapsed since then, Nets has actively managed its risk exposure within available contractual constraints, while continuously having provided our acquiring services to Thomas Cook.

Please refer to the announcement made on 23 September for further details on the Nets Group's exposure to the Thomas Cook Group.

Income statement

Consolidated income statement		Nets A/S	Nets A/S
EURm	Note	H1 2019	H1 2018
Revenue, gross		693	679
Interchange fees and processing fees		(183)	(172)
Revenue, net of interchange fees and processing fees	2	510	507
Cost of sales		(66)	(66)
External expenses		(107)	(127)
Staff costs		(143)	(141)
Operating profit before depreciation and amortisation (EBITDA) before special items		194	173
Special items	3	(44)	(39)
Cost related to take-private transaction	3	(1)	(33)
Operating profit before depreciation and amortisation (EBITDA)		149	101
Amortisation of business combination intangibles, customer agreements and impairment losses		(44)	(43)
Underlying depreciation and amortisation		(40)	(35)
Operating profit (EBIT)		65	23
Fair value adjustment of Visa shares		4	3
Financial income and expenses, net		(53)	(49)
Financial expenses – refinancing costs		-	(12)
Net financials		(49)	(58)
Profit/(loss) before tax		16	(35)
Income taxes		(13)	(13)
Net profit/(loss) for the period		3	(48)
Profit/loss is attributable to:			
Owners of Nets A/S		2	(48)
Non-controlling interests		1	1
		3	(47)

Non-GAAP performance measures			
Operating profit before depreciation and amortisation (EBITDA) before special items		194	173
Underlying depreciation and amortisation		(40)	(35)
Adjusted EBIT		154	138
Adjusted net financials		(27)	(24)
Adjusted profit/(loss) before tax		127	114
Adjusted tax, 23%		(29)	(26)
Adjusted net profit for the period		98	88

Statement of comprehensive income

Consolidated statement of other comprehensive income	Nets A/S H1	Nets A/S H1
<i>EURm</i>	2019	2018
Net profit for the period	3	(48)
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	(2)	5
Reclassification of interest swap to the consolidated income statement	-	(3)
Net gains/(losses) on cash flow hedges	(1)	-
Total items that may be reclassified to the consolidated income statement subsequently	(3)	2
Other comprehensive income for the period, net of tax	(3)	2
Total comprehensive income for the period, net of tax	-	(45)
Total comprehensive income for the period is attributable to:		
Owners of Nets A/S	(1)	(46)
Non-controlling interests	1	1
	-	(45)

Balance sheet

Consolidated balance sheet		Nets A/S 30 Jun 2019	Nets A/S 30 Jun 2018
EURm	Note		
Assets			
Non-current assets			
Goodwill		2,010	1,958
Other intangible assets		463	498
Plant and equipment		109	58
Investment in associates		32	31
Derivative financial instruments		3	1
Deferred tax asset		21	49
Total non-current assets		2,638	2,596
Current assets			
Inventories		6	9
Trade and other receivables		129	124
Clearing-related assets		1,336	891
Prepayments		42	40
Other financial assets		16	32
Cash and cash equivalent		287	155
Total current assets		1,816	1,251
Total assets		4,454	3,846
Equity and liabilities			
Equity			
Share capital		27	27
Reserves		1,414	1,345
Equity, owners of Nets A/S		1,441	1,372
Non-controlling interests		22	21
Total equity		1,463	1,393
Non-current liabilities			
Borrowings	4	262	248
Liabilities to Group enterprises	4	712	784
Pension liabilities, net		6	7
Deferred consideration for business combinations and asset acquisitions		5	23
Finance lease		50	5
Deferred tax liabilities		79	92
Total non-current liabilities		1,114	1,160
Current liabilities			
Deferred consideration for business combinations and asset acquisitions		25	11
Finance lease		16	3
Bank overdraft - Own cash	4	3	11
Trade and other payables		233	227
Clearing-related liabilities		1,583	1,001
Other financial liabilities		7	24
Current tax liabilities		10	17
Total current liabilities		1,877	1,294
Total liabilities		2,991	2,454
Total equity and liabilities		4,454	3,846

Statement of cash flow

Consolidated statement of cash flows for the period		Nets A/S H1 2019	Nets A/S H1 2018
EURm	Note		
Operating profit (EBIT)		65	24
Depreciation, amortisation and Impairment losses		84	78
Other non-cash items		1	(3)
Change in narrow working capital	5	4	1
Interest and similar items, net		(28)	(32)
Tax paid		(15)	(4)
Net cash flow from operating activities excluding clearing-related balances		111	63
Change in clearing-related balances		280	30
Net cash from operating activities		391	93
Purchase of intangible assets		(39)	(29)
Purchase of plant and equipment		(10)	(10)
Purchase of Dotpay/eCard		(68)	-
Other investments		(14)	(2)
Proceeds from Visa shares		9	6
Net cash from investing activities		(122)	(34)
Proceeds from loan from group enterprises		-	788
Base fee in connection with loan from group enterprises		-	(16)
Proceeds from borrowings		25	30
Repayment of borrowings		(10)	(823)
Repayment of intercompany loans		(65)	-
Settlement of interest swap		-	3
Proceeds from LTIP programme		-	12
Repayment of finance lease liabilities		(11)	(3)
Purchase of treasury shares		-	-
Net cash flows from financing activities excluding clearing-related balances		(61)	(9)
Net cash flows from financing activities		(61)	(9)
Net cash flow for the period		208	49
Cash and cash equivalents at the beginning of the period		43	100
Acquired net-cash and cash equivalents		32	-
Exchange gains/(losses) on cash and cash equivalents		1	(5)
Net cash and cash equivalents at the end of the period		284	144
Bank overdraft (own cash)		3	11
Cash and cash equivalents at the end of the period		287	155
Non-GAAP performance measures			
Cash and cash equivalents at the end of the period		284	144
Clearing-related assets at the end of period		1,336	891
Clearing-related liabilities at the end of period		(1,583)	(1,001)
Cash related to pass through Visa proceeds		(8)	(4)
Own cash at the end of the period		29	30
Own cash at the beginning of the period		100	19
Acquired own cash		8	-
Net cash flow from operating activities excluding clearing related balances		111	63
Net cash from investing activities		(122)	(34)
Net cash flows from financing activities excluding clearing related items		(61)	(9)
Net cash flow from VISA proceeds		(8)	(4)
Exchange gains/(losses) on cash and cash equivalents		1	(5)
Own cash at the end of the period		29	30

Statement of changes in equity

Consolidated statement of changes in equity								
EURm	Share capital	Treasury reserve	Hedge reserves	Currency translation reserves	Retained earnings	Equity, owners of Nets A/S	Non-controlling interests	Total equity
2019								
Equity 1 January	27	(8)	3	(79)	1,498	1,441	22	1,463
Net profit for the period	-	-	-	-	2	2	1	3
Currency translation adjustments, foreign enterprises	-	-	-	(2)	-	(2)	-	(2)
Net gain/(loss) on cash flow hedges	-	-	(1)	-	-	(1)	-	(1)
Other comprehensive income for the period	-	-	(1)	(2)	-	(3)	-	(3)
Total comprehensive income for the period	-	-	(1)	(2)	2	(1)	1	-
Acquisition of non-controlling interests	-	-	-	-	1	1	(1)	-
Total changes in equity	-	-	(1)	(2)	3	-	-	-
Equity as at 30 June	27	(8)	2	(81)	1,501	1,441	22	1,463

Consolidated statement of changes in equity								
EURm	Share capital	Treasury share reserve	Hedge reserves	Currency translation reserves	Retained earnings	Equity, owners of Nets A/S	Non-controlling interests	Total equity
2018								
Equity 1 January	27	(21)	2	(67)	1,467	1,408	20	1,428
Net profit for the period	-	-	-	-	(48)	(48)	1	(47)
Currency translation adjustments, foreign enterprises	-	-	-	6	-	6	-	6
Settlement of interest swap	-	-	(3)	-	-	(3)	-	(3)
Other comprehensive income for the period	-	-	(3)	6	-	3	-	3
Total comprehensive income for the period	-	-	(3)	6	(48)	(45)	1	(44)
Share based payments	-	13	-	-	(4)	9	-	9
Total changes in equity	-	13	(3)	6	(52)	(36)	1	(35)
Equity as at 30 June	27	(8)	(1)	(61)	1,415	1,372	21	1,393

Note 1 Significant accounting policies

The condensed consolidated interim financial statements of Nets A/S for the period 1 January – 30 June 2019 comprise Nets A/S and its subsidiaries (together referred to as "the group") and associates.

On 4 January 2019 the Group acquired the Dotpay/eCard Group, as from which dates the Dotpay/eCard Group's results are included in the consolidated financial statement.

In connection with the inclusion of the Dotpay/eCard Group, acquired net assets are recognised at fair value and accounting policies are adjusted to match those of the Nets Group.

We refer to the acquisitions as described in Note 4.1, in the consolidated financial statements for 2018 for the Group.

The Nets A/S results for H1 2019 presented reflects the combined activities of the Nets A/S group and Dotpay/eCard.

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 2018. The consolidated financial statements for the Group for 2018 contains a complete description of the accounting policies.

The condensed consolidated interim financial statements are presented in Euro (EUR), which is the functional currency of the parent group from January 1, 2019. The change was made to reflect that EUR has become the predominant currency in the parent group. The change has been implemented with prospective effect. The change of presentation currency is applied retrospectively for comparative figures for H1 2018. Currency translation effects for the comparative figures from functional currency to presentation currency EUR in H1 2018 are booked as translation differences towards equity.

Comparison figures in the statement of profit and loss, statement of changes in equity and statement of cash flows have been re-presented using average DKK/EUR rate H1 2018. Comparison figures for the Balance sheet has been re-presented using DKK/EUR end-rate per 30.06.2018.

As of 1 January 2019, IFRS 16 "Leasing" became applicable. The changes are described in the accounting policies in the consolidated financial statements for 2018 for the Group. For impact on the Financial results and balance sheet for H1 2019 please refer to commentary section.

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 for the Group as at and for the year ended 31 December 2018.

Note 2 - Segment information

H1 2019

	Merchant Services	Financial & Network Services	Corporate Services	Dot-pay/eCard	Group
EURm					
Income statement					
Revenue, gross	309	174	200	10	693
Revenue, net	166	140	200	4	510
Reported growth*	3.8%	-8.5%	3.1%	N/A	0.6%
Organic growth*	5%	-8%	4%	N/A	1%

H1 2018

	Merchant Services	Financial & Network Services	Corporate Services	Smart Payments	Group
EURm					
Income statement					
Revenue, gross	300	185	194	-	679
Revenue, net	160	153	194	-	507
Reported growth	-1.8%	0.9%	1.6%	N/A	-0.9%
Organic growth	-2%	4%	0%	N/A	1%

*Reported growth for H1 2019 includes activities from Dotpay/eCard.

Based on reported numbers from Dotpay/eCard for H1 2019 and H1 2018, reported growth was 10%.

On a pro forma basis, organic revenue growth was 1%.

The Executive Management uses revenue and organic growth as measures to assess the performance of the segments.

Note 3 Special items

EURm			H1 2019			H1 2018
	<i>Exter- nal ex- penses</i>	<i>Staff costs</i>		<i>Exter- nal ex- penses</i>	<i>Staff costs</i>	
<i>Special items</i>						
Reorganisation, restructuring costs and refurbishment	(4)	(3)	(7)	-	(15)	(15)
Costs associated with business setups, acquisitions and disposals	(5)	(1)	(6)	(2)	-	(2)
Transformation programme	(26)	(5)	(31)	(21)	(1)	(22)
Other costs and income, net	-	-	-	(1)	1	-
<i>Special items, excluding take-private transaction</i>	(35)	(9)	(44)	(24)	(15)	(39)
Cost related to take-private transaction	(1)	-	(1)	(25)	(8)	(33)
<i>Total special items</i>	(36)	(9)	(45)	(49)	(23)	(72)

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

Note 4 Borrowings

EURm	Interest Rate		Maturity	Cur- rency	Availa- ble facility	Drawn amount	Amount hedged	30 Jun 2019	30 Jun 2018
	Nominal	Effec- tive						Carrying Amount	Carry- ing Amount
Revolving credit facility ²⁺⁴	IBOR ¹ + 3.25%	3.3%	2024	Multi	240	45	-	45	30
Senior Notes	2.875%	3.4%	2024	EUR	220	220	220	217	218
Loan from group enterprises (NOK)	IBOR ¹ + 4.00%	5.5%	2025	NOK	625	625	-	613	764
Loan from group enterprises (EUR)	IBOR ¹ + 4.35%	4.4%	2025	EUR	79	79	-	79	-
Loan from group enterprises (EUR)	IBOR ¹ + 3.25%	3.3%	2019	EUR	20	20	-	20	20
Total long-term borrowings and finance leasing liabilities (non-current liabilities)								974	1,032
Overdraft facility (own cash) ²	IBOR + 2.5%	2.5%	2024	Multi	24	3	-	3	11
Overdraft facility (clearing-related balances) ³				Multi	205	-	-	-	-
Money market (clearing-related balances)				Multi	30	-	-	-	-
Total short-term borrowings (current liabilities) - Included in own cash calculation								3	11
Total loans and borrowings								977	1,043

1. Variable interest rates floored at 0.0%.

2. Revolving credit facility commitment is EUR 240 million and overdraft carveout of EUR 24 million.

3. Overdraft facility for clearing working capital ("CWC") with commitment of EUR 205 million in bank lines.

4. Nets A/S Group accounts for drawing EUR 45 million and Parent companies, of the Nets A/S Group, accounts for drawing EUR 17 million, leaving EUR 178 million undrawn.

Net interest-bearing debt	30 Jun 2019	30 Jun 2018
Total long-term borrowings exclusive of finance leasing liability (non-current liabilities)	974	1,032
Capitalised debt costs included in carrying amount	3	3
Own cash	(29)	(30)
Net interest-bearing debt	948	1,005

Note 5 - Operating free cash flow	H1	H1
	2019	2018
Operating profit before depreciation and amortisation (EBITDA)	149	101
Change in narrow working capital	4	1
Purchase of intangible assets	(39)	(29)
Purchase of plant and equipment	(10)	(10)
Operating free cash flow	104	63